

ADA, an expert in inclusive finance

Annual Report 2022

New perspectives for an even greater impact

ADA SUPPORTS THE DEVELOPMENT OF TAILORED FINANCING MECHANISMS AND SOLUTIONS FOR VULNERABLE PEOPLE.



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In 2022, ADA turned a new page with its new strategic plan. This strategy, which supports the development of financing mechanisms and solutions tailored to vulnerable populations, enables ADA to be a major actor in inclusive finance.

In 2022, the momentum generated in supporting the three main target groups (young entrepreneurs, smallholder farmers and forestry businesses as well as vulnerable households) began to be reflected in the programmes, notably via the expansion of SSNUP (Smallholder Safety Net Upscaling Programme), the consolidation of the F2.0 digital platform and the launch of the preparatory phase of the ICCAP (Inclusive Climate Finance for Vulnerable Communities in Asia-Pacific) programme.

This first year of the new strategic plan allowed us to test new solutions to have an even greater impact. The 15 pilot projects that were launched unlock opportunities for new programmes in support of agricultural and forestry value chains and access to renewable energy. The pilot projects aimed to identify relevant solutions with reliable partners with a view to developing programmes that will meet the needs of the target populations on a larger scale.

In 2022, the investment advisory activity reached a new level of intensity for the Luxembourg Microfinance and

Development Fund (LMDF) which now boasts a portfolio of EUR 45 million. At the same time, opportunities for innovation were unlocked with the creation of the Financing Innovation Tool (FIT), a new impact financing tool which was approved as a Societal Impact Company (SIS), to better support innovative and social businesses in developing countries.

2022 was also marked by ADA's increasing involvement in formulating and implementing Luxembourg Cooperation's financial inclusion programmes, such as a programme in Niger promoting access to financing for vulnerable members of the population, particularly women, young people and those in the agricultural sector in rural areas.

In terms of budget, the EUR 12 million earmarked for ADA benefited more than 250,000 people through 210 partner organisations. Beyond these figures, the most striking result is that we successfully strengthened our ongoing efforts to support our partners in the field by encouraging social and environmental innovation while helping to improve the living conditions of vulnerable people.

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ADA in Luxembourg

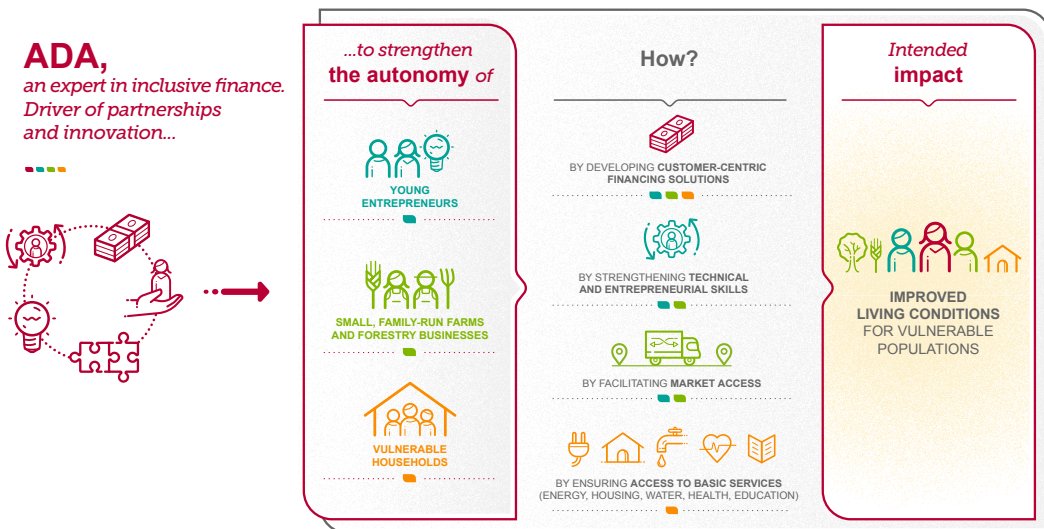
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**Our partners in
Luxembourg in 2022**



ADA's strategic priorities from 2022 until 2025

ADA's new strategy focuses on supporting young entrepreneurs, strengthening agricultural and forestry value chains and giving vulnerable households access to basic services.



ADA's expected contribution to the Sustainable Development Goals

ADA's interventions will significantly contribute to poverty eradication (SDG 1), to reducing food insecurity (SDG 2), to providing access to decent employment and income (SDG 8), to adapting to climate change (SDG 13) and to strengthening partnerships between different types of actors in the inclusive finance sector (SDG 17). ADA will also indirectly contribute to good health and well-being (SDG 3), quality education (SDG 4), gender equality (SDG 5), access to safe drinking water and sanitation (SDG 6), affordable and clean energy (SDG 7), fostering innovation and the inclusion of small enterprises (SDG 9), improving shelter (SDG 11) and to sustainable forest management (SDG 15).



What we do



Driving partnerships

In 2022, ADA strengthened the capacities of 210 partner organisations through technical and financial support. ADA's shift in focus has resulted in collaborations with a wider range of stakeholders, in addition to micro-finance institutions, which now represent just over half of the organisations supported. For example, ADA is increasingly collaborating with SMEs, incubators and other business development centres.

Capacity building

The internal capacities of 128 partner organisations were improved. While financial institutions were often supported with digitalisation, strategic planning and financial management, SMEs were mainly supported regarding social and environmental performance management, business

management as well as digitalisation. Public bodies are helped with refinancing mechanisms, supervision and social performance management.

Developing tailored solutions

The development of inclusive financial services mainly focused on tailored loans, for example for agricultural and forestry activities and for environmentally friendly practices such as clean energy and sanitation. In addition, ADA also helped various partners to develop inclusive insurance products.

