

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SYNTHESIS

1. **Country:** Costa Rica
2. **Project Number:** CR-S1009
3. **Project Name:** Expansion of Credit Services for Rural Microentrepreneurs in the Brunca Region of Costa Rica
4. **Executing Agency:** Fundación para el Desarrollo de las Comunidades del Sur (FUNDECOSUR)
5. **IDB Unit:** Multilateral Investment Fund (MIF)

6. **Financing Amount and Source:**

	<u>IDB</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$750,000	US\$100,000	US\$850,000
Non reimbursable financing:	US\$50,000		US\$50,000
Technical Cooperation:	US\$175,000	US\$90,000	US\$265,000
Total:	US\$975,000	US\$190,000	US\$1,165,000

7. **Goal and Purpose:**

The expected impact of the project is that it will help raise the level of income of rural families in the Brunca region by 10%. The project outcome is that small producers and microentrepreneurs will have access to credit in their rural communities.

The project's purpose is to support expansion of FUNDECOSUR's loan portfolio, enabling it to expand its coverage by launching five new credit committees in communities in the cantons of Buenos Aires and Coto Brus (Puntarenas) and Pérez Zeledón (San José), where families will be able to gain access to community credit. The project will serve to strengthen, consolidate, and expand the community credit model developed by FUNDECOSUR.

8. **Description:**

To accomplish these objectives, the IDB/MIF will provide financial support to FUNDECOSUR through three components: (i) US\$850,000 in reimbursable financing (IDB: US\$750,000 and FUNDECOSUR: US\$100,000); (ii) US\$50,000 in nonreimbursable financing (IDB: US\$50,000); and (iii) US\$265,000 in nonreimbursable technical-cooperation resources (IDB: US\$175,000 and FUNDECOSUR: US\$90,000).

- ***Reimbursable financing component***

Reimbursable financing (IDB/SEP: US\$750,000 and FUDECOSUR: US\$100,000).

These resources will be used to strengthen the supply of credit in the 50 active committees and, as they are launched over the course of the project, the five new committees. The funds will go mainly toward expanding the loan portfolio for productive activities, which, given that these are rural communities, will be concentrated in the agricultural sector. Loans will be used for productive improvements or working capital, which will help raise the income of the target population. The community credit models developed by FUDECOSUR, as reflected in the Credit Regulations annexed to the project documents, will be followed. The average loan amount is currently US\$1,159. FUDECOSUR grants loans to its customers in local currency, with a maximum amount equivalent to US\$5,000, an average interest rate of 21.5%, and a maximum tenor of three years, although the tenor depends on the activity being financed. The expectation is that by the end of this project, at least 1,500 rural microentrepreneurs and small business owners in Costa Rica's Brunca region will have benefited from the financing project.

The reimbursable financing under this SEP project will greatly supplement the credit process that FUDECOSUR began in 2003 with the previous SEP project for expansion of the credit model, which made a key contribution to the organization. Not only did it enhance the supply of financial resources, but it also helped improve the organization's operational management, enabling it to optimize the use of potential funding sources and tap into other external sources such as Kiva, the Instituto Mixto de Ayuda Social [Joint Social Welfare Institute] (IMAS), and Oikocredit.

- **Nonreimbursable financing (IDB/SEP: US\$50,000).**

These funds will be used to enhance the supply of credit by capitalizing the five new credit committees, which will serve at least 10 new communities. Each committee will receive an even share of US\$10,000 in seed capital, which will enable them to not only get set up administratively in the communities, but also to begin to offer credit to rural microentrepreneurs in those communities. FUDECOSUR will contribute additional resources, to successfully implement logistics and to ensure that the credit offered meets the communities' financing needs.

- ***Non-reimbursable Technical Cooperation component***

(IDB/SEP:US\$175,000 and FUDECOSUR: US\$90,000). It is important for FUDECOSUR to have technical assistance resources directed at building its institutional capacity to provide microfinance services as well as to apply good management and monitoring practices that are reflected in sound performance indicators. This technical cooperation funding will enable FUDECOSUR to build upon its efforts to (i) expand the model to new communities by launching five new credit committees, (ii) improve its operational and governance processes, (iii) expand the use of technology for committee operations and for its own decision-making, (iv) strengthen the area of complementary services; and (v) publicize its model with a view to improving its market position.

The proposed activities have been designed on the basis of institutional needs, on which FUDECOSUR has been working with particular emphasis since 2011, as a response to new challenges related to growth and changes in the regional environment. They are also

consistent with the objectives set out in FUDECOSUR's strategic plan for the 2014–2019 period. All of this is intended to reinforce an ongoing management improvement process, help build institutional capacity, and better position FUDECOSUR.

To achieve these objectives, the following subcomponents are planned: (i) Support for the process of strengthening and growing the credit program, (ii) Implementation of logistics and technology improvements for the community credit committees, (iii) Strengthening of complementary services, (iv) Dissemination and positioning of the FUDECOSUR community model; (v) Coordination and administration unit; and (vi) Project evaluation and audits.

9. Beneficiaries:

The project will directly benefit the families of at least 1,500 microentrepreneurs and small business owners in the Brunca region of Costa Rica, who will gain access to credit under the community credit model. These families are mainly in rural areas. Their primary sources of income are farming (47%) and livestock (31%). In many cases, owing to a lack of growth or low production yields, they supplement their income by offering their labor to large-scale farms or agribusinesses. By the end of the project, an estimated minimum of 45% of the beneficiaries will be women.

10. Expected results and benefits:

By the end of the three-year project execution period, it is estimated that FUDECOSUR will have achieved the following: (a) its loan portfolio will have grown to US\$5.8 million; (b) it will have amassed 5,800 active customers in the Brunca region; (c) 1,000 microentrepreneurs and small business owners will have gained access to credit for the first time; (d) the share of women in its total portfolio of customers will have increased to 45%; (e) the community credit model will be strengthened and expanded; (f) 55 credit committees will be strengthened in 200 communities; (g) 55 delegates will have received governance and risk management training; (h) the credit system will be implemented and in use by at least 30 credit committees; (i) a monitoring system that periodically gathers committee management indicators will have been implemented; and (j) all the credit committees will have implemented a financial education plan.