

Inclusive Finance: Genesis Charitable Trust's policy on microfinance

22 January 2022

GUIDANCE TO APPLICANTS

Please take note of the following guidance before sending a project idea to Genesis Charitable Trust (GCT) for a microfinance-related project.

Definitions

Microfinance is the provision of financial services to low-income people, usually through short-term credit to individuals and households.

The Trust distinguishes microfinance (household credit) from enterprise finance. Working capital and asset finance are important aspects of enterprise development and a component of the Trust's social investment approach.

Financial inclusion efforts seek to ensure that all individuals and enterprises, regardless of income level, have access to and can effectively use the appropriate financial services that they need to improve their lives. The global financial inclusion agenda better recognises these broader needs and services than previous microfinance approaches. It also adds greater emphasis on the importance of financial literacy, on building consumers' financial capabilities, and on consumer protection policies that take into account the conditions and constraints of poor families in the informal economy.

Rationale

GCT's purpose is to fund projects providing "sustainable, long-term income generation and self-sufficiency, especially those making a demonstrable positive impact on marginalised communities currently beyond the reach of traditional government or market-based solutions." The Trust prioritises income-generating projects in selected developing countries. It actively seeks to support:

- enterprise development, including support for smallholders, in value chains which support marginalised communities
- the improvement of vocational opportunities for marginalised communities, including targeted skills training
- more effective and sustainable management of markets in natural capital.

A significant proportion of potential applicants to GCT may consider their programmes in microfinance closely aligned to GCT's purposes and priority areas. However, in the Trust's view, there is considerable evidence that microfinance does not of itself raise incomes in a self-sustaining way.

Over the course of 2017 the Trust undertook a review of the financial inclusion sector and re-examined its experience as a funder of microfinance projects over the previous five years. This informed a new Trust policy to identify projects best aligned with the Trust's priorities and capabilities. This was reviewed again in early 2022 in light of GCT's new social investment strategy.

*In the Trust's view, **financial inclusion is a necessary but not sufficient condition for improving livelihoods. Microfinance is a tool, not a goal in itself.***

Main implication

The Trust is very unlikely to fund household microfinance projects, including rotating credit schemes and village savings and loans associations. However, we expect to see and support the strengthening of financial capabilities, such as the provision of financial literacy and introduction of appropriate products (eg, recycling credit facilities), as part of broader evidence-based livelihoods programmes, particularly in vocational training and enterprise development.

Capital for enterprise growth, including to smallholders, is a constituent part of our enterprise development focus and social investment strategy. The Trust seeks impactful, high potential long-term investments, usually for equipment and personnel needs of growing, pre-breakeven enterprises. The qualities we usually look for are:

- **Ownership and returns:** the funds are deployed to a locally owned enterprise or cooperative operated by a marginalised group themselves, which is expected to realise a meaningful improvement in returns over the long term
- **Access:** widening economic participation by marginalised groups that have few existing options
- **Suitability:** providing appropriate products and services designed for and demanded by marginalised groups
- **Mainstreaming:** able to show how beneficiaries will graduate from philanthropic financing to mainstream commercial or digital providers as savers, borrowers or policyholders
- **Sustainable:** improving productivity, on a continuing or renewable basis, without degrading or endangering natural resources and ecosystems, or compromising the ability of future generations to meet their own needs.

Exclusions

- GCT will not fund microfinance operations to individuals and households as consumers.
- GCT will not provide lending capital for short term loans.

Marginalised groups

Within the scope allowed by charity law, the Trust leaves it to applicants to define the marginalised group that is expected to benefit from its project.

Many factors and causes leave particular groups at a material disadvantage relative to others and unable to reach their own potential. Listed below is a non-exhaustive list of groups that are often excluded from access to the resources, opportunities and the social capital necessary to sustain a decent living standard:

Women and girls; orphans and uneducated young people; people with disabilities and people living with chronic or serious illness; people belonging to discriminated-against ethnic groups; people living in remote, peripheral or slum areas; people who are lesbian, gay, bisexual or transgender; displaced people and people in conflict zones; subsistence farmers, pastoralists, nomads, travellers; people working in particular occupations likely to be excluded in some contexts.

Queries

By clearly indicating the parts of the financial inclusion field that the Trust may support – and ruling out other areas – the Trustees hope to save applicants time and help the Trust identify the most suitable projects more efficiently.

If you have any queries or concerns please contact the GCT Manager by email in the first instance genesischaritabletrust@giml.co.uk.