ADA's non-financial support mainly consisted of technical assistance for smallholder farmers (some of which are provided for fair trade, organic or other certifications under the SSNUP programme), support for entrepreneurship, financial education, and awareness-raising of the importance of clean water and sanitation.

Strengthening the sector in collaboration with national institutions

ADA contributes to the implementation of national development programmes in several priority countries of the Luxembourg Cooperation, notably with regard to inclusive finance.

Facilitating links with international investors

As an impact investment adviser to the Luxembourg Microfinance and Development Fund (LMDF), Investing for Development (Iford) and the Financing Innovation Tool (FIT), ADA prospects, selects and performs a social and financial analysis of innovative, financially inclusive institutions with a significant social impact.

ADA's key figures 2022

Resources

EUR **12** million
spent on ADA's activities

Activities

210
partner organisations
benefited from **technical support programmes**, almost half of them are not microfinance institutions

128
organisations supported in **internal capacity building**

117
organisations supported in developing **tailored solutions for target populations**

3
countries in which ADA supports **national financial inclusion strategies** and local institutions

8
countries in which ADA supports **programmes by Luxembourg's Development Cooperation**

9
countries in which **ADA strengthens the inclusive finance sector** in collaboration with national institutions

ADA's contribution to the Sustainable Development Goals



1 NO POVERTY

TARGET 1.4
Access to basic services, including microfinance
TARGET 1.5
Strengthening resilience among vulnerable people



2 ZERO HUNGER

TARGET 2.3
Improved agricultural productivity and smallholder incomes, including access to financial services
TARGET 2.4
Adoption of productive, sustainable and resilient agricultural practices



3 GOOD HEALTH AND WELL-BEING

TARGET 3.9
Reduction of health problems due to polluted air, water and soil



4 QUALITY EDUCATION

TARGET 4.4
Strengthening the skills needed for employment and entrepreneurship



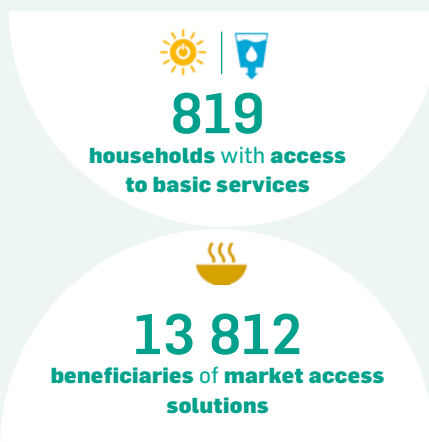
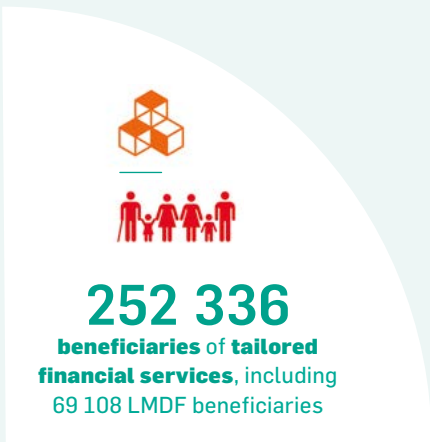
6 CLEAN WATER AND SANITATION

TARGET 6.2
Access to sanitation services



Results

Over **250 000** beneficiaries of solutions tailored to their needs



TARGET 7.1
Access to clean energy



TARGET 8.10
Capacity building of
financial institutions
and access to financial
services



TARGET 9.3
Access for small
businesses to financial
services and
integration into value
chains



