Current Trends in International Funding for Financial Inclusion

The 2015 Cross-Border Funder Survey reports commitments from the largest international funders of financial inclusion, as of 31 December 2014.¹ CGAP has conducted the survey annually since 2008, and in partnership with MIX since 2012.

Funding for financial inclusion was stable in 2014, although the weaker euro caused a slight decrease in dollar terms. (See Box 1). To a greater degree than in previous surveys, funders this year emphasized that due to other global priorities it was difficult to promote financial inclusion internally. Nevertheless, their commitments generally followed the same patterns as in years past, with the majority of funding directed at retail-level financial service providers (FSPs) through debt, which accounts for half of all commitments. There was an increasing interest in digital financial services and a rapid and sustained growth in funding to the Middle East and North Africa (MENA). Going forward, funders report that they will increase their funding to sub-Saharan Africa (SSA) and continue to focus on supporting FSPs, as well as payment systems and consumer protection programs.

### Funding commitments held steady in 2014 at $31 billion

After steadily increasing in previous years, international funding of financial inclusion is estimated to have plateaued at $31 billion in 2014. These data align with Official Development Assistance (ODA) trends reported by OECD, which showed that international aid (across all development sectors) also stabilized in 2014.²

The ratio between public and private funding was largely unchanged, with public funding comprising 72 percent of global funding (see Figure 1).

Twenty-three funders participated in the 2015 survey, accounting for 66 percent of this year’s global estimate.³ Among the 21 funders who have reported annually, commitments grew by 3 percent in 2013 U.S. dollars, but marked a small decline in current exchange rates due to a weaker euro at the end of 2014. The 3 percent growth rate is lower than in previous years (cf. 8 percent in 2013 and 13 percent in 2012), which is partially explained by the closure of some large projects.⁴

However, some funders also cited a shift in priorities toward other financial sector areas. It is important

### Box 1. Exchange Rates

From December 2013 to December 2014, the euro fell more than 10 percent against the dollar, the largest year-to-year change since the survey began. This depreciation complicates the interpretation of the data, since we report funding trends in dollars, but about 40 percent of this year’s commitments come from euro-zone funders. In nominal terms, commitments from this group of funders actually grew 4 percent from 2013 to 2014. Yet after converting to dollars, a downward trend emerges. There are two things to keep in mind when looking at this year’s data. First, funders report commitments in the survey, as opposed to disbursements. Many projects are multi-year, with disbursements spread across several years. Therefore, the impact of currency fluctuations in 2014 may average out over the lifetime of the projects. In other cases, funders may renegotiate projects and adjust commitments over time to account for exchange rate fluctuations.

Second, by reporting all funding in U.S. dollars, we give priority to the EUR-USD exchange rate. However, determining the real value of these commitments for project recipients would require tracking exchange rates between the funder’s domestic currency and every local currency where projects are implemented. For the sake of simplicity, we track all commitments using funders’ domestic currencies (USD, EUR, and GBP in this year’s survey), and then aggregate in U.S. dollars.

Note: All graphs in this brief use annual end-of-year exchange rates.

---

¹ Commitments refer to funds that have been approved for a specific investment/project, whether or not disbursed.


³ To calculate the global estimate, we combine data from this year’s sample, estimates based on the previous year’s trends (which drew from 56 funders), and data from the Symbiotics Microfinance Investment Vehicles (MIV) Survey.

⁴ Given that the survey shows a snapshot of commitments as of 31 December 2014, some projects were actually in the process of renewal or renegotiation, but were reported as ‘closed’ in the funders’ survey submissions.
to highlight that the stagnation in funding was not universal across all funders. Several reported increased portfolios, others reported that portfolios shrank, and the rest reported stable commitments. When combined, these individual movements balanced out to reveal a relatively flat overall trend.

**Shifting challenges but stable priorities**

In the prior two surveys, covering data from 2012 and 2013, funders consistently ranked “adapting our strategy” as one of their most pressing challenges. This year, funders highlighted that other global priorities (such as climate change, migration, and currency instability) made it harder to promote financial inclusion within their own organizations. In response, many funders emphasized financial inclusion’s role as an enabler of other development objectives, citing the increasing overlap between financial inclusion and other priorities, including green inclusive finance, digital financial services in the context of disaster and conflict, and a deeper understanding of the link between financial inclusion and macroeconomic stability.

In addition to the challenge of internal promotion of financial inclusion, public funders cited lower overall budgets and low portfolio performance due to operational difficulties facing their partners/investees. Private funders, on the other hand, identified the “lack of appropriate capital across the risk/return spectrum” and shortage of investment opportunities as their two major constraints, according to a 2015 J.P. Morgan/Global Impact Investing Network (GIIN) survey of impact investors (Saltuk et al. 2015). The survey also reported that microfinance is the sector for which the highest number of investors plan to decrease their allocations in 2015, compared to sectors such as energy and agriculture, where the majority of investors plan to increase their allocations. Allocations to financial services (other than microfinance) were slated to increase though, which may reflect the transition from traditional microfinance to broader financial inclusion.

Despite the changing landscape and the shifts in challenges cited by funders, trends in commitments did not change significantly from previous years, with retail-level financing continuing to dominate the thematic allocation of international funding, as shown in Figure 2. About 70 percent of overall funding is used to finance the lending portfolio of FSPs. Another 8 percent is intended for capacity building of financial institutions, especially through improving operations, management, and governance of FSPs.

As in prior years, funders also committed 2 percent of their financial inclusion portfolios for projects aiming to enhance the financial capability of poor clients. The majority of funding for this purpose (about 60 percent) is channeled through governments. Another 4 percent of global funding for financial inclusion was allocated for improving market infrastructure and the policy environment. (For more details, visit the interactive dataset at http://www.cgap.org/data/international-funding-financial-inclusion-2015).

