CGAP

BRIEF

Apexes: An Important Source of Local Funding

Apexes are an important source of local funding for microfinance—and even more so since the global financial crisis. Well over US$2 billion[1] per year of public money is being disbursed globally to microfinance through apex funds or local wholesale facilities.[2] The funds are then disbursed by apexes to microfinance institutions (MFIs) mostly as subsidized loans, but occasionally as grants.[3] The funding provided by apexes to MFIs is almost as much as the disbursements that donors and investors made to the entire microfinance sector in 2007, which was about US$2.5 billion.[4] These large sums demonstrate the importance of apexes as vehicles to channel public money into microfinance.

In February 2009 CGAP completed a study to map apexes that identified 76 apexes around the world. Apexes are especially prevalent in Latin America and South Asia (69 percent and 29 percent, respectively, of total apex disbursements in 2007), and the number of apexes in Africa has increased significantly in the past five years, with eight apexes created between 2003 and 2008.

Data are available from 47 of these apexes, which disbursed US$1.8 billion in 2006 and US$2.3 billion in 2007. In 2007, the average amount disbursed among the largest 15 apexes was US$151 million each.

Most apex funds still in existence today were established in the 1990s and 2000s. PKSF, the well-known, large Bangladeshi wholesale fund, was launched in 1990. Since then there has been a steady stream of new funds, with 11 having been created in the last three years.

Apexes Defined

An apex is a pool of funds constituted domestically to lend to MFIs that, in turn, disburse loans to low-income people.

Apexes are funded with public money, but they take various institutional forms, such as development banks, nongovernmental organizations, donor programs, private commercial banks, and special government or donor programs.

Who is funding apexes and why?

Apexes are financed with public funds from national governments or with funds from donors from developed countries. A majority of apexes are funded by both international public funders (mostly bilateral and multilateral agencies, as well as development finance institutions [DFIs]) and national governments. Nearly a quarter of all apexes, however, are exclusively funded by host governments.[5] The top five international

1 Figures in this Brief come from a CGAP study conducted in collaboration with Enterprising Solution from August 2008 to February 2009.
2 Apexes are also sometimes called "second floor structures" in Latin America.
3 Technical assistance (TA) funding provided by apexes is relatively negligible as a percent of total disbursements. In 2006 it was 2.9 percent of total disbursements; in 2007, it was 1.9 percent. The largest TA funds were disbursed in South Asia and Latin America.
4 See CGAP Funder Survey (http://www.cgap.org/p/site/c/template.rc/1.26.1426/)
5 In a few exceptional cases, microfinance investment vehicles (MIVs) also provided some funding—for more information on MIVs see http://www.cgap.org/gm/document-1.9.38570/CGAPBrief_MIV.pdf

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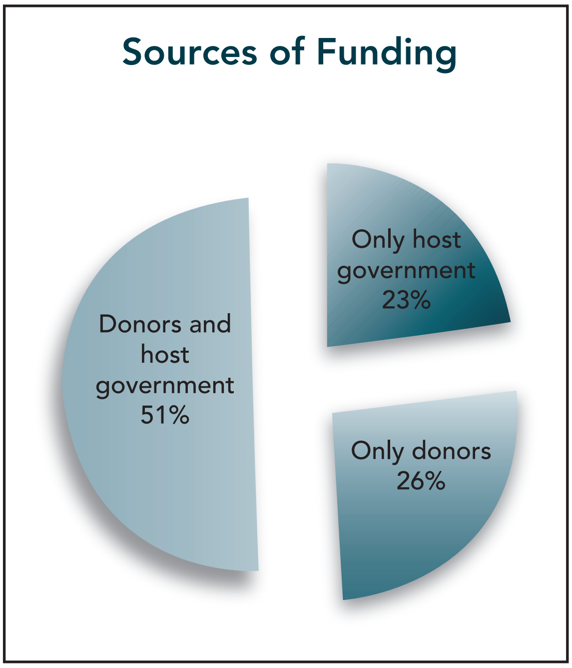

funders of apexes are KfW, the World Bank, the Inter-American Development Bank, IFAD, and the European Union.

Interest in apexes is high among international funders and governments. Both see it as a way to increase access to finance and improve the economic livelihood and quality of life of poor people. For governments, apexes provide a way to signal commitment to inclusive finance and inject significant amounts of liquidity into a large number of MFIs, which are usually ignored by banks and commercial investors. International public funders often see apexes as a means to jump-start the microfinance sector and coordinate their funding. Apexes also offer them the opportunity to move a lot of funding quickly without individual screening and selection of retailers. Funders also see it as a way to provide both funding and technical assistance to smaller MFIs or geographic areas that are not reached by commercial investors.