TARGET 13.3
Raising awareness of
climate change

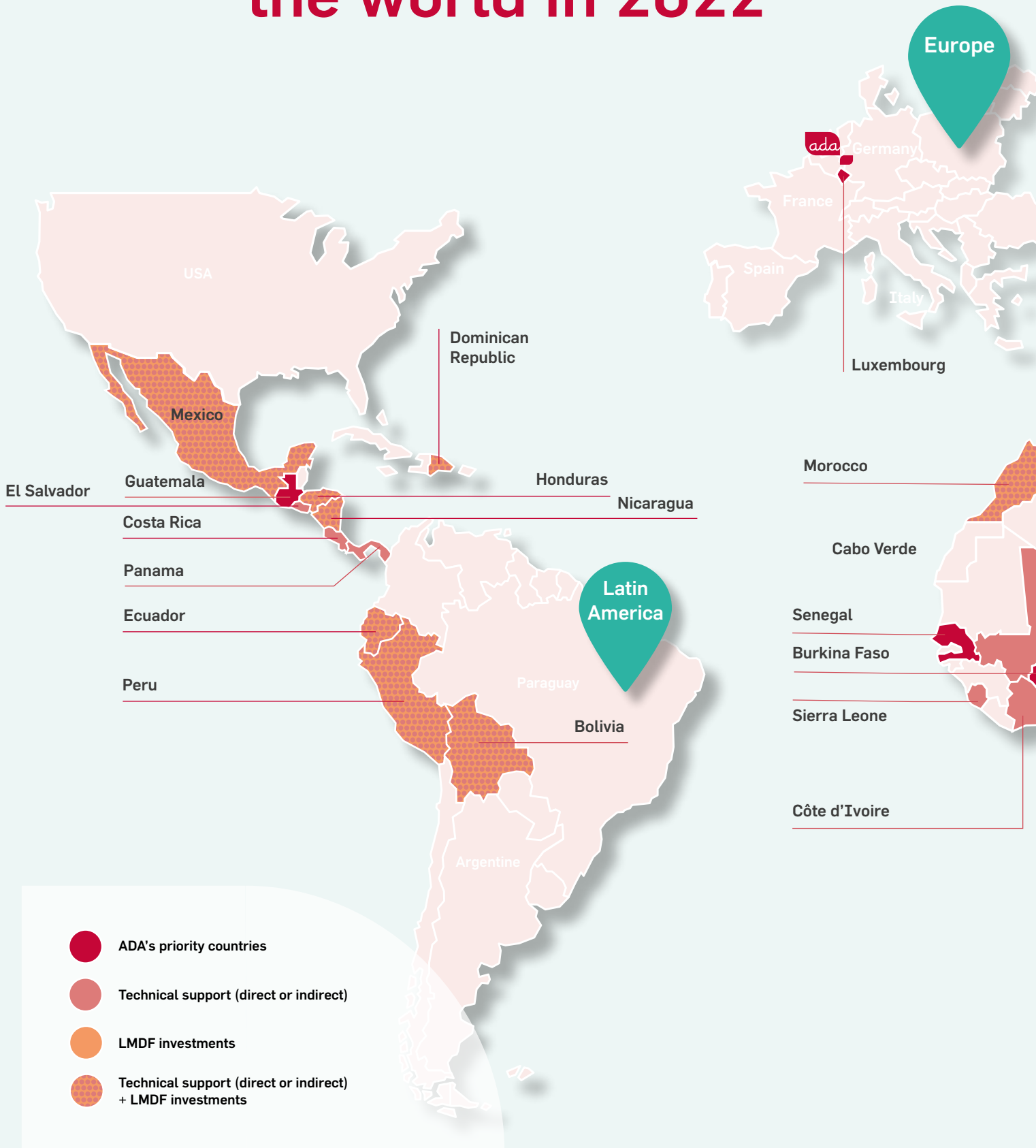


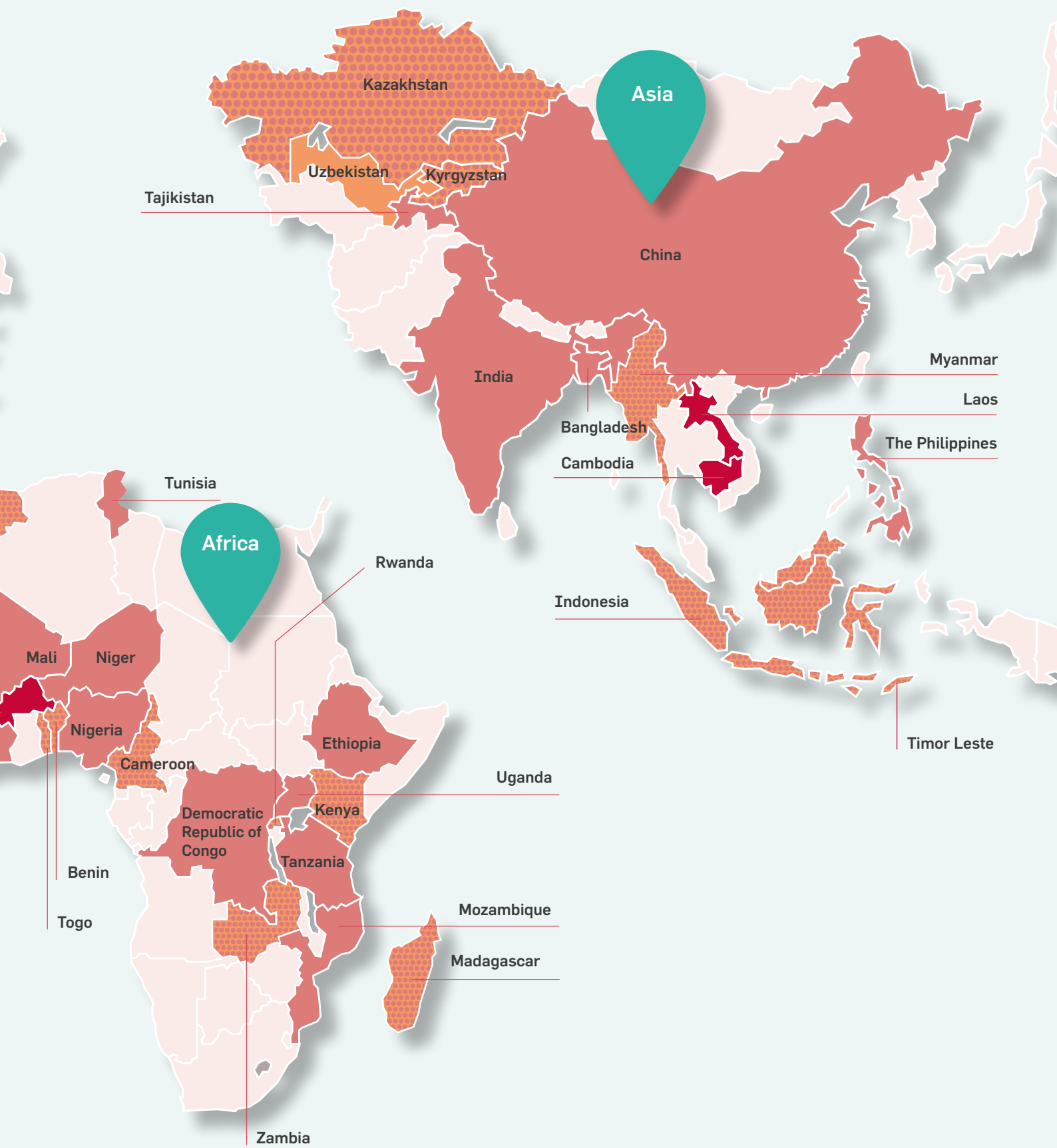
TARGET 15.1
Sustainable use of
terrestrial and
freshwater
ecosystems



TARGET 17.3
Direct foreign
investment
TARGET 17.17
Support national
strategies in
developing countries

ADA projects around the world in 2022





Financial support and business coaching for young entrepreneurs

Supporting young entrepreneurs in launching and growing a viable business is a strategic priority for ADA.

