

SUMMARY OF THE PROJECT IN DESIGN * (*)

Acceso Financiero: Enhancing Financial Access through Innovative Microcredit Solutions in El Salvador

PITCH ELIGIBILITY DATE		COUNTRY(IES)
10/03/2024		El Salvador
ALIGNED WITH COUNTRY STRATEGY?		
Yes		
PARTNER(S)		
Acceso Financiero		
PRELIMINARY CLASSIFICATION ENVIRONMENTAL AND SOCIAL IMPACT		
FI-3 (**)		
TOTAL BUDGET	IDB Lab	LOCAL COUNTERPART AND COFINANCING
	US 2,000,000	
DESCRIPTION		

The problem El Salvador, with a population of 6.3 million, ranks as the fourth most populous nation in Central America, sustaining an economy that provides 2.7 million jobs. Among its residents, more than half of the population reside outside of urban areas such as San Salvador – 22% reside in rural locations, distanced from urban services, and 39.2% live in towns with fewer than 2,000 inhabitants.

The country's financial system consists of 64 entities, with 24 accepting deposits. These include 14 commercial banks, 6 cooperative banks, and 4 savings and loan associations, all regulated by the Superintendencia del Sistema Financiero de El Salvador (SSF). As of March 31, 2019, the banking subsystem's total assets were US\$17,549 million, equivalent to 70.3% of GDP, with an annual growth of 5.2%. In terms of the country's microfinance market, it is made up of cooperative banks and loan associations, whose size is estimated to US\$1,887 million.

Lack of Access to Finance for MSEs in El Salvador. Micro and small enterprises (MSEs) play a crucial role in El Salvador's economy. According to CONAPYME, it has 317,795 MSEs, of which 60.8% are microenterprises, 33.9% are classified as enterprise, and 5.3% are small businesses. However, these enterprises face significant obstacles in accessing finance, which hinders their growth and economic opportunities, especially in remote areas.

Gender disparity. In El Salvador, rural women make up 51.3% of the overall population, yet their involvement in paid employment remains minimal, representing only 29% of the workforce. On average, women earn 20% less than men. In addition, poverty and extreme poverty are more prevalent among women than men, especially those aged 20-59. In El Salvador, 63.9% of women were working in informal and low-productivity jobs as of 2020.

In terms of access to finance, women face additional challenges, and a significant disparity exists between men and women in accessing the formal financial sector with only 16.3% of women using formal financial institutions. While more than half of Salvadoran MSEs (59.4%) are owned by women, their lack of assets is a major obstacle to accessing credit, further exacerbating the funding gap for women entrepreneurs.

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**The IDB categorizes all projects into one of six E/S impact categories. Category A projects are those with the most significant and mostly permanent E/S impacts, category B those that cause mostly local and short-term impacts, and category C those with minimal or no negative impacts. A fourth category, FI-1 (high risk) Financial Intermediary (FI)'s portfolio includes exposure to business activities with potential significant adverse environmental or social risks or impacts that are diverse, mostly irreversible or unprecedented, FI-2 (medium risk) FI's portfolio consists of business activities that have potential limited adverse environmental or social risks or impacts, FI-3 (low risk) FI's portfolio consists of financial exposure to business activities that predominantly have minimal or no adverse environmental and social impacts.

Women in El Salvador who seek credit may face additional challenges when financial institutions use Artificial Intelligence (AI) for loan applications and risk assessment due to algorithmic bias. AI systems trained on historical data may reflect gender biases, as women often have limited access to formal financial systems and work in informal or low-productivity sectors. This can lead to them being inaccurately labeled as higher-risk borrowers.

The solution Acceso Financiero Ltda. De C.V. (“Acceso Financiero” or the “Company”) is a Salvadoran financial services company that specializes in providing microcredit to micro and small enterprises (MSEs). It established a microcredit program designed to address the credit needs of entrepreneurs, primarily women, in rural El Salvador.

Business Model. Acceso Financiero's business model focuses on providing financial and non-financial services to MSEs in an agile, safe, and reliable manner. The Company aims to minimize processing times and offer customized interest rates tailored to the needs of entrepreneurs. Its diverse range of financial products are designed to cater to the needs of working capital, purchase of productive assets for business growth and innovation, and operational infrastructure.

This model has strengthened the Company's presence in rural regions for clients who are primarily focused on subsistence. Most of its clients have little or no savings, and no access to banking services. The Company targets these customers, whom traditional financial institutions do not serve because of the relatively short-term and small loan amounts.

Products. Acceso Financiero offers loans tailored to the specific needs of clients to support the growth and investment in small businesses, in particular purchase of fixed assets and productive infrastructure such as physical spaces of operation as well as purchase of merchandise and materials. Its product offerings are categorized into three types of payment frequency:

- Daily Credit: Designed for subsistence microentrepreneurs, with short terms and daily payments Weekly
- Weekly Credit: Tailored for small-scale entrepreneurs who have minimal or no credit history. It requires repayment on a weekly basis; and
- Monthly Credit: Designed for entrepreneurial individuals with previous credit experience. This loan requires monthly repayments.

These lending modalities are marked by accessible requirements, modest initial credit amounts with gradual increases from one credit to another, short terms, and swift processing. These entrepreneurs often rely on cash transactions and tend to operate within the informal sector. They are typically managed by their owners and employ a few individuals, frequently family members. Such businesses generally lack financial support from traditional banks, and loan products tailored to meet customers' evolving needs.

The beneficiaries The project aims to directly benefit approximately 2,300 rural micro-entrepreneurs with a strong focus on boosting the credit portfolio to MSEs. Furthermore, it is expected to prioritize female micro-entrepreneurs and underserved segments that exhibit increased vulnerability and marginalization. Part of the project's funding will be dedicated to sectors with low or non-financial inclusion rates, specifically targeting 1,300 small producers and rural traders in specific geographies, whose main activities include selling groceries, vegetables, fruits, and food.

At least 700 beneficiaries are expected to be low-income women head of households. The attributes of this specific market segment include: (i) households with five members, typically young couples with three children; and (ii) families in the process of acquiring title deeds for their land, with part of Acceso Financiero's role being to assist beneficiaries in securing the necessary legal documents.

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The partner Acceso Financiero, a financial services company with limited liability established in El Salvador in September 2014, will be the borrower and executor of the project. The Company has also operations in Honduras, Guatemala, and Mexico.

The IDB Lab's contribution The proposed senior loan of up to US\$2M with resources of the Social Entrepreneurship Program (SEP).

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