

PROJECT ABSTRACT
BANCO GANADERO SME FINANCING PARTNERSHIP
(BO-L1097)

Overview

Small and Medium Enterprises (“SMEs”) in Bolivia constitute the main source of employment with 83% of the total workforce, and contributing 26% of Gross Domestic Product (“GDP”). In addition, SMEs represent a critical part of the agriculture sector, which in turn employs over 30% of the workforce in Bolivia and delivers annually a share of 14% to GDP.¹ However, more than 66% of SMEs operate in the informal sector which hampers their ability to access financing² and prevents them from achieving long term sustainable development. In Bolivia, large enterprises are properly served by the larger banks which focus on the corporate sector. Similarly, local microenterprises are efficiently attended by the country’s highly developed microfinance market, which includes several banks and microfinance institutions. It is the SME segment that is wedged in the missing middle and wrestle to get the adequate funding from local banks. In 2010, a survey by Bolivia’s *Instituto Nacional de Estadística (INE)* showed that only around 20% of micro and small enterprises had access to credit and the main constraints for financing were inflexible credit conditions and lack of guarantees, consequently leading to limited demand.³ The low level of credit financing among Bolivian SMEs is an impediment to the country’s economic development as SMEs without access to credit generate 50% less sales and have fewer employees compared to those that use debt to finance their operations.⁴ Region wide, commercial banks actively lending to SMEs mostly provide short-term lending, creating difficulties for firms to finance much needed investments and capital expenditures.⁵ As a result, there is still a market need that has not been addressed and therefore demands the support and supply of adequate financial products and services to the SME segment.

Project Description

The objective of the proposed SME Financing Partnership (the “Project”) is to support *Banco Ganadero’s* (“BGA”) SME portfolio growth, thereby contributing to increased access to financing for SMEs in Bolivia. The Project also aims at meeting the specific demands of agricultural SMEs by channeling at least 50% of the loan proceeds to SMEs in the farming and agribusiness sectors given their significance in the Bolivian economy and BGA’s specialization and competitive advantage in these sectors. The Project will help promote IDB’s goals of economic and social sustainable development in the region by reaching a larger number of SMEs with particular focus on those in sectors that are more labor intensive. The proposed Project is part of the SME Financing Facility (RG-X1092) approved by IDB’s Board of Executive Directors in May 2011 and consists of a senior IDB loan (the “Loan”) of up to US\$10 million.

¹ ASFI, May 2012, Comportamiento del Crédito Agropecuario en la Región del Oriente.

² CEPAL: Apoyando a las pymes: Políticas de fomento en América Latina y el Caribe, p. 22, 2011. Figures include Small and Medium sized Enterprises as well as Micro Enterprises.

³ INE, Encuesta a las Micro y Pequeñas Empresas – MYPES, 2010.

⁴ Market study on Bolivian SMEs performed by Captura Consulting in 2006.

⁵ IDB, 2011. Sector Guideline for SME Finance and Development Programs in Latin America and the Caribbean.

The project will provide BGA with medium-term financing to expand its SME portfolio.⁶ As part of IDB's mobilization efforts the Loan will be complemented through the participation of the China Co-Financing Fund for Latin America and the Caribbean with US\$5 million. In addition, Proparco, the French Development Agency, will provide US\$10 million co-financing under similar terms as the IDB Loan.

The choice of BGA as a financial partner to support the Bolivian SME segment is based on the following considerations:

(i) BGA's ongoing downscaling strategy in the SME segment converges with IDB's efforts to increase access to financing for the SME sector; specifically through the origination of loans to the SME segment of up to US\$500,000; (ii) BGA's national branch network that is present in relevant SME business areas and its established market position in serving farming and agribusiness clients will support IDB's interest to reach SMEs across the country and different economic sectors; and (iii) BGA's strong risk management and portfolio monitoring system as well as a well-diversified loan portfolio in terms of economic sectors.

Expected Development Impact

The main development benefits of the loan are: (a) an increase in access to finance for Bolivian SMEs, which will be reflected in BGA's SME portfolio growth from US\$178 million in 2013 to US\$407 million in 2018; (b) at least fifty percent of the Loan proceeds will be channeled to SMEs in the farming and agribusiness sectors, contributing to increase access to finance in these areas, which will be evidenced by an expansion of this portfolio from US\$68 million to US\$183 million during the same timeframe; and (c) the provision of US dollar funding that will allow BGA to make loans in US dollars to clients that have their cash flows in this currency, helping them to better manage their foreign exchange risks.

The use of proceeds will be monitored using internal systems with the purpose of: tracking the growth of the total SME portfolio (in volume and number of companies), as well as new SME clients of BGA in an effort to assess the impact of the IDB financial products.

IDB's Additionality

IDB's financial additionality of this project includes three important aspects: (i) IDB's US dollar funding to BGA is paramount as it overcomes the scarcity of US dollar funding in the local market and the inaccessibility of international markets due to high volume requirements from international lenders. The Loan will allow the bank to provide adequate on-lending to its SME clients which many times are not able to receive US dollar loans from BGA precisely because of the bank's inability to access this market; (ii) IDB's Loan will provide a longer tenor to BGA than otherwise available in the market. Currently, BGA only long-term funding is a local currency subordinated bond issuance which represents 1.6% of its total funding; (iii) mobilization of resources through the participation of the China Co-Financing Fund for Latin America and the Caribbean with a US\$5 million ticket, and IDB's catalytic role in Proparco's US\$10 million co-financing of this project, as this is the French Agency's first

⁶ SME loans will range from a minimum of US\$10,000 to a maximum of US\$500,000, consistent with IDB's Sector Guideline for SME Finance and Development Programs in LAC (OP-580) definition of SME loans for a C&D country.

project in Bolivia and has requested to work together with the IDB to benefit from IDB's market knowledge and prior FI experience in the country.

As a result of the coordination between IDB and Proparco, the main benefit on non-financial additionality in this project will be the design and implementation— for the first time—of an Environmental and Social Management System (ESMS) in BGA. To achieve this, BGA will receive support from IDB's and Proparco's Environmental and Safeguard specialists for the development and integration of an ESMS in BGA's organizational processes.

Project Contribution to IDB Objectives

- a) The Project is aligned with the strategic priorities of the IDB as follows:
- b) It serves the purposes of the Ninth General Capital Increase of the IDB ("GCI-9") which states that, to foster "Institutions for Growth and Social Welfare", one of the bank's objectives is "strengthening SMEs lending through second-tier vehicles and financial services". It is also aligned with GCI-9 objectives in that it contributes to "Development through the private sector" as SMEs are an effective tool for job creation.
- c) It is consistent with IDB's Country Strategy for Bolivia (2011-2015) (GN-2631-1) as it expects SCF to support new investment opportunities in the financial and agribusiness sectors.
- d) It supports BGA's SME portfolio growth, which contributes to SCF's vision target of meeting the funding needs of 700,000 SMEs by 2015. The Project supports the accessBanking pillar of SCF's beyondBanking program⁷, through its access2MSME product that seeks to increase banking penetration in the region

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beyondBanking supports the provision of products dedicated to improve access to finance for businesses and individuals and foster a more inclusive and sustainable banking industry in LAC; for further reference, please visit: www.iadb.org/beyondbanking).