ADA collaborates with a multitude of actors to provide owners of micro-enterprises and SMEs with flexible, tailored financing as well as business skills.

Fostering youth entrepreneurship in developing countries is key for reducing unemployment and for maximizing the contribution of young people to the economy. However, they face significant challenges.

Few financial service providers understand and adequately serve young business owners, especially as their financing needs change throughout the business cycle - a startup has different financing needs than a growing SME.

In general, young entrepreneurs are seen as high-risk clients because of their limited credit history, high mobility and lack of assets to offer as collateral. They therefore often depend on their savings or money from friends

and family to start and grow their businesses.

Financing alone is not enough

Another challenge is a general lack of business skills as there is too little professional training and business development support in most countries. Nevertheless, financial and accounting skills are essential for growing a business as well as for obtaining and managing a bank loan. Young people also need appropriate training to take advantage of new opportunities in renewable energy, agroecology, and the circular economy.

ADA has therefore extended its range of partnerships. In addition to collaborating with financial institutions, ADA

works with support structures for entrepreneurs such as incubators and accelerators.

All projects aim to provide young people with business management support, access to tailored financial services as well as market access.

All parties gain from this setup; it makes the financial institution more willing to grant loans as they are reassured that the entrepreneur is well supported and supervised. The incubators on the other hand are able to offer more holistic services to entrepreneurs thanks to partnerships with the financial institutions. This not only makes their service more attractive but also more durable.

Key figures 2022

Access to and use of financial services

6

organisations offer specific financial services for young entrepreneurs

553

young entrepreneurs were financed with tailored financing mechanisms

Of these, 14 were financed through innovative income-based credit schemes (YES-FI) co-managed by incubators and financial institutions, for an average amount of EUR 23 600

By the end of 2022, a total of **26** entrepreneurs were financed through YES-FI and created or maintained 360 jobs financing mechanisms

663

young people benefited from a savings product

Access to and use of capacity-building services

8

organisations offer specific financial services for young entrepreneurs

383

young people benefited from business support programmes via incubators and/or an accounting service by young accountants via a digital platform





Supporting micro-entrepreneurs in Senegal

With the support of the Luxembourgish development agency LuxDev, ADA is creating a favourable environment for young entrepreneurs wishing to set up a micro-business in northern and central Senegal by building and coordinating a network of technical and entrepreneurial support providers in collaboration with the local micro-finance institution U-IMCEC (Union Mutualiste d'Épargne et de Crédit).

This project aims to develop tailored financial services for young people with flexible conditions and to provide training and coaching before and after the loan disbursement. ADA also helped the incubator Jokkolabs to develop a certified training on agro-ecological horticulture and food processing which enabled 142 entrepreneurs to fine-tune their business plans and to enter the market in 2022.

In late 2022, the programme was enriched with post-financing support for young entrepreneurs, which enabled better monitoring and improvements. As a result, the programme is now ready to be upscaled and has already been extended to northern Senegal.

Helping businesses grow with YES-FI

While the project in Senegal aims to help young entrepreneurs launch their business, ADA also seeks to support existing companies who need to finance their next growth phase. The Young Entrepreneurs Sustainable Financing Initiative (YES-FI) provides growing entrepreneurs with financing (both working capital and investments) between EUR 5 000 and EUR 50 000 in various African and Central American countries.

This is one of the least covered ranges of funding needs in the “missing middle”, which refers to funding requests that are too large for MFIs and too small to attract the attention of commercial banks and impact investors. As long as the entrepreneurs have an outstanding loan, they also have access to support from partnering incubators. The costs for this support are partly covered by the loan repayments.

The programme finances entrepreneurs to create a financing history with local financial institutions, which can then take over the subsequent financing rounds at a lower risk and without ADA's support.

Another key element of YES-FI is that debt repayments are based on the entrepreneur's monthly turnover instead of repaying fixed amounts. ADA chose this innovative approach to reduce the risk of non-repayment of loans as the entrepreneurs are gran-

ADA PROVIDES DIFFERENT TYPES OF YOUNG ENTREPRENEURS WITH TAILORED FINANCING MECHANISMS TO ADDRESS FUNDING GAPS AND WITH BUSINESS SKILLS TO INCREASE THEIR SOCIAL, ENVIRONMENTAL AND ECONOMIC IMPACT.

Contribution to the SDGs



ted more flexibility. The incubators use financial information from the entrepreneurs to determine the repayment amounts every month and entrepreneurs can sometimes even choose to repay the minimum, depending on their current liquidity needs.

The incubators Alterna in Guatemala, Impact Hub in Nicaragua and La Fabrique in Burkina Faso are good examples of the kind of incubators supported by YES-FI as they focus on financing young entrepreneurs and companies with a positive social and environmental impact.

In 2022, the YES-FI programme enabled the participating incubators to attract new financial partners such as Cenpromype, Palladium, Coris Banque, the European Union and the Roger Adams Foundation. The YES-FI programme is also sponsored by Generali Investments Luxembourg.

TARGET 8.10:

Strengthen the capacity of domestic financial institutions

TARGET 2.3:

Increase the agricultural productivity and income of small-scale food producers, including access to financial services

TARGET 4.4:

Strengthen necessary skills for employment and entrepreneurship

TARGET 9.3:

Access of small-scale enterprises to financial services and their integration into value chains



Tailored financial products for smallholder farmers and small-scale forest owners

ADA strives to improve the livelihoods of smallholder farmers and small-scale forest owners through increased productivity as well as facilitated access to markets and appropriate financial services.

To this end, ADA connects value chain actors and provides technical assistance to promote good agricultural and forestry practices.



