

PROJECT ABTRACT

27 JUNE 2013

Country:	Nicaragua
Sector:	Private Firms and SME Development
Project Name:	Banco Lafise Bancentro SME Financing Partnership
Project Number:	NI-L1075
Borrower:	<i>Banco LAFISE Bancentro</i>
Subordinated Loan:	
IDB A Loan:	US\$ 10 million
China Co-Financing Fund for Latin America and the Caribbean:	US\$ 5 million

PROJECT OVERVIEW

In Nicaragua the Small and Medium Enterprises (“SMEs”) sector is key to the country’s economy as 90% of the 172,000 formal businesses in the country are SMEs and constitute 70% of total employment contributing approximately to 40% of total GDP. In addition, SMEs represent a critical sector for women’s economic participation as these businesses, over 60%, are more likely to be owned and/or managed by a woman and as they represent 34.7% of the SMEs’ workforce. However, limited access to financing prevents them from achieving long term sustainable development. Although Nicaraguan commercial banks provide some services to SMEs, high informality, lack of documented transactions and differences with traditional credit risk methodologies, as well as the lack of knowledge about whether or not the market offers a positive risk-return relationship inhibited the growth of available finance to SMEs especially long-term finance. Region wide around 75% of commercial banks with active SME lending only provide short-term lending, creating difficulties for firms to obtain long-term credit. 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 sector.

PROJECT DESCRIPTION

The objective of the proposed SME Financing Partnership (the “Partnership”, or the “Project”) is to increase access to financing to SMEs in Nicaragua. In order to achieve this objective, IDB will join efforts with Banco LAFISE Bancentro (“Bancentro”), the second largest bank in the country, to provide financing to this sector. The proposed Partnership is expected to have a positive demonstration effect in the market as a leading Financial Institution (“FI”) will expand its services and products to the SMEs sector. The Project is expected to have a catalytic effect by compelling other financial intermediaries to supply appropriate financial products and services to a large segment with unmet financial needs.

The proposed Project is part of the LACC Subordinated Debt Facility (RG-X1088) approved by the Bank’s Board of Executive Directors in August 2010 and consists of a subordinated

financing (which qualifies as Tier II capital under local regulatory requirements) for up to US\$10 million to Bancentro in Nicaragua with a portion designated to support women-led SMEs. As part of IDB's mobilization efforts the subordinated loan will be complemented through the participation of the China Co-Financing Fund for Latin America and the Caribbean with US\$5 million.

The choice of Bancentro as a financial partner to support the Nicaraguan SMEs sector is based on the following considerations: (i) the strategy of Bancentro converges with IDB's efforts to increase access to financing for the SME sector, given its economic relevance; (ii) Bancentro's readiness to upgrade its information technology systems to enhance and closely monitor lending to women-led SMEs, (iii) Bancentro's national coverage network will support IDB's interest to reach SMEs across the entire country and different economic sectors, (iv) Bancentro is a leading FI in Nicaragua and part of the regional financial group LAFISE (Latin American Financial Services) which has presence in Central America, Panama, Dominican Republic, Venezuela and Mexico; (v) Bancentro has a strong risk management system and has a well-diversified loan portfolio in terms of economic sectors; and (vi) the longstanding relationship of Bancentro with the IDB Group¹ and its demonstrated capacity to implement successfully IDB credit lines.

EXPECTED DEVELOPMENT IMPACT

The Project will help increase access to financing for the SMEs sector through: (i) the origination of short and medium term loans; and (ii) the incursion into a new market segment. The use of proceeds will be monitored using internal systems with the purpose of: (i) tracking the growth of the total SME portfolio, including women-led SMEs of Bancentro (in volume and number of companies), as well as of its average maturity; and (ii) assessing the contribution of the IDB loan in these evolutions.

The expected development impact of the Project will result from the following factors: (i) substantial increase of SMEs portfolio by 2017, in alignment with Bancentro's growth and downscaling strategy for this segment; (ii) the portion of the Project used to support women-led companies; and (iii) the support to its capital structure and the funding and tenor needed to increase the SME loan portfolio.

PROJECT CONTRIBUTION TO IDB OBJECTIVES

The Project is aligned with the strategic priorities of the IDB because:

- 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 SME 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".
- The Project is in line with the IDB's 2012-2017 Country Strategy for Nicaragua (GN-2683) as it will continue to support priority areas currently addressed in the portfolio (2008-2012 operations include supporting the financial sector through financing from SCF) as well as rural development and value chain dialogue.
- It contributes to SCF's strategic target of financing 250,000 SMEs by 2015.

¹ Bancentro is part of the SCF/FMK Trade Finance Facilitation Program ("TFFP") since 2007.

- It supports the accessBanking pillar within the beyondBanking² strategy. Through which IDB seeks to increase banking penetration in the region by supporting downscaling projects, development and delivery of financial products, and initiatives with a focus on women entrepreneurship. Since the Project will partially focus on women-led SMEs, it will be executed as part of the joint initiative between SCF and MIF weB, which was launched in April 2012 during the Summit of the Americas in Cartagena, Colombia.

² beyondBanking is SCF/FMK's Strategy within the Structured and Corporate Finance Department. It 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)