



**FINANCIAL
INCLUSION FUND**

PARTNERING TO IMPROVE LIVES

Micro-entrepreneurs and small businesses across the world play a key role in their local economies. However, these businesses have a precarious existence and face the greatest hurdles in accessing finance to help them grow. The reasons for this range from difficulties in meeting collateral requirements and low levels of financial literacy to issues of proximity and physical access to service points. These problems have only been exacerbated by the COVID-19 pandemic.

Financial inclusion contributes to the achievement of several of the United Nations' Sustainable Development Goals (SDGs). If these are to be achieved, it is vital that support is provided to financial service providers that focus on vulnerable groups as well as directly to micro-entrepreneurs. This support is essential to enable small businesses to recover as quickly as possible from the economic turmoil of COVID-19 and to build resilience to the effects of the pandemic and other challenges and shocks that they may encounter.

The European Investment Bank and the government of the Grand Duchy of Luxembourg launched the Financial Inclusion Fund (FIF) in 2019 with the intention of expanding it to a multi-donor fund. The fund is open to further contributions from donors seeking to promote financial inclusion.

“Luxembourg is proud to support the development of projects that facilitate access to finance and build resilient, reliable and sustainable financial services in African, Caribbean and Pacific countries through the Financial Inclusion Fund. These are key to foster the post-pandemic economic recovery in these regions and act as an enabler for the realisation of the Sustainable Development Goals.”

Yuriko Backes, Luxembourg Minister of Finance

The Financial Inclusion Fund helps partner countries achieve SDGs 1, 5 and 8.



It is designed to improve financial inclusion and access to responsible finance for micro, small and medium-sized enterprises (MSMEs) in emerging and developing economies. This is achieved by providing capacity-building grants to a range of inclusive finance stakeholders. These grants enable them to improve the outreach and quality of financial and non-financial services to micro-entrepreneurs.

Projects funded under the Financial Inclusion Fund are contributing to SDGs 2, 3, 4, 7, 9 and 10.



“In recent years, financial markets have developed instruments that are specifically designed to raise funds for the implementation of the SDGs. Microfinance has paved the way for this evolution and in the future we will be even more inclusive. Following Luxembourg development cooperation’s good experiences supporting the EIB’s microfinance activities through technical assistance, and providing cutting-edge knowledge on digitalisation, social performance, climate change and resilience in financial service provision, we are making this cooperation available to other interested parties through the creation of the Financial Inclusion Fund.”

Franz Fayot, Luxembourg Minister for Development Cooperation and Humanitarian Affairs

The Financial Inclusion Fund is currently active in the Africa, Caribbean and Pacific region as well as in the Middle East and North Africa.

To date, Luxembourg’s Ministry of Finance and the Ministry of Foreign and European Affairs (Directorate for Development Cooperation and Humanitarian Affairs) have together pledged about €5.4 million to the fund. €4.5 million is dedicated to projects in sub-Saharan Africa, the Caribbean and the Pacific, with the remaining €900 000 earmarked for projects in the European Union’s Southern Neighbourhood. Support for projects in other regions is possible depending on the current and future donors’ regional priorities.



“Financial inclusion is vital to create opportunities for small businesses to develop and for micro-entrepreneurs to improve quality of life for themselves and their families. In addition to our investments in microfinance, the EIB is happy to work with Luxembourg and other donors on improving what our partner institutions can offer to their clients. This will contribute to boosting economic recovery and support sustainable economic development over the coming years.”

Gelsomina Vigliotti, EIB Vice-President



Projects that make a difference

The Financial Inclusion Fund can support microfinance institutions, their clients and inclusive financial service stakeholders in many different ways. It is also flexible enough to adapt to changing needs on the ground and help beneficiaries respond to current challenges that they are facing.

Each year, the fund identifies priority areas for support. In 2020 and 2021, it focused on a variety of topics, including:

- **Responding to the needs of inclusive financial service providers and their clients in the face of the COVID-19 pandemic;**
- **Increasing resilience to climate change for microfinance institutions and their clients**, notably through sustainable agricultural practices and access to renewable energy;
- **Improving access to finance through digital platforms;**
- **Facilitating access to quality and affordable healthcare** for low-income communities via microfinance;
- **Promoting the economic empowerment of women** by improving their access to responsible finance and/or enhancing their entrepreneurial skills.

Extending financial services for real impact

To date, 23 projects have been approved under the Financial Inclusion Fund: 18 of these are in the Africa, Caribbean and Pacific region and five are in the European Union's Southern Neighbourhood.

Some examples of the results expected under the Financial Inclusion Fund include:

- **Helping provide financial services to almost 600 000 people** in remote and rural parts of Zambia;
- **Supporting the rollout of digital banking to 26 400 people** in Uganda;
- **Enabling 200 000 female micro-entrepreneurs**, also in Uganda, to access and use financial products.

The fund's grants are smaller than those issued by some of the EIB's other trust funds, but their impact can be huge, and invaluable for the entrepreneurs who benefit from stronger digital platforms, increased financial knowledge and improved access to the services they need.