Farmers, forest owners and other actors in agricultural, agri-food and forestry value chains in developing countries need access to appropriate financial services to improve their livelihoods and increase their productivity to strengthen overall food security. However, many microfinance institutions (MFIs) lack the resources and tools for managing agricultural and forestry loans, making it difficult for farmers and forest owners to obtain financing to improve their production practices and access new markets.

ADA's support for small-scale producers is threefold. Firstly, ADA puts in place technical assistance projects that increase productivity and sustainability. Secondly, ADA strives to develop agricultural and forestry financing services with MFIs, mainly to facilitate farmers' and forest owners' access to financing. Thirdly, ADA strengthens the links between differ-

ent value chain actors to facilitate market access for farmers, forest owners and processors.

Strengthening value chains

While crop yields are expected to decline in the coming years due to deteriorating climatic conditions and land degradation, the agricultural sector is also a major contributor to climate change due to unsustainable land, forest and livestock management. Despite the crucial importance of the agricultural and forestry sectors for the livelihood of smallholders, food security and environmental protection, their development is stifled from being underserved by financial institutions and due to a lack of structured value chains.

To address structural deficiencies, ADA is striving to connect different actors in agricultural and forestry value

chains, from producers and transformers to service providers and wholesale buyers. This value chain approach combines innovative technical capacity building (including for climate-smart practices) with access to markets, tailored financing and digitalised transaction tools.

In this context, ADA set up several innovative pilot projects in 2022 to connect suppliers and buyers and to complement financial services with digital and capacity-building solutions.

A total of eight pilot projects have been put in place with a variety of partner organisations that included SMEs, co-operatives, incubators, MFIs, insurance brokers and technology providers. The tested solutions include entrepreneurial capacity building programmes for SMEs, agricultural index insurance, training in adequate practices and a marketing platform for agricultural products.

The overall objectives of some of the projects are to increase the beneficiaries' resilience to the negative effects of climate change, for example by promoting agricultural practices that reduce greenhouse gas emissions.

Key figures 2022

Access to and use of financial services

24 294

beneficiaries of loans for farming, purchasing inputs, mechanisation, processing, storage or marketing

58 021

farmers benefit from index insurance covering drought and/or flood risks

Access to and use of capacity-building services

69 406

farmers and forest owners benefit from technical support concerning good practices, financial education or entrepreneurship

Market access

13 812

farmers benefit from market access solutions such as digital platforms for connecting with other value chain actors, certification (organic, fair trade, etc.), or tripartite contracts with buyers or processors and financial institutions

Contribution to the SDGs



TARGET 8.10:

Capacity building of financial institutions

TARGET 2.3:

Improved agricultural productivity and income of small producers, including through access to financial services

Pilot project: financing and improved market access for fonio processors

Fonio is a traditional cereal from eastern Senegal which grows relatively well in poor soil and with little irrigation, making it a more climate-resilient alternative to wheat. A pilot project launched by Soreetul in 2022 aims to help women's processing groups in Southern Senegal to comply with export manufacturing standards.

The women were given training to increase the quality, quantity and hygiene of the processed fonio and ADA helped them obtain financial support from the microfinance institution U-IMCEC to purchase equipment to upscale their businesses. As a next step in 2023, their market access will be increased via Soreetul, a digital e-commerce platform.



A new focus on forestry value chains

In 2022, ADA started to explore possibilities of providing tailored financing and training to forestry value chain actors. Small forest owners or tenants are a new group of beneficiaries for ADA with specific needs; they face longer production cycles and have longer-term financing requirements than farmers.

ADA has put in place several pilot projects in Guatemala and Rwanda to better understand these needs with

a view to developing capacity building programmes for forest owners and micro, small and medium-sized wood-processing enterprises. In addition, ADA is experimenting with solutions for linking different value chain actors and for providing technical training to forest owners.

For example, ADA is running a pilot project with the business incubator Tikonel to strengthen the forestry value chain in the western highlands of Guatemala. The project helped more than 60 forest owners to manage their forests according to sustainable good

practices to later supply wood transforming companies at a fair price. In addition, several wood transforming SMEs were provided with entrepreneurial training.

In Rwanda, ADA is supporting the MFI Inkunga in developing tailored short- and medium-term loans for farmers who wish to plant trees for timber production as a way of diversifying their sources of income. The loans will also be available for wholesalers, retailers and carpenters to finance bulk purchases of timber products such as poles and sawn timber.



ADA SUPPORTS SMALLHOLDERS BY CONNECTING THEM WITH OTHER ACTORS IN THE AGRICULTURAL AND FORESTRY VALUE CHAINS, BY PROVIDING FINANCIAL EDUCATION AND FACILITATING THEIR ACCESS TO TAILORED AND SUSTAINABLE FINANCE, AS WELL AS BY ENCOURAGING BEST AGRICULTURAL PRACTICES.

SSNUP: a smallholder farmer support programme coordinated by ADA

SSNUP (Smallholder Safety Net Upscaling Programme) aims at increasing the productivity and resilience of smallholder farmers in Africa, Latin America and Asia. SSNUP co-finances technical assistance projects that support smallholder farmers and value chain actors such as SMEs, agricultural cooperatives, MFIs and other agricultural financial intermediaries. These projects range from developing index insurances to promoting climate-smart and agro-ecological farming.

The programme targets agricultural value chains in which impact investors (Alterfin, Grameen Crédit Agricole Foundation, Incofin, Oikocredit, responsAbility, SIDI and Symbiotics) and their technical assistance facilities are already active. AgDevCo and Bamboo Capital Partners joined the programme in 2022 and early 2023 respectively.

