Early Warning System

IDBI-12241-01

Local Currency Fund II Expansion

Quick Facts

Financial Institutions	IDB Invest (IDBI)
Bank Risk Rating	C
Borrower	Locfund II, L.P.
Sectors	Finance
Investment Type(s)	Loan
Investment Amount (USD)	$ 10.00 million
Project Cost (USD)	$ 10.00 million

Project Description

According to the banj, in January 2015, the IDB approved a Loan to Locfund II comprised of an A Loan of up to US$15 million funded by IDB with its Ordinary Capital resources and up to US$7.5 million in a Co-Loan from the China Co-Financing Fund (the "China Fund") to provide financing in local currency to microfinance institutions ("MFIs"), contributing to reduce the MFIs' foreign exchange risk exposure and to support the expansion of their local currency lending capacity to micro- and small-sized enterprises ("MSEs") in Latin America and the Caribbean ("LAC").

The IIC, as member of the IDB Group, will support Locfund II's expansion through a Loan of up to US$10 million (the "IIC A Loan"). Thus, the number of MFIs reached and final clients benefited will also increase. Locfund II expects to increase the number of MFIs' clients by 13% totalizing 241,000 final beneficiaries during its life.

People Affected By This Project

1. Overview of Scope of IIC Environmental & Social ("E&S") Review. The environmental and social review of the proposed transaction was carried out through desk research of pertinent information from the client. This included a review of basic credit procedures applied by Locfund II.

2. E&S Categorization and Rationale. The portfolio of microfinance loans is considered low risk given the concentration in commerce and services. Through its MFIs, Locfund II has reached roughly 1.3 million microfinance sub-borrowers with an average sub-loan of US$1,233. Per the IIC's Environmental and Social Sustainability Policy, this Financial Intermediary ("FI") operation has been categorized as FI-3.

3. E&S Risks and Impacts. The E&S risks of underlying transactions are considered negligible. Nevertheless, Locfund II has developed and applies an exclusion list, along with other local law requirements. These procedures have been developed as a result of historic funding from a range of other Development Finance Institutions ("DFI") lenders

4. Mitigation Measures. Locfund II will be required to ensure that all underlying microfinance loans comply with the IIC Exclusion List, and applicable local environmental and social laws. Locfund II has illustrated the incorporation of basic E&S procedures into its manuals.

5. E&S Action Plan. No E&S Action Plan is required.

Investment Description

- IDB Invest (IDBI)

Financial Intermediary

Financial Intermediary: A commercial bank or financial institution that receives funds from a development bank. A financial intermediary then lends these funds to their clients (private actors) in the form of loans, bonds, guarantees and equity shares. Financial intermediaries include insurance, pension and equity funds. The direct financial relationship is between the development bank and the financial intermediary.

- Locfund II (Financial Intermediary)

Contact Information

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Campaign Documents

- Company Overview of Locfund LP