

Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 21-Mar-2023 | Report No: PIDA35607

BASIC INFORMATION

A. Basic Project Data

Country Ecuador	Project ID P180477	Project Name Ecuador - Promoting Access to Finance for Productive Purposes for MSMEs - AF	Parent Project ID (if any) P172899
Parent Project Name Promoting Access to Finance for Productive Purposes for MSMEs	Region LATIN AMERICA AND CARIBBEAN	Estimated Appraisal Date 20-Mar-2023	Estimated Board Date 31-May-2023
Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Investment Project Financing	Borrower(s) Corporación Financiera Nacional B.P.	Implementing Agency Corporación Financiera Nacional B.P.

Proposed Development Objective(s) Parent

The project development objective is to promote access to finance for productive purposes for micro, small and medium enterprises in the context of the COVID-19 crisis.

Components

Strengthening the Institutional Capacity of CFN
 Development and Improvement of Financial Products to Promote Access to Finance for MSMEs
 Credit Line Intermediated by CFN to PFIs for On-Lending to MSMEs
 Project Management

PROJECT FINANCING DATA (US\$, Millions)

SUMMARY

Total Project Cost	570.00
Total Financing	570.00
of which IBRD/IDA	300.00
Financing Gap	0.00

DETAILS

World Bank Group Financing



International Bank for Reconstruction and Development (IBRD)	300.00
Non-World Bank Group Financing	
Commercial Financing	270.00
Unguaranteed Commercial Financing	270.00
Environmental and Social Risk Classification	
Moderate	

B. Introduction and Context

The Project has shown strong performance, though access to finance challenges in Ecuador remain. While credit to the private sector in Ecuador has grown from 30 percent of GDP in 2017 to 48.8 percent of GDP in 2021, it is still below the LAC regional average of 55 percent of GDP. Moreover, according to Findex 2021, only 23 percent of adults borrowed from a formal financial institution or used a mobile money account in 2021, below LAC average (at 31 percent). Access to credit in Ecuador also presents a large gender gap of 18 percentage points (11pp in LAC), with only 15 percent of adult women having access to this type of credit.

The Project has proven to be fully aligned with the Country Partnership Framework (CPF) for FY19-FY23, as well as with Ecuador’s national strategies. The Performance and Learning Review (PLR) for FY19-FY23, which is currently under preparation, underscores the key contribution of this Project towards achieving CPF objective 3 (Improve financial sector inclusion and intermediation), as it promotes a more efficient allocation of resources while crowding in commercial bank financing and including a larger number of SMEs in the formal financial sector. The Project is also aligned with Ecuador’s Opportunities Creation Plan 2021-25, which aims – among other things – to foster productivity and competitiveness in key sectors of the economy, and to promote an economic system that fosters investment and a modernization of the financial sector. Finally, the Project also fits into the pillars of the World Bank Group’s Global Crisis Response Framework.¹

C. Proposed Development Objective(s)

Original PDO

The project development objective is to promote access to finance for productive purposes for micro, small and medium enterprises in the context of the COVID-19 crisis.

Current PDO

The project development objective is to promote access to finance for productive purposes for micro, small and medium enterprises in the context of the COVID-19 crisis.

¹ Specifically, Pillar 2: Protecting People and Preserving Jobs to help mitigate the medium- to long-term impact of crises; Pillar 3: Strengthening Resilience by identifying and supporting paths to build long-term resilience; and Pillar 4: Strengthening Policies, Institutions, and Investments for Rebuilding Better to utilize long-term policies to improve development outcomes.



Key Results

The Original Project (P172899) was approved by the World Bank (WB) Board on July 1, 2020, to achieve the development objective of promoting access to finance for productive purposes for micro, small and medium enterprises in the context of the COVID-19 crisis. The Legal Agreements—a Loan Agreement with Corporación Financiera Nacional (CFN) (the borrower and implementing agency) and a Guarantee Agreement with the Republic of Ecuador— became effective on July 31, 2020, and its current closing date is December 31, 2025. The four components of the Project are: (i) strengthening the institutional capacity of CFN; (ii) development and improvement of financial products to promote access to finance for MSMEs; (iii) credit line intermediated by the Borrower to participating financial intermediaries (PFIs) for on-lending to MSMEs; and (iv) project management.