As the targeted beneficiaries are part of the portfolio of impact investors or among their prospects, SSNUP can direct funding without the need for additional due diligence. This not only makes the funding process of projects more efficient, it also de-risks the investments made by the partner impact investors. While SSNUP is supported by the governments of Luxembourg, Switzerland and Liechtenstein, ADA coordinates the programme and ensures

knowledge sharing and the dissemination of best practices.

In its second fully operational year, four SSNUP projects were completed with diverse objectives, ranging from improving the product and service offering of a microfinance institution in Benin to strengthening the resilience of farmers in Ghana, Ivory Coast and Togo through certification and traceability. In 2022, 26 new projects were approved (40 in total since the programme was launched in 2020) for 36 beneficiary organisations (63 in all) with a total budget of EUR 3 254 000, of which SSNUP is contributing EUR 1 716 000 with the expectation to reach 156 600 smallholder farmers.

F2.0: An online platform for facilitating input financing and crop management

ADA's F2.0 (Farmer 2.0) web platform connects farmers and farmer organisations with MFIs to facilitate the exchange and the transmission of information to grant and manage dedicated loan products for both the farmers and their organisations. This increases the financial inclusion of farmers, reduces risks for all actors and makes the MFIs' services more efficient and more targeted to the needs of smallholder farmers.

F2.0 enables smallholders to open a bank account at an MFI, to source financing for inputs such as fertiliser and seeds - based on an assessment

of their needs by the farmers' organisation - and to obtain the inputs directly from the organisations. After the harvest, the platform enables them to reimburse their input credit in kind by depositing the crops at the organisations.

Furthermore, the platform clearly defines processes and tasks for farmer organisations and MFIs, aligned to the crop-specific growth cycle:

- Upstream, F2.0 enables farmer organisations to define input catalogues, assess needs of farmers and to place orders. The MFI can check and review the orders and finance them in compliance with their internal approval processes. The farmer organisation can then monitor the input delivery and distribute them to the farmers in line with the approved loans.
- Downstream, after the harvest, the farmer organisation can use F2.0 to first monitor the crop collection from the farmers and then to monitor inventories and sales.

The F2.0 programme expanded significantly in Senegal in 2022: the integration of additional MFIs increased the number of participating agricultural producers by 67% to 3752 compared to the previous year. As a next step, insurance for farmers will be explored to improve the programme's risk management.

Leveraging inclusive finance to increase access to basic services

2022 marked the first year of ADA's new area of focus on facilitating access to basic services under its strategy 2022-2025.

ADA encourages access to renewable sources of energy for small businesses to support their activities and strives to sustainably improve the quality of life of vulnerable households by developing dedicated loan products with partner MFIs to facilitate access to water, sanitation and solar power.

Renewable energy

In 2022, ADA completed projects on developing green energy loans with seven MFIs in Central America and the Philippines with the Central American and Caribbean microfinance regional network umbrella organisation RED-CAMIF and the Microfinance Council of the Philippines.

As a first step towards the definition of a fully-fledged programme, ADA launched several pilot projects in 2022 to test potential partners and solutions:

- Three pilot projects were initiated with solar energy platform operators in Senegal and Burkina Faso. The aim is to leverage the central solar power platforms as economic hubs to

enable several SMEs and households at once to benefit from green electricity. ADA also aims to identify digital, pay-as-you-go solutions. For example, one of the projects in Senegal will install digital meters so that households can prepay their electricity with mobile money and better manage their household budget.

- Two other pilot projects to promote the use of solar-powered agricultural equipment were initiated in Bangladesh with the NGO Friendship.

Water and sanitation

ADA also aims to increase the quality of life of vulnerable people by offering them tailored micro-loans which will enable them to access water and

sanitation services (known as WASH services). To this end, ADA has been partnering with REDCAMIF to develop WASH credits with REDCAMIF member MFIs for several years. In 2022, two partner MFIs in Central America were supported in setting up WASH products. ADA started to make its approach more holistic in 2022 by collaborating with a broader range of project partners. Under this new approach, ADA acts as a facilitator between MFIs, expert NGOs, WASH service providers and the beneficiaries and ensures that the services and the financing meet the beneficiaries' needs. In addition to bringing these partners together and coordinating them, ADA continues to provide technical support to the MFIs for the development of dedicated loan products for basic services.



ADA FOSTERS ENTREPRENEURSHIP BY FINANCING ACCESS TO GREEN ENERGY AND IMPROVES LIVING STANDARDS BY ENABLING ACCESS TO DRINKING WATER.

The new approach was tested with the NGO Water for People and the MFI Genesis Empresarial, a REDCAMIF member, in Guatemala in 2022. The project aims to raise awareness of the benefits of household sanitation facilities and encourages behavioural changes to improve domestic and personal hygiene.

The project not only installed toilets and washbasins in a primary school, the pupils were also encouraged to tell their parents about the benefits of personal hygiene, thereby acting as ambassadors of behavioural change within their respective households.

Key figures 2022

Access to and use of financial services

21

organisations are developing financial services to provide access to basic services

99 515

beneficiaries of life and accident insurance, sometimes including access to healthcare

140

beneficiaries of loans to access water or green energy

Access to and use of capacity-building services

678

households made aware of the importance of access to clean water and/or sanitation

Access to and use of basic services

73

households gained access to water and sanitation thanks to a tailored loan

646

households have access to renewable energy or energy-saving equipment thanks to a loan and/or via energy providers who were supported by ADA projects

Contribution to the SDGs



Strengthening inclusive finance at the national level

ADA strengthens national inclusive finance sectors by encouraging greater responsibility, transparency, accountability and client protection through the promotion of best practices, adequate oversight and reliable MFI reporting.

ADA contributes to increasing the impact and the social performance of the inclusive finance sector as a whole by disseminating best practices and sharing knowledge throughout its projects. In addition, ADA is sometimes asked to assist national governments in strengthening inclusive finance in specific countries.