Given the different nature of interventions across levels of the financial sector, volume may not provide a full picture of funders’ commitments to financial inclusion. Retail financing projects typically entail significant funding, while capacity building, market infrastructure, and policy projects are less capital-
intensive but require more expertise and engagement with the recipient. Thus, rather than looking only at funding volume, the number of projects offers an alternative perspective on funders’ priorities agenda. Out of the 2,235 projects active in 2014, 7 percent included a component targeting the enhancement of client capability (compared to 2 percent of funding volume), 13 percent aim to improve policy, and 15 percent contained a focus on improving the market infrastructure that enables financial inclusion.

Debt accounts for the majority of financing, while one-third of projects have a grant element

Despite its 9 percent decline in real terms in 2014, debt continues to dwarf the other financing instruments used by funders in the sample, reflecting the funders’ focus on FSP financing. The weakened euro accounts for two-thirds of the decrease, and the closure of several large projects explains the rest. Commitments in equity and grants, the second and third largest instruments, are each one-fifth the amount of commitments in debt, shown in Figure 3. Funders channel equity primarily to microfinance investment intermediaries (MIIs); grants mostly target recipients in the “other” category, which includes service providers and market facilitators.

About one-third of the active projects in 2014 contain a grant component (763 projects). These projects often focus on micro and small enterprises (121 projects), rural and agriculture finance (112 projects), and digital finance (60 projects). Looking closer, we can see that grants are primarily used in interventions that aim to increase the capacity of the providers. About 15 percent of grant funding is allocated directly to FSPs, and the rest goes to government, service providers, and market facilitators, who use the funds to improve operations (199 projects), support management and governance (141 projects), and strengthen capacity-building services for FSPs (130 projects).

MENA boasts sustained growth, while funding to ECA continues to dominate

Eastern Europe and Central Asia (ECA) continue to receive the bulk of funding in terms of volume (31 percent of 2014 commitments), but SSA has the largest number of projects (553 projects).

The exchange rate fluctuations and closure of several large projects to local intermediaries resulted in a decline of funding for ECA, South Asia (SA), and Latin America and the Caribbean (LAC). However, in contrast with LAC where financial inclusion efforts have matured enough to rely extensively on local funding, the number of projects in ECA and SA is still growing, even as funding volume falls. These trends indicate that funders have adapted their strategies in these regions, shifting toward a greater number of projects with smaller amounts of funding.

Even after accounting for exchange rates, funding to MENA boasts significant growth, as seen in Figure 4, and funding to this region is the fastest growing. Funding to SSA also increased in nominal terms, but not as quickly as in MENA.

Grants account for a third of the $3 billion in funding to SSA, a much higher portion than in other regions. Projects aim to improve the capacity of FSPs, leverage technology to enable a broader range of services, and foster greater transparency. Digital finance is a central theme for interventions in the region (see Box 2).

Furthermore, multi-country and global projects grew significantly in 2014. The majority of global funding is channeled through MIIs, although commitments to other types of recipients have also risen. These projects are primarily related to providing digital finance solutions, enhancing essential services, and guidance on client protection.

---

5 Each project can contain multiple instruments.
Looking ahead

Despite the slowed growth in funding volume, the majority of the funders reported that they expect their commitments to increase or remain at current levels going forward. In addition to continuing their focus on the retail level, funders also plan to work on payment systems and consumer protection. In terms of regional strategy, funders said that over the next three years they will increase investments in SSA, where they aim primarily to build the retail sector’s capacity and expand the range of products and services.

In the past few years, the financial inclusion community has strengthened its focus on the potential of digital finance to rapidly expand access and use. We have also witnessed a strengthening of the links between financial inclusion and other global development objectives. At the same time, many funders have adopted a market systems approach in their work, which will affect how they allocate their funding in the future. We anticipate that funding for digital solutions will increase in the future, as will funding for cross-sector projects and recipients beyond FSPs.

Methodology

This Brief is based on data from the 2015 CGAP Cross-Border Funder Survey conducted in partnership with MIX. Each year, the survey alternates between a full set of funders (50+) and a smaller set (20+). For this year’s survey of 2014 data, CGAP collected data from 23 international funders, whose commitments made up 85 percent of funding in the previous year’s survey of 56 funders. Multi-year trends are based on the 21 funders who have reported annually since 2009. The global estimate is calculated by combining data from our samples and publicly available data from the Symbiotics MIV Survey (www.syminvest.com). For more information on the methodology, visit www.cgap.org/data.

Reference


Box 2. Digital Finance

In recent years, digital finance has grown in popularity and importance for many funders and in many markets. While digital financial services started primarily as a cash-in/cash-out person-to-person payments platform (with M-PESA in Kenya being the most well-known example), it has evolved into a multipurpose channel that can support government-to-person payments, mobile wallets, and even the delivery of credit products. The 2015 survey asked respondents to identify which projects contained elements focusing on digital finance. While the data may not capture 100 percent of the pertinent projects, it still offers insight into the evolving field.

Funders reported a total of 97 projects aiming to expand digital financial services. More than half of these projects (51 out of 97) target SSA, and in 50 percent of these, the funding is channeled via national governments. The funding for digital finance typically originates from foundations and multilateral agencies. While these projects may encompass other objectives along with the provision of digital financial services, they are mainly focused on improving operations, strengthening regulation and supervision, and supporting information and transparency.

6 In contrast to the traditional funding approach that focuses on institution-building, a market systems approach to financial inclusion encourages funders to aim for systemic change through their investments and interventions. For more background on this approach, read CGAP’s New Funder Guidelines at http://www.cgap.org/publications/new-funder-guidelines-market-systems-approach-financial-inclusion.