

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SYNTHESIS

1. **Country:** Nicaragua
2. **Project Number:** NI-S1014
3. **Project Name:** Deepening Credit Services for Low-income Rural Sectors
4. **Executing Agency:** Financiera FINCA Nicaragua S.A. (FFN)
5. **IDB Unit:** Multilateral Investment Fund (MIF)

6. Financing Amount and Source:

	<u>IDB</u>	<u>Local</u>	<u>Total</u>
Reimbursable financing:	US\$1,000,000	US\$350,000	US\$1,350,000
Technical cooperation:	US\$212,000	US\$200,820	US\$412,820
Total	US\$1,212,000	US\$550,820	US\$1,762,820

7. Goal and Purpose:

The goal of the project is to expand access to credit by low-income individuals working in rural areas as a means of helping to improve their socioeconomic condition. The purpose is to increase the supply of microfinance services for low-income clients in rural areas in departments in the north-central and Pacific regions of Nicaragua by building up FFN's financing and service delivery capacity.

8. Description:

Two components will be financed to attain the objectives: a reimbursable financing component for US\$1,350,000 (IDB: US\$1,000,000 and FFN: US\$350,000);¹³ and a technical cooperation component for US\$412,820 (IDB nonreimbursable: US\$212,000 and FFN: US\$200,820). Both components will be executed by FFN.

- ***Reimbursable financing component***

The reimbursable financing component will be used to finance the expansion of FFN's rural and agricultural credit portfolios to about 1,590 microentrepreneurs and small farmers in rural areas of the departments in the north-central (Atlántico Sur, Boaco, Chontales, Estelí, Jinotega, Madriz, Matagalpa, Nueva Segovia, and Río San Juan) and Pacific (Carazo, Chinandega, Granada, León, Managua, Masaya, and Rivas) regions, to provide them with financing for working capital and/or fixed assets for production and/or needs related to crop or livestock farming, commerce, or services. Under the project, FFN will offer three products based on the individual credit methodology: (i) *individual agricultural microcredit*; (ii) *FINCA business microcredit*; and (iii) *FINCA seasonal microcredit*. The Bank's and FFN's resources committed to this project will be used exclusively for loans of the types just

mentioned. The maximum loan to be made under the Bank's Social Entrepreneurship Program (SEP) will be US\$10,000.

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

The technical cooperation component will support three main areas: (i) implementation of an activity-based costing system, that includes an engineering analysis of the new system's requirements and the development and implementation of the system per se in FFN; (ii) development of an alternative channel for the provision of credit services for rural areas, including: (a) a regulatory, institutional, technical, and technological feasibility study of one of the potential channels identified by FFN; (b) development and implementation of at least one alternative channel; (iii) generation of a baseline, a rating report, and a knowledge product. The Bank's resources will be used to finance the contracting of specialized advisory and consulting services, and the procurement of small equipment. It will also finance the project's final evaluation and audits.

9. Beneficiaries:

The end beneficiaries of the project will be small producers, microentrepreneurs, and their families living in rural areas of departments in the north-center and Pacific regions of Nicaragua served by FFN. On account of its rural and agricultural targeting, the project will reach individuals engaging in commercial or service activities living in rural areas and urban centers that are not departmental capitals, and people whose main economic activity is crop or livestock farming. The project is also targeted to the low-income population, i.e. people who are economically vulnerable (living on less than US\$2.71 a day), poor (less than US\$1.35 a day), and extremely poor (less than US\$0.98 a day). According to information about FFN's clients, at September 2012, 9,494 (38.5%) of its borrowers lived in rural areas, 43% of whom were vulnerable or lived in poverty or extreme poverty, 74% were women, and 21% were farmers

10. Expected results and benefits:

The direct benefits of the project will be captured by: (a) about 1,590 low-income microentrepreneurs and small farmers engaging in crop and livestock farming, commerce, or services, in rural areas of departments in the north-center and Pacific regions who will have access to individual loans to finance their working capital and/or investment requirements to increase their production capacity; (b) FFN by the end of the two-year project will have expanded its portfolio of rural and agricultural clients, improving the geographic diversification of its portfolio while also consolidating the use of its individual credit methodology and small-scale financing for a challenging economic sector such as agriculture. FFN will also benefit from a costing system that will help it to determine the cost, in terms of time and money, of the activities required to extend loans, which will lead it to take steps to modify processes and procedures to reduce the cost of its rural and agricultural credit products. Also, FFN will be able to carry out transactions through a new credit channel bridging the distances that exist at present between rural and agricultural clients and FFN's offices, which will lead to gains in efficiency. FFN will apply to a rating agency for a risk classification which, in addition to conferring greater institutional transparency, will be an impartial technical opinion that can be used as feedback to improve its operations. Lastly, the experiences and lessons learned in the process of implementing the alternative channel will be captured in a study to be disseminated through a print publication.