In 2022, ADA strengthened financial inclusion in selected countries by bringing together all levels of the inclusive finance chain from micro to macro. All projects ultimately aim to create a responsible national inclusive finance sector that protects its clients from over-indebtedness, for example:

- In Tunisia, ADA is currently providing technical assistance at national level to increase financial inclusion. Particular attention is given to financial education through the elaboration of the national programme in collaboration with the Central Bank. In addition, ADA aims to strengthen the protection of microfinance clients when using digital MFI services in collaboration with the regulator, to increase the offer of microfinance
- In Niger, ADA has a Luxembourgish government mandate to support the implementation of the national microfinance strategy. As part of this mandate, ADA provides technical assistance to the financial inclusion fund FDIF (*Fonds de développement de l'inclusion financière*) and to the food security fund FISAN (*Fonds d'investissement pour la sécurité alimentaire et nutritionnelle*), which both have the objective of providing
- In Cabo Verde, ADA is collaborating with microfinance institutions to digitalise credit operations. In addition, ADA is supporting the Central Bank in strengthening its supervision of the microfinance sector thanks to a standardised reporting tool for MFIs and a central risk bureau. ADA also supports the Ministry of Finance and the Central Bank in collecting data to make informed decisions, for example via a national survey on financial inclusion in collaboration with the national statistics agency.

financial resources to the inclusive finance stakeholders of the country.

- In Cambodia, ADA's longstanding partnership with the Cambodia Microfinance Association (CMA) cumulated in the adoption of the Banking and Financial Institutions Code of Conduct in March 2022 to increase the level of trust and accountability of financial institutions. In line with the national financial inclusion strategy, the self-regulated code will apply to all banks, microfinance institutions and payment service providers licensed under the National Bank of Cambodia.

ADA PROMOTES FINANCIAL INCLUSION BY EMPOWERING ALL STAKEHOLDERS AT THE MACRO, MESO AND MICRO LEVELS TO ENCOURAGE A SENSE OF OWNERSHIP AND RESPONSIBILITY IN THE MICROFINANCE SECTOR AS WELL AS TO STRENGTHEN CUSTOMER PROTECTION.

Key figures 2022

4

countries (Cabo Verde, Tunisia, Niger, Cambodia) in which ADA supports local institutions in implementing national financial inclusion strategies, in particular for

- setting up refinancing mechanisms for MFIs
- improving the supervision of the microfinance sector
- financial education of the population.

Mobilising climate investments in Asia

ADA is part of the consortium of the *Climate Finance for Vulnerable Communities in Asia Pacific (ICCAP)* project. As part of the preparatory phase, ADA conducted market research and needs assessments and sought out partners to develop green financial products that address the needs of vulnerable communities. The project is expected to start in 2023.



Deteriorating liquidity and funding conditions for microfinance institutions in Myanmar

A survey of the microfinance sector in Myanmar by the Myanmar Micro Finance Association (MMFA), ADA, Thitsa-Works and Dave Grace & Associates based on 2022 data shines a light on the difficult operating environment due to the ongoing political instability and makes recommendations. The survey is available on ADA's website.



ADA as an investment advisor for LMDF



ADA ACTS AS AN INVESTMENT ADVISOR FOR THE LUXEMBOURG MICROFINANCE AND DEVELOPMENT FUND (LMDF).

ADA CARRIES OUT THE PROSPECTION, SELECTION AND THE FINANCIAL AND SOCIAL ANALYSIS OF INNOVATIVE AND IMPACTFUL MICROFINANCE INSTITUTIONS.

In 2009, ADA initiated the creation of a private investment fund, the Luxembourg Microfinance and Development Fund (LMDF), through which investments (in debt) have since been made. As the mandated investment advisor to the LMDF sub-fund, ADA prospects, analyses and selects microfinance institutions with profiles sought by the fund. ADA only selects MFIs that meet the strict LMDF financial and social criteria and that add specific value to the market in which they operate.

ADA performs due diligence visits, presents investment files to the ad hoc committee and follows up on the investments in view of fulfilling the financial and social mission of the fund. At LMDF's request, ADA also supports the definition of the fund's investment strategy. In addition, ADA closely collaborates with IforD/LMDF to ensure the complementarity and coherence of its investments with other development actors in Luxembourg.

The total LMDF portfolio comprised 42 million euros for 48 MFIs in late 2022, a 19% increase compared to the previous year.

ADA's technical assistance complements LMDF investments

ADA complements the LMDF investments with training and technical assistance for the MFI counterparties to optimise their financial and social performance. This assistance will both improve their balance sheet and ensure appropriate consumer protection. More generally, this dissemination of good practices not only benefits the supported MFI but also helps to strengthen the entire inclusive finance sector in the countries concerned.

Furuz in Tadjikistan is a good example of how ADA can help MFIs to grow. Furuz was a Tier 3 MFI in 2019 when ADA first advised LMDF to be one of its first commercial investors. Furuz mainly targets micro-entrepreneurs in rural areas. The LMDF loan, complemented by assistance from ADA to digitalise lending processes, enabled Furuz to reach a size where the MFI can attract funding from larger foreign investors. In 2022, Furuz became the first MFI in Tadjikistan to transform from a micro-credit to a microdeposit organisation, thereby deepening their social impact by also offering inclusive savings products.

Preparing the launch of FIT, a new impact funding tool

Together with the Directorate for Development Cooperation and Humanitarian Affairs of the Ministry of Foreign and European Affairs, ADA started to put in place an impact financing tool in 2022 that would extend the financial support for MFIs to other entities such as SMEs and business support organisations with a societal impact in developing countries.