Progress towards achieving the Project Development Objective (PDO) is now rated Satisfactory. After 2.5 years of implementation, the Project has exceeded the targets of two of the three PDO indicators, as well as four out of the seven Intermediate Results indicators.

Component 1 – Strengthening the Institutional Capacity of CFN (US\$3 million). This Project component has played a pivotal role in supporting the transition of CFN from a first-tier lender into a well-structured second-tier lender. The Borrower has completed the review of the quality of the asset portfolio of CFN and of Banecuador² and has commenced the process for hiring consultancy work on: (i) a corporate governance model, (ii) a project management model, and an expert model for credit classification.

Component 2 – Development and Improvement of Financial Products to Promote Access to Finance for MSMEs (US\$42 million).

Subcomponent 2a. The Borrower developed internally an action plan for the strengthening of the National Guarantee Fund (NGF). Some of the specific objectives will be implemented in-house, while others will require hiring of external consultancies using Project funds. On the former, CFN is in the process of updating the investment policy of NGF. On the latter, CFN will commence consultancy work to develop a risk management framework for NGF.

Subcomponent 2b. As of December 31, 2022, four banks have signed a participation agreement (PA) with NGF, and 801 guarantees have been granted to MSMEs by two banks for a total loan amount of US\$49.58 million, and a guaranteed amount of US\$22.14 million (45 percent average coverage ratio). CFN has been in discussions with several banks to receive feedback on the guarantee program, and to socialize its efforts to strengthen both the program and the institution to encourage greater participation of the sector.

Subcomponent 2c. CFN has not had the need to request the second US\$20 million capitalization of NGF, as it has focused its efforts on redesigning its guarantee program and on strengthening the institutional capacity of NGF. As the measures described under subcomponent 2a are implemented, and more banks sign PAs with NGF, the second capitalization will be needed.

Component 3 – Credit Line Intermediated by CFN to PFIs for On-Lending to MSMEs (US\$213 million). As of December 31, 2022, the Borrower has signed Subsidiary Financing Agreements (SFAs) with 28 PFIs – 14 banks and 14 cooperatives. Including CFN’s own funds, US\$272.9 million has been disbursed to 20 PFIs (11 banks and 9 cooperatives) for on-lending

² The review of Banecuador’s quality of its asset portfolio was considered an eligible activity under the Project in the context of the planned merger between CFN and Banecuador.

to MSMEs. Of this amount, the PFIs have already on-lent US\$99.1 million to final beneficiaries, corresponding to 3,738 loans. US\$113.9 million remains to be verified by the Borrower, as PFIs have six months from disbursement to report the details of the loans they make.

Contribution to financial inclusion and gender parity – As of end-2022, the MSMEs owned or led by women represented 60 percent of the borrowers of loans granted under component 3 and 51 percent of the borrowers of loans supported by guarantees under subcomponent 2b. Another significant contribution of the Project to financial inclusion is the fact that 49 percent of the loans were granted to MSMEs that received credit at the relevant PFI for the first time. Similarly, 26 percent of the guarantees were provided to firms that accessed this instrument for the first time.

D. Project Description

The AF will allow for a scaling up of the Project's impact in terms of volume, number of loans and number of beneficiaries, including female owned MSMEs, and it will allow the promotion of climate resilient MSMEs and the mobilization of private capital. In that regard, the AF will introduce four changes relative to the original Project: (i) increasing and/or modifying some of the existing end targets in the results framework; (ii) inclusion of explicit indicator in the results framework to measure sub-loans to MSMEs that finance projects with a climate mitigation or adaption component; (iii) inclusion of private capital mobilization (PCM) target in the results framework for sub-loans to MSMEs under the line of credit (Component 3), and iv) extension of the closing date of the original loan by 2 years to December 31, 2027.