Increasing financial services for Zambian farmers

AB Bank Zambia provides simple, customer-centric banking services such as loans, overdrafts, and current and savings accounts to its MSME clients. In recent years, the bank has embarked on a significant digitalisation journey to provide alternative digital products and channels to its clients and digitalise operations to improve efficiency. A cornerstone of this is the eTumba mobile wallet platform, which helps to extend some financial services to remote and rural populations, including loan repayments and credit scores for loan renewals. It is estimated that 50% of Zambia's rural population is excluded from formal financial services and only 34% of adults who depend on farming to make a living are financially included. AB Bank Zambia received a grant from the Financial Inclusion Fund to help develop and launch a full range of banking services on the eTumba platform and increase its outreach to underserved, largely rural regions. One notable function will allow customers to move funds from a current account into an interest-paying savings account. This will be beneficial for farmers who generate most of their income at harvest time but face lean periods of low liquidity at other times. Thanks to eTumba, they will be able to move money from one account to another instantly. AB Bank Zambia aims to reach significant numbers of new and existing clients beyond their brick and mortar branches, create intuitive products designed for rural customers and businesses, make financial services more available for women, and increase the investment capacity of rural communities by using automated processes to issue loans quickly and efficiently.

Including women and young people in the post-COVID normal

A challenge for small businesses can be how to find financing when they have outgrown traditional microfinance loans but are still considered too informal, small or risky for commercial banks. In general, these companies need loans of over €1 000, which are often too big for microfinance institutions but too small for commercial banks. This situation is often referred to as the plight of the “missing middle.” Groupe Cofina is a network of West African microfinance institutions that seeks to close the “missing middle” gap by providing meso finance to growing small and medium-sized enterprises that often find themselves with limited financing options. Meso finance loans start from an amount of €1 000 and are specifically meant for small and medium-sized enterprises, covering the segment above micro and below large companies. The COVID-19 pandemic has seen many businesses reduce or even cease operations and financial institutions have suffered as their liquidity has dropped across the board.

A technical assistance grant from the Financial Inclusion Fund was allocated to Cofina's subsidiary institution in Senegal to help it reassess its strategy, products and services in light of the “new normal” and to better understand clients' needs as they face the effects of the pandemic. This project will help Cofina put in place policies and products that will be of immediate benefit to its clients, such as extending loan terms and offering grace periods, but also increasing staff capacity to provide support to clients on how best to manage their businesses and cash flow. Staff will be coached on how to effectively communicate with clients. The project will also explore how to use technology to deliver tailored products and services to more young people and women as a means to significantly increase this customer base and their access to finance.

Simplifying procedures for Madagascar's companies and people

Micro-enterprises are responsible for 31% of the jobs created in Madagascar, but they are typically excluded from the traditional banking system. They also tend to be short-cycle, quick-turnover businesses, which means that decisions that could affect the future of these small companies must be taken quickly and the services they need must keep pace. This is not always the case, however. AccèsBanque Madagascar has recently worked on reducing the time it takes to get a loan of less than €2 500 approved from five days to two days. However, the loan application process still relies on manual processes and face-to-face meetings at branches, which is often impractical for clients. AccèsBanque Madagascar's Quick-A project is being supported by a Financial Inclusion Fund grant and aims to address this by developing a digital tool to analyse and process loans. All of the information required to apply for a loan is collected by the bank's loan officers using a smartphone app and sent through the system to be examined and approved. The aim of this app is to reduce the time it takes from loan application to approval from two days to three hours, with the money available immediately after contract signature. The project will additionally train staff and loan officers on how to use the app. AccèsBanque Madagascar expects the loan application process time to be reduced by 85%, and loan officer productivity to increase by 20%.

Access to finance for education in the Dominican Republic

Fondesa, a development finance institution in the Dominican Republic, has been running a special financing programme to improve access to education for lower-income families since 2018. The programme, which has benefited from an EIB loan, provides student loans to Dominicans from lower and middle-income backgrounds who are pursuing undergraduate and postgraduate courses at universities in the country or abroad.

A technical assistance grant from the Financial Inclusion Fund is helping Fondesa to undergo a digital transformation and provide clients with a virtual platform from which they can make payments, check their instalments and loan balances and access chatbots to facilitate communication with the institution.

By offering automated digital channels, Fondesa hopes to add 5 000 new clients within the next three years, thus broadening access to education for Dominicans. It is expected that 70% of all transactions will be conducted via the digital platform.

ADVANTAGES OF CONTRIBUTING TO THE FINANCIAL INCLUSION FUND

The Financial Inclusion Fund gives like-minded donors the opportunity to pool their funds to support much-needed, demand-driven capacity-building projects for reputable beneficiaries across the Africa, Caribbean and Pacific region and beyond. These grants are relatively small but the benefits for people can be enormous, and they deliver tangible results. The Financial Inclusion Fund is versatile. Grants may be used for a range of projects, from connecting micro-entrepreneurs and small businesses with funding via digital platforms, to empowering female business owners and improving the processes for loan applications and releasing funds. The EIB has extensive experience in managing trust funds on behalf of donors and the Financial Inclusion Fund offers a well-structured platform to source, evaluate, contract and monitor capacity-building projects of real value. Individual donor priorities can be accommodated, and the EIB's rigorous and professional approach to managing the fund offers partners the assurance that their contribution will be efficiently used to promote access to responsible inclusive finance.



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