The Financing Innovation Tool (FIT) was registered as the first Societal Impact Company (SIS) for financial services. This means that FIT shares are 100% impact shares, all profits will be re-invested with no dividends.



Contribution to the SDGs



TARGET 17.3:
Direct foreign investment

Key figures 2022

EUR **14** million disbursed to 17 MFIs

19
MFIs in the portfolio supported with technical assistance

48
MFIs were financed in total with EUR 42m outstanding in the LMDF portfolio by the end of 2022

69 109
beneficiaries of MFI loans

Continuous improvement through knowledge management

ADA accumulates and produces knowledge and shares its project experience and lessons learnt from its projects, both internally and through publications and presentations at specialised events.

The Knowledge Management team carries out evaluations and identifies best practices to continuously improve the impact and effectiveness of ADA's activities.

To identify the lessons learnt from a project, ADA's Knowledge Management team collects data directly in the field from the various stakeholders involved, including from partner organisations and final beneficiaries. This direct interaction with all those involved in a project is essential for putting the project results into context, gaining a holistic overview of all perspectives, and thus ensuring the continuous improvement of ADA's interventions. To learn from a broad range of experiences, the Knowledge Management team follows up selected projects that represent ADA's key areas of focus.

In 2022 for example, the Knowledge Management team evaluated a project to develop tailored loan products and training sessions for young entrepreneurs in Rwanda. To this end, young entrepreneurs, loan officers and trainers were interviewed in the field to assess the project results, as well as the success factors or sources of difficulties according to their different points of view. These lessons will then be used to improve ADA's initiatives targeting young entrepreneurs.

In 2022, ADA also published the results of surveys aimed at beneficiaries of insurance services and financial edu-

cation training. These results were also discussed with partner organisations with a view to improving their services.

The newly generated knowledge is shared through publications or dedicated events (conferences, professional or university training courses, etc.) for the benefit of all representatives of the inclusive finance sector. ADA also offers training programmes for inclusive finance professionals to promote the development of knowledge and skills in the inclusive finance sector.

**THROUGH ITS
KNOWLEDGE
MANAGEMENT
ACTIVITIES, ADA
PROMOTES THE
CONTINUOUS
IMPROVEMENT OF
ITS INTERVENTIONS
AND SHARES ITS
LESSONS LEARNED
WITH DEVELOPMENT
AND INCLUSIVE
FINANCE
STAKEHOLDERS.**



Professional training in inclusive finance

ADA also offers training programmes for inclusive finance professionals to promote the development of knowledge and skills in the inclusive finance sector.

ADA's University Chair

ADA sponsors a Chair in Financial Law (Inclusive Finance) at the University of Luxembourg's Faculty of Law. The holder of the Chair, currently Dr Dirk Zetzsche, carries out research, gives academic and professional training and hosts an inclusive and sustainable finance research conference every year.

At a COP27 side event in November 2022, Professor Zetzsche presented a

roadmap for inclusive green finance implementation that was drafted in collaboration with the Alliance for Financial Inclusion (AFI). The initiative was sponsored by ADA, the Directorate for Development Cooperation and Humanitarian Affairs of the Ministry of Foreign and European Affairs of the Grand-Duchy of Luxembourg and by the German Federal Ministry for Economic Affairs and Climate Action (BMWK).

Training in agricultural and rural finance (FAR)

ADA organises annual training sessions on agricultural and rural finance (FAR) in collaboration with the United Nations

Food and Agriculture Organization (FAO) to strengthen the skills of participating financial institutions and enable them to develop products that are increasingly tailored to the agricultural sector. In 2022, a special edition was held in Cotonou, Benin, for 30 participants of the PADAAM programme of the International Fund for Agricultural Development (IFAD) in addition to the regular training.



ADA in Luxembourg



Midis de la microfinance panel discussions

ADA's *Midis de la microfinance et de l'inclusion financière* traditionally gathered representatives of the Luxembourgish inclusive finance sector for a panel discussion with a Q&A session on a current topic. They took place several times a year in Luxembourg City for a period of 16 years, from 2006 to 2022, with 56 editions in total. The 2022 editions covered the following topics:

Supporting young and female entrepreneurs in developing countries

Towards sustainable and inclusive insurance

Impact assessments and transparency in the investment sector.



Reforestation projects in Luxembourg

The Foundation *Hëllef fir d’Natur*, part of *natur&ëmwelt*, aims to protect nature and biodiversity in Luxembourg. ADA has been supporting the association with reforestation projects since 2021 - 2000 trees were planted in the North of Luxembourg in 2022. ADA is reforesting 1 hectare of land per year until 2023.



Longstanding ADA partner wins European Microfinance Award

FIE (*Fomento Iniciativas Económicas*) was founded in 1985 to help the poorest women in Bolivia. Thanks to ADA’s support over several years, it grew from a small NGO into an autonomous bank. Today, Banco FIE offers a comprehensive range of banking services to 1.2 million clients, including 600,000 women, as well as a women-led financial education programme.

In 2022, Banco FIE won the European Microfinance Award for women’s financial inclusion at a ceremony in the European Investment Bank’s headquarters in Luxembourg. ADA sees this international recognition as the culmination of the support it provided to the institution’s founders when they launched the NGO.

Our partners in Luxembourg in 2022



LE GOUVERNEMENT
DU GRAND-DUCHÉ DE LUXEMBOURG
Ministère de l'Environnement, du Climat
et du Développement durable



Our partners in the Maison de la Microfinance



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ADA is a non-government organisation accredited and co-financed by the Luxembourgish Directorate for Development Cooperation and Humanitarian Affairs.



ADA is under the High Patronage of Her Royal Highness the Grand Duchess of Luxembourg.

Publisher

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BIL: LU66 0021 1753 6992 8900
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Layout: h2a

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