

## SOCIAL ENTREPRENEURSHIP PROGRAM

### PROJECT SYNTHESIS

1. **Country:** Costa Rica
2. **Project Number:** CR-S1011
3. **Project Name:** Expansion of financing for Credit Enterprises in Rural Areas
4. **Executing Agency:** Empresa para el Desarrollo S.A (EDESA)
5. **IDB Unit:** Multilateral Investment Fund (MIF)

#### 6. **Financing Amount and Source:**

	<u>BID</u>	<u>EDESA</u>	<u>Total</u>
Reimbursable financing:	US\$1,000,000	US\$1,100,000	US\$2,100,000
Non-Reimbursable Technical Cooperation:	US\$228,000	US\$182,000	US\$410,000
Total:	US\$1,228,000	US\$1,182,000	US\$2,510,000

#### 7. **Goal and Purpose:**

The goal of the project is to increase access to credit for members of credit enterprises operating in rural areas of Costa Rica in order to help improve their socioeconomic conditions. The project's purpose is to expand the financing of new members of credit enterprises in rural areas in Costa Rica's seven provinces, by improving the financing and service delivery capacities of EDESA and the credit enterprises themselves.

#### 8. **Description:**

To achieve these objectives, the project will finance two components: a reimbursable financing component for US\$2,100,000 and a nonreimbursable technical cooperation component for US\$410,000. Both will be executed by EDESA.

- ***Reimbursable financing component***

(IDB: US\$1,000,000 and EDESA: US\$1,100,000)<sup>10</sup> will be used to expand EDESA's second-tier loan portfolio so that it can finance rural credit enterprises through credit lines for working capital. New credit enterprises in the seven provinces of Costa Rica (San José, Heredia, Cartago, Alajuela, Puntarenas, Guanacaste and Limón) have been identified as potential borrowers, from among those trained by the FINCA Foundation. It is estimated that 15 new credit enterprises will become customers of EDESA each year during project execution, for a total of 45 new credit enterprises financed during the life of the project. The credit enterprises that receive project funds will be those that have completed the FINCA Foundation's training program, as well as the in-depth evaluation by EDESA of their ability to pay and/or cash flow.

Using the lines of credit received from EDESA, the 45 financed credit enterprises will expand their internal credit operations with microenterprise clients, and will service their financing needs in terms of working capital and fixed asset investments in agriculture, trade, services, and manufacturing activities. In this way, it is estimated that at least 1,400 individuals, most of whom are members of the borrower credit enterprises, will receive loans using project resources.

- ***Non-reimbursable Technical Cooperation component*** (IDB: US\$228,000 and EDESA: US\$182,000) will support three main areas: (i) strengthening of EDESA's business model, which includes hiring support staff to supervise the institution's portfolio (using the local counterpart funds), a consultant to assess long-term growth potential and calibrate internal procedures, and the purchase of software to monitor financial and social data on credit enterprises with credit lines; (ii) strengthening of the credit enterprises, through training activities for their administrators to improve their financial and operational skills, technological equipment, i.e., computers, peripherals and printers for tracking their financial operations, the contracting of auditing services to audit their financial and accounting information and lay the groundwork, and implementation of a corporate image in the offices of the credit enterprises; and finally, (iii) systematization and dissemination of the EDESA and credit enterprise lending model, by establishing a baseline, conducting a study on the systematization of the EDESA and credit enterprise lending model, and knowledge and dissemination outputs such as a video and a printed publication on the systematized model. As expected, the Bank's resources will be used to contract specialized advisory and consulting services and procure small equipment. These resources will also finance the final evaluation and audits of the loan and technical cooperation funds.

## **9. Beneficiaries:**

The project's end beneficiaries will be small producers, microentrepreneurs, and their families who live in the rural parts of the provinces in Costa Rica reached by EDESA. These individuals are microentrepreneurs who are mostly owner-members of the credit enterprises that are formed and technically supported by the FINCA Foundation and are exclusively financed by EDESA. EDESA uses formal market studies and poverty maps produced by the government to verify that the beneficiaries are located in areas with a high incidence of poverty. According to data compiled by EDESA, the current beneficiaries of its operations are in areas where the rate of the population with unmet basic needs is 37%, which is slightly below the national average of 40%. A typical household financed by EDESA has 3.5 members, receives a monthly income of US\$360, and has six years of education in the case of family members over the age of 15. Project beneficiaries are expected to have similar characteristics.

## **10. Expected results and benefits:**

The direct beneficiaries of the project will be: (a) around 1,400 low-income credit enterprise members engaged in agriculture, trade, services, and manufacturing in rural areas of the country, who will have access to credit in their communities to finance the working capital and investments they need to increase the capacity of their economic activities, under affordable conditions given their situation; (b) around 45 rural credit enterprises that will receive credit lines from EDESA to finance the productive activities of their members, in addition to technical cooperation to strengthen their management capacity, provide equipment in the form of computers, peripherals, and printers, install software programs to manage their accounting and financial information, and conduct external audits, as well as develop a corporate image; (c)

EDESA, by the end of the three-year project, will have expanded its portfolio of clients at the level of the credit enterprises and their members, and formulated a long-term consolidation plan that will help it better determine the scope of its operations and calibrate its internal procedures. In addition, EDESA will have automated access to information on its credit lines and data on the credit enterprises it financed, with higher quality reports compared to the ones it currently uses, which will enable it to make more effective decisions for supervising and monitoring operations. All of this will have a positive impact on its institutional performance, and will help it gradually improve its risk rating and the perception of investors and sources of financing that could potentially support the institution with the expansion of its financing model. The experiences and lessons learned from the project will be captured in a systematization study that will be disseminated by means of a printed publication and video.