

TC ABSTRACT

I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Micro Small and Medium Enterprise (MSME) Support Facility
▪ TC Number:	RG-T3495
▪ Team Leader/Members:	SIERRA GONZALEZ, EDUARDO (IFD/CMF) Team Leader; PELAEZ ZAMBRANO, PAULA (INO/NFP) Alternate Team Leader; GALLAGHER, TERENCE LIAM (INO/FLI); ALVES PINTO, ROMARIO (INO/FNP); YANEZ PAGANS, PATRICIA (DSP/DVF); MAFFIOLI, ALESSANDRO (DSP/DVF); BERNEDO, CECILIA (IFD/CMF); GRECO, MARIA SOFIA (LEG/SGO)
▪ Taxonomy:	Research and Dissemination
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	18 Jun 2019
▪ Beneficiary:	Private sector (FCIs, anchor companies and MSME in the region)
▪ Executing Agency:	INTER-AMERICAN DEVELOPMENT BANK
▪ IDB funding requested:	\$ 1,250,000.00
▪ Local counterpart funding:	\$ 0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Firms
▪ Prepared by Unit:	Connectivity Markets and Finance Division
▪ Unit of Disbursement Responsibility:	Institutions for Development Sector
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Productivity and innovation

II. Objective and Justification

- 2.1 The MSME Support Facility seeks to increase MSME's productivity through improving access to finance, markets, and non-financial services by supporting financial intermediaries, Fintechs, and inclusive corporate value chains to adopt practices that seek to increase access to finance and inclusion of MSME.
- 2.2 Through this TC, IDB will work with IDB Invest to pilot different approaches to support MSMEs by increasing their access to finance and non-financial assistance and capture and share lessons learned in order to promote uptake of successful interventions. These approaches include interventions tailored to address the barriers facing local providers of MSME finance, including financial institutions and corporate value chains, which can unlock more sustainable development results at greater scale. In terms of the barriers faced by FCIs, some of them are related to the same barriers highlighted for SMEs, such as having asymmetric information and technical capacity to select the right clients when reaching underserved or unserved segments. They are also related to lacking enough market information to design adequate product lines for new segments in their business. Finally, many FCIs need in-depth and evidence-based knowledge that guides them on cost-effective strategies to reach new MSMEs segments and strengthen those they are already working with.

III. Description of Activities and Outputs

- 3.1 The activities of this TC will be focused within the following components:
- Component 1 – Market information and product feasibility: fund consultant services to perform market assessments, evaluate options and build roadmaps for adoption of technology, and support development of new products and/or internal processes to better serve MSME competitively.

 - Component 2 – Financial innovation: consultancy services will be used to develop financial schemes; improving risk management systems; design new delivery channels, products and services; structure partnerships with Fintechs and other relevant digital providers; assess alternative credit scoring methods, and recommend/design trainings accordingly.

 - Component 3 - Knowledge and dissemination: systematic research, publications, events and seminars, and other dissemination efforts.
- 3.2 **Component I: Component 1 – Market information and product feasibility.** Under this component the TC will allocate resources to finance consultant services to analyze the demand and feasibility of particular markets, products and technologies that may not be currently bankable, but have economic and market potential.
- 3.3 **Component II: Component 2 – Financial innovation.** This component will support financial intermediaries (banks and specialized financial service suppliers) and anchor companies inside value chains to develop new financial products and other financial services that enable access to credit for MSME and increase MSME inclusion in value chains.
- 3.4 **Component III: Component 3 - Knowledge and dissemination.** This component will build on the other two components and will seek to generate evidence on the effectiveness of innovative practices in reaching MSMEs and helping them to succeed.

IV. Budget

Indicative Budget

Activity/Component	IDB/Fund Funding	Counterpart Funding	Total Funding
Component 1 – Market information and product feasibility	\$ 425,000.00	\$ 0.00	\$ 425,000.00
Component 2 – Financial innovation	\$ 425,000.00	\$ 0.00	\$ 425,000.00
Component 3 - Knowledge and dissemination	\$ 400,000.00	\$ 0.00	\$ 400,000.00

V. Executing Agency and Execution Structure

- 5.1 The execution of this TC will be carried out by the Bank through the Connectivity, Markets and Finance Division (IFD/CMF) in coordination with IDB Invest.
- 5.2 The Bank's role as executing agency of this TC is justified because the activities are intended to reach all countries in the region and there will be economies of scale in the execution. These activities will benefit public and private stakeholders with similar characteristics in different LAC countries that can take advantage from the

generation of horizontal knowledge and the development of spillovers. In addition, the Bank has the knowledge to prioritize sectors and institutions that can maximize the scope of the activities prioritized by this TC.

VI. Project Risks and Issues

- 6.1 Lack of demand: The Facility may not be attractive to sponsors (IDB Invest clients) because of a cumbersome approval process, a risk that will be mitigated by implementing a disbursement and deployment procedure that ensures the prompt availability of funding.

VII. Environmental and Social Classification

- 7.1 The ESG classification for this operation is "undefined".