

## SOCIAL ENTREPRENEURSHIP PROGRAM

### PROJECT SYNTHESIS

1. **Country:** Honduras
2. **Project Number:** HO-S1024
3. **Project Name:** Efficient Expansion of Financial Services in the North Region of Honduras
4. **Executing Agency:** Fondo para el Desarrollo Local de Honduras, OPDF (CREDISOL)
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\$300,000	US\$1,300,000
Technical Cooperation:	US\$245,000	US\$215,500	US\$460,500
Total:	US\$1,245,000	US\$515,500	US\$1,760,500

**7. Goal and Purpose:**

The proposed project's impact will be to contribute to higher income and improved living conditions for low-income individuals and families in rural areas of Honduras. The project's outcome will be to expand rural and agricultural credit access and use in the country's northern departments of Colón, Atlántida, Yoro, and Olancho, through CREDISOL's enhanced productivity and technical capacity in providing its services.

**8. Description:**

To meet the project's objectives, two components will be financed: a reimbursable financing component for US\$1.3 million (IDB: US\$1 million; CREDISOL: US\$300,000); and a nonreimbursable technical-cooperation component for US\$460,500 (IDB: US\$245,000; CREDISOL: US\$215,500). CREDISOL will execute both components and be responsible for ensuring the full amount of the counterpart contribution.

- ***Reimbursable financing component***

The Bank will contribute US\$1 million, and CREDISOL will contribute US\$300,000 as counterpart, for this component to finance investment and working capital for at least 1,000 new rural microentrepreneurs in the agricultural, commercial, and/or services sectors with at least one year of experience in their production-oriented activities in the project target areas. The project will support the growth of four consolidated products offered by CREDISOL—Credi-mi finca, Credi-mi parcela, Credi-inversión, and Credi-comercio—as these have the greatest potential to meet the needs of the institution's target customers according to the analysis conducted. The credits will be between US\$1,000 and US\$1,500, depending on the product, and will be provided in local

currency at an annual interest rate ranging between 22% and 36%. The terms of these loans include a deducted or delayed commission in a range of 1% to 7%. Tenors will be up to 60 months with regular monthly or nonperiodic installments, depending on the kind of activity financed. Annex 2 of the project technical files contains the “Institutional analysis and execution of the operation,” which looks closely at CREDISOL’s position, future projections, and rationale for the proposed financing.

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

The Bank’s nonreimbursable funding of US\$245,000 and CREDISOL’s US\$215,500 counterpart contribution will be allocated for two subcomponents: (a) institution-strengthening to improve productivity; and (b) financial services adapted to rural customers.

The first subcomponent has been designed to improve CREDISOL’s productivity and efficiency, so that it can offer higher quality products to its customers. The consulting services to be financed under this component relate to: (a) development and implementation of an Android platform mobile application for registering and collecting loan applications that allows for information to be collected on customer housing, plots of land, and/or businesses; (b) a technical and financial talent program for CREDISOL line personnel to improve skills and incentives for lasting better results in the medium-term; (c) improvement of information and reporting systems to make adjustments and so assist CREDISOL in reporting, capturing, and analyzing its results more fully and accurately. Lastly, funds have been allocated to this subcomponent for strategic and executive coaching services from Fondo de Desarrollo Local [Local Development Fund] (FDL) of Nicaragua, a flagship rural microfinance institution that has advised CREDISOL in the past at other stages of its development. FDL could play a key role at this point in advising CREDISOL’s general management and business departments on a geographic expansion strategy that includes quality and efficiency goals. Single-source contracting is justified by the fact that FDL is acknowledged in the Central American region as the institution with best practices in rural microfinance.

The second subcomponent will finance consulting services for achieving a better understanding of the habits of rural inhabitants of Honduras’s north region so that CREDISOL can refine and adjust its savings and loan products, nonfinancial services, and positioning strategies aimed at customers. This will include: (a) a study of the financial behavior of indigenous and Afrodescendent ethnic groups from Honduras’s north region in order to assess potential penetration in these markets through segmentation by socioeconomic characteristics; (b) a financial education strategy geared toward customers of savings, loan, or other services, which includes developing materials for customers and training sessions for the staff responsible for providing this education; and (c) identification and implementation of a marketing and image strategy to help position CREDISOL in its customers’ minds as a microfinance institution representative of Honduras’s north region.

## **9. Beneficiaries:**

The project’s direct beneficiaries will be subsistence farmers, farm and ranch owners, and merchants located in the rural areas of the four departments of northern Honduras (Colón,

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Atlántida, Yoro, and Olancho), which in turn belong to three of the country's six geographic macroregions (Northwest, Northeast, West Central). The project will be aimed at individuals engaged in income-generating activities, specifically the growing of corn, coffee and rice, purchase of calves and hogs, and rural commerce. The project will not discriminate based on gender, with men and women benefiting equally. Given the high levels of vulnerability in rural and agricultural areas, at the outset of the project customers are expected to have socioeconomic profiles characterized by low income, education, health, etc., limited access to the formal financial system, and no possibility of providing collateral.

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

The direct benefit of the project resources will captured by: (a) at least 1,000 subsistence farmers, farm and ranch owners, and merchants who have difficulties accessing financing for their small-scale production-oriented activities due to their socioeconomic profile and geographical location. This project will allow them to obtain individual credit from CREDISOL to finance their working and/or investment capital requirements, in order to increase their productive and income-earning capacity; (b) CREDISOL, by the end of the three-year project, will have increased its portfolio of clients in the north region of Honduras, operating through a more robust network of branches. The institution will also benefit from the technical cooperation outcomes related to implementation of mobile applications to boost productivity and better information technology systems to manage its operational data, as well as strengthened operational and management capabilities through the human talent and strategic coaching program provided by FDL. In addition, CREDISOL will have a better understanding of potential customers' profiles in terms of their socioeconomic data and financial behavior and habits, which will be helpful for tailoring its products, expansion strategy, and geographic deepening. The information obtained will be groundbreaking in Honduras, so it can be disseminated publicly among interest groups including other financial system institutions, government institutions like the CNBS, and even the study population; (c) the MIF will benefit from the knowledge gained in the