

PROJECT ABSTRACT
VISION BANCO II: FINANCING TO IMPROVE ACCESS TO POTABLE WATER FOR THE BASE OF
THE PYRAMID IN PARAGUAY
PR-L1088

The objective of the project is twofold: (i) to increase access to financing to water and sanitation boards (*Juntas de Agua y Saneamiento*) in Paraguay, and therefore contribute to improving and expanding access to potable water and sanitation services of families living in small cities and peri-urban areas of the country; and (ii) to increase access to credit for households so that they can finance in-house water and sewerage connections and/or home improvements that facilitate the use of Water and Sanitation (W&S) services. In order to achieve this objective, Opportunities for the Majority (OMJ) proposes to provide a local currency Partial Credit Guarantee (The “Guarantee”) for an amount up to PYG 50 billion¹, in favor of the *Instituto de Previsión Social* (“IPS”)² to guarantee a loan to Visión Banco (“VB”). The Guarantee will be issued in *Guaranies* under the IDB-IPS Partnership and will have a tenor of up to seven years.

Vision Banco S.A.E.C.A is the leader in the microfinance sector in Paraguay. It has the second largest network of branch offices after *Banco Nacional de Fomento*³. VB’s market position is strong due to its well diversified portfolio and geographic segmentation of clients. Currently, Visión Banco has more than 520,000 clients, 93 offices and 460 non-banking correspondents (NBC) in Paraguay.

In 2011, Paraguay was one of the four countries of the region with the largest deficit in the provision of potable water, as only 75.1% of the households had a connection to the network. It is estimated that *Juntas* supply potable water services to 30.2% of the population. This scenario disproportionately affects Base of the Pyramid (BOP) families; according to the 2013 household survey, 19% of all BOP households in the country lacked access to piped water compared to 12% of the non-BOP households. In-house piped water and sewerage connections and related home improvements (e.g. construction of bathrooms) are costly for BOP families and considered luxury goods given the lack of access to proper financing. The project seeks to address the lack of financing for *Juntas* and the insufficient supply of home improvement financing for BOP families in Paraguay by helping VB to (i) create a financing line for *Juntas* and (ii) reduce information asymmetries that make housing credit difficult to access for BOP families.

This project is being structured in collaboration with the Structured and Corporate Finance Department (SCF), the Multilateral Investment Fund (MIF) and the Water and Sanitation Department (WSA) in order to offer different financial products to the same client and take advantage of synergies between windows. These synergies include streamlining the approval process and the legal documentation, while improving client relationship management. With this integrated approach in mind, the OMJ Guarantee will be accompanied by a Technical Cooperation (“TC”) from the MIF Access to Basic Services and Green Growth Agenda (PR-M1037) to strengthen the institutional capacity of the *Juntas* and help them to be eligible for a loan from VB, as well as to support VB institutionally to provide loans to *Juntas* and BOP households.

¹ The equivalent of PYG\$50 billion in US\$ is approximately US\$10 million (as per the exchange rate on April 23, 2015 of Gs5,000/US\$).

² IPS is the main organization in Paraguay managing social security for wage earners who work in the private sector in the urban areas. The IPS provides both retirement pensions and health coverage for its affiliates and their families. The retirement fund is funded by contributions on wages.

³ State-owned Bank.

Additionally, the Structured and Corporate Finance Department (SCF) will provide a loan of up to US\$9 million (PR-L1098) to support VB in increasing access to financing to women-led SMEs by offering products and services that meet their needs. A non-reimbursable TC from the MIF's Women Entrepreneurship Banking (WeB) program (PR-M1036) will also accompany SCF's transaction. As a result, this approach is expected to maximize operational efficiency while enhancing the development effectiveness of the Bank's interventions in Paraguay.

The project is aligned with OMJ's criteria as it: (i) creates a new line of financing for the *Juntas* with terms not widely available in the market; (ii) increases access to credit for BoP households in need of financing for water and sanitation related home improvements; and (iii) improves and/or expands WSS services for BoP clients. This project intends to have a demonstration effect in Paraguay and throughout Latin America and the Caribbean by incentivizing other banks to start serving the potential market that the *Juntas* represent.

The proposed transaction is also consistent with (i) the eligibility criteria outlined in the NSG Lending Policy (GN-2400-17); (ii) the Opportunities for the Majority Initiative (GN-2430-7); and (iii) the Opportunities for the Majority evaluation report (GN-2430-15). Additionally, the project complies with the GCI-9 lending program priority targets of "lending to small and vulnerable countries," and "lending to poverty reduction and equity enhancement." It also contributes to the regional development goal of Infrastructure for Competiveness and Social Welfare, through indicator 3.2.1: "Households with new or upgraded water supply"; and 3.2.2: "Households with new or upgraded sanitary connections". The operation is also consistent with the Bank's new Sector Framework Document's "Dimension 2" within the section "Considerations for Operational Work," which identifies as priority the reduction of qualitative and quantitative housing deficits for vulnerable populations.