Increasing and/or modifying some of the existing end targets in the results framework - A set of indicators will be revised to adjust both the annual and end targets to reflect: (i) progress to date under each indicator; (ii) the allocated amount of the additional financing; and (iii) the new closing date of the original loan. Another set of indicators will be adjusted to clarify its definitions (Share of second-tier financing of CFN; NPLs of credit lines used by PFIs with Project funds versus the NPLs of CFN's first tier lending to MSMEs) and to improve the projected annual targets (Number of sub-loans disbursed under the Project; Number of MSMEs receiving sub-loans financed with project funds; Number of MSMEs receiving sub-loans financed with Project funds that are owned and/or led by women; Volume of total sub-loans disbursed under Project).

Inclusion of explicit indicator in the results framework to measure sub-loans to MSMEs that finance projects with a climate mitigation or adaption component - Currently, the volume of sub-loans to MSMEs disbursed for activities related to climate mitigation and adaptation is an additional indicator included in the Project Operations Manual (POM) for monitoring purposes. Given the vulnerability of Ecuadorean MSMEs to climate change, the upgrading of this indicator to the results framework of the Project is warranted. Climate adaptation and mitigation investments can include projects that involve the use and/or production of renewable energy, clean transportation, sustainable waste management, eco-efficient products or infrastructure, etc. These factors will be incorporated in the eligibility criteria for the sub-loans contained in the Project Operations Manual (POM). Beneficiary MSMEs will be categorized in terms of their exposure to climate shocks at a regional and sectoral level. An explicit indicator will be now included in the results framework to measure the percentage of sub-loans (in terms of volume) that support climate adaptation and mitigation investments. Also, as part of Component 2, the Project will support MSMEs in identifying the effect of climate impacts on their business and develop climate adaptation measures and climate resilience strategies and will provide TA to PFIs to include climate-smart terms and conditions in financing supported by this Project.

Inclusion of a PCM target in the results framework for sub-loans to MSMEs under Component 3 - PFIs will be required to finance at least 10 percent of eligible sub-loans to measure the commitment of the private sector to support access to



finance for MSMEs during and beyond the life of the Project. This percentage will be accounted at the aggregate level rather than at the sub-loan or PFI level. It is estimated that this requirement will mobilize private capital for at least \$30 million, which has been added to the total Project cost.

Extension of the closing date of the original loan by 2 years - The extension of the closing date of the original will provide sufficient time to implement the scaled-up Project. It will also provide more time to gather information on financial and other indicators of beneficiary MSMEs, in order to measure the impact of second-tier lending on real outcomes and growth of firms. Moreover, an extension of the closing date of the original loan would allow for more time to achieve results under C2 which is taking longer to achieve critical mass and C1, under which some institutional strengthening activities have taken longer to get started due to uncertainties related to the planned merger.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

E. Implementation

Institutional and Implementation Arrangements

Implementation arrangements remain unchanged. CFN will remain the Borrower and responsible for the implementation of the Promoting Access to Finance for Productive Purposes for MSMEs Project. The Bank will enter into a Loan Agreement with CFN. The Republic of Ecuador will guarantee the obligation of the Borrower to repay the AF loan. For implementation of the line of credit (Component 3), CFN will enter into a Subsidiary Financing Agreement with eligible PFIs to on-lend to eligible MSMEs through Sub-loan Agreements. For the provision of partial credit guarantees (Component 2), the NGF will enter first, into a Participation Agreement with the relevant eligible PFI and then, into a Partial Credit Guarantee Agreement with the eligible PFI and the respective eligible MSME. The Project Implementing Unit (PIU) within CFN will continue as the Bank’s main counterpart. Relevant requirements set out in the Environmental and Social Standards remain unchanged. The Borrower’s Environmental and Social Management System (ESMS) will remain in effect, while the Stakeholder Engagement Plan (SEP) will be updated after the Effective Date.

CONTACT POINT

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PROMOTING ACCESS TO FINANCE FOR PRODUCTIVE PURPOSES FOR MSMEs - ADDITIONAL FINANCE
(P180477)

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APPROVAL

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(P180477)