Increased relevance after global crisis

The global crisis has made apexes all the more attractive for funders of microfinance. As a source of local currency funding, apexes—unlike international investors that offer two-thirds of their debt in hard currency—do not expose MFIs to foreign exchange rate risks. Apexes also proved to be stable and resilient partners that continued to fund MFIs during the crisis alongside DFIs. CGAP research on government and donor responses to the financial crisis indicates that increasing funding for apexes has been one of the most significant ways to provide support for microfinance during the global crisis.[6] Governments in Malaysia, Cambodia, and India all injected liquidity into the microfinance sector in their countries through apexes.[7]

But performance is a question

Despite the significant amounts of funding channeled through apexes, little is known about how and where the funds flow into microfinance markets, or how they perform. There is little public information available on apexes, and almost no information on the performance of retail institutions in their portfolios. The evaluations that do exist have not provided clear guidance to funders and governments on how to structure apexes, or indeed whether they should be used at all.

6 See results of this survey conducted by CGAP in August 2009, http://www.cgap.org/gm/document-1.9.40985/Government%20responses%20to%20the%20Global%20Crisis%20%20Novemeber%202009.pdf
7 During the crisis, the Government of India injected US$1.5 billion into SIDBI for small and medium-size enterprises and microfinance.

A Special Case: The National Bank for Agricultural and Rural Development (NABARD), India

Established in 1982, NABARD is a state bank in India. Its mission is to promote sustainable and equitable agriculture and rural development. Funded by the Government of India and by the Reserve Bank of India, NABARD is the largest apex institution in the world, disbursing over US$20 billion in 2007 alone. Because of its unique status and size, it has been excluded from the overall figures used in this paper.

Apexes have played a useful role in providing wholesale funding for microfinance in start-up and nascent financial sector environments (e.g., Afghanistan, Bangladesh, Bosnia, and Pakistan), where commercial funding was unavailable. They have also provided much needed liquidity when the financial crisis squeezed commercial sources of funding.

But apexes face several challenges, including governance issues sometimes due to political interventions. In some cases, apexes have become less relevant as financial markets developed and commercial money became available to MFIs. Disbursement pressure has also made it difficult for apex managers to maintain quality standards, especially in cases where there were insufficient numbers of viable MFIs in which apexes could invest. Finally, some apexes have hampered the management of the MFIs that they funded by imposing interest rate ceilings or lending methodologies on participating MFIs (as has occurred in Sri Lanka, and Cambodia).

Several governments and funders are currently wondering how to create the next generation of apexes.[8] Because of their size and growing importance as a mechanism to channel public funding into microfinance, it is important for governments and funders to pay attention to their transparency and efficiency. CGAP plans to further analyze and document the necessary conditions to make apexes more efficient funding vehicles for funders and host governments.

8 In May 2008, a group of public and private funders met with apexes in Delhi to discuss their respective roles. See http://www.cgap.org/gm/document-1.9.3201/South%20Asia%20Funders%20Meeting%20Recommendations%20FINAL%20version.pdf

Largest Apexes*

Fund	Country	Portfolio Disbursed 2006	Portfolio Disbursed 2007
FINDETER	Colombia	$536,272,658	$613,323,269
NAFIN	Mexico	$417,415,215	$408,142,726
PKSF	Bangladesh	$190,770,000	$295,790,000
SIDBI	India	$78,335,319	$169,503,820
CFN	Ecuador	$98,000,000	$109,528,000
BMS	Mali	–	$101,442,513
BANCOLDEX	Colombia	$66,497,810	$97,730,704
PPAF	Pakistan	$68,512,486	$96,907,995
MISFA	Afghanistan	$45,950,252	$54,286,048
BTS	Tunisia	$39,000,000	$43,000,000
FNI	Nicaragua	$35,338,137	$40,877,378
Funda-Pro	Bolivia	$32,600,000	$34,800,000
FFSA	Kazakhstan	–	$31,932,320
DBZ	Zambia	$13,582,723	$23,818,551
Total		$1,622,274,600	$2,121,083,324

* The largest apexes are based on 2007 disbursed portfolio. CGAP regional experts identified the largest funds in their regions.

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