



Line of Activity for Promoting Small Enterprise Financing (LASEF)

Objectives

The general objective of this Program (Line of Activity or LASEF) is to expand and improve small enterprise access to commercial financing from banks and other financial intermediaries. Its specific objective is to enhance the capacity of supervised financial intermediation institutions that have assumed a commitment to serve small enterprises, so that they can expand significantly their financing operations in the small business sector, in a profitable, efficient, and sustainable manner.

The direct beneficiaries of the technical cooperation projects will be supervised financial intermediaries (SFIs) in Latin America and the Caribbean countries that have or set up financial services programs for small businesses. As a result of the support they receive, the SFIs will strengthen their institutional capacity and increase their financing portfolio for small enterprises. The indirect final beneficiaries will be small enterprises with borrowing requirements of between US\$10,000 and US\$100,000¹. The expansion and better performance of the SFIs benefiting from the Line of Activity will give these enterprises greater access to borrowing and to quality financial services keyed to their needs.

Description

The Line of Activity will allocate the sum of US\$10 million to finance individual non-reimbursable technical-cooperation projects for a set of SFIs to be selected from the different countries of the Latin America and the Caribbean Region, to enhance their institutional capacity to expand their financing services to small businesses.

The amount of technical cooperation financing that the Multilateral Investment Fund (MIF) can provide under this program, per individual project is of up to US\$1 million, although MIF's contribution per individual project is expected to generally be between US\$300,000 and US\$500,000. These funds must be supplemented with counterpart contributions from the beneficiary SFIs.

Activities to be financed through individual projects

Line of activity-supported projects will be awarded to financial intermediaries, subject to supervision by the Central Bank or Superintendency of Banking of the country concerned (or equivalent authority). The intermediaries must have operations in a country in Latin America and the Caribbean, have a sound financial position and credit quality, and must have the potential and commitment to significantly expand their lending services to small-enterprises.

¹ Small enterprises' total indebtedness to the financial system may not exceed US\$100,000.

Technical cooperation projects financed under the Line of Activity will support the efforts of eligible SFIs to organize and expand their small-enterprise financing programs, through the transfer or development of appropriate financial methodologies and technologies, and by strengthening SFIs' technical and operational capacity to successfully manage these programs, so that they can further enter the sector. Efforts will focus on emphasizing the expansion of lending services for small enterprises in underserved regions by financial services having a growth potential. Joint initiatives of SFI groups as well as partnerships with institutions in MIF donor countries may be supported, to encourage the sharing of methodologies and experiences.

To this end, the activities eligible for financing will include exploring markets and developing financial products oriented to small enterprises (including leasing, factoring, etc.); adapting lending policies and methodologies; introducing risk and credit management; training loan officers; developing human-resources incentives; encouraging the adoption of mechanisms to distribute financial services and systems to provide technology-based services; developing, incorporating, or adapting computer programs and management information systems or information technology suited to the needs of new products. Financing will be provided for technical cooperation to help cut operating costs and improve credit information, as well as to develop market mechanisms that help SFIs manage funds to finance this portfolio (i.e. portfolio securitization, etc.). In general, all technical-cooperation activities that allow beneficiary entities to expand the scope and volume and improve the quality of their small-enterprise financing will be included. Special attention will be given to innovative expansion models that can be replicated. As specific needs will vary from one SFI to another, the configuration of the technical-cooperation projects, as well as the inputs to be financed (i.e. consulting services, training, equipment, software, etc.) will be determined individually on the basis of each SFI's strengthening needs.

Financing Conditions

The maximum amount of financing per project will be established on the basis of an analysis of the proposals submitted, the capacity of the requesting SFI, the technical cooperation needs identified, and the availability of counterpart resources, and may not exceed US\$1 million. Proposal-scaling analysis will take into account such factors as projected volumes and portfolio-expansion time, the availability of funds to expand the portfolio, the national or regional scope of the proposed services, capacity to replicate those services, and the projects' innovative features. Special attention will be given to SFIs in regional networks whose reach extends to more than one intermediary or that incorporate mechanisms for replication throughout the network the methodologies, outputs, and tools developed.

Beneficiary SFIs must provide counterpart contributions of at least 50% of the total cost of the project's technical-cooperation services (excluding evaluation and audit costs). This proportion may be reduced in exceptional cases, in duly justified situations, although counterpart contributions may not be less than the proportions set by the MIF for projects in the country in question. Applications from technical-cooperation projects co-funded by other donors will be accepted; in such cases, however, the requesting intermediary's contribution may not be less than the MIF contribution.

The resources provided through this Line of Activity will be used mainly to procure specialized training and technical-cooperation services. Financing may be provided for developing or purchasing software licenses that are duly justified², in keeping with the strengthening needs set forth for each SFI. Not more than 20% of the MIF financing may be used for this purpose. Equipment purchases will be financed out of the local counterpart. Financing will not be provided for the salaries or benefits of intermediary employees.

Selection of beneficiaries: eligibility and criteria

To access resources through the Line of Activity, interested SFIs must provide evidence that they: (i) are supervised by their country's Central Bank or Superintendency of Banks, or the equivalent authority; (ii) are in compliance, in their respective markets, with good corporate governance and financial solvency standards; (iii) have the potential, the comparative advantages, the financial capacity, and a business plan that enables them to sustainably expand small-enterprise financing services; (iv) have the express mandate and institutional commitment to formulate and execute a sound small enterprise financing program; (v) under current standards in their country's financial system, have internal regulations and policies to prevent money-laundering and the financing of illegal activities; and (vi) have the willingness and commitment to share and disseminate significant information on the know-how they acquire through the Line of Activity. Only in exceptional, duly justified, cases, will applications from SFIs that do not meet or surpass these eligibility criteria be considered. SFIs that fulfill all of the eligibility requirements are not automatically qualified to receive financing under the Line of Activity. Technical cooperation applications submitted by IFS that meet the eligibility criteria will be analyzed to determine whether the evaluation and approval of a particular application should proceed.

SFIs interested in receiving support will submit an application on a form designed for that purpose, along with their proposal and project budget and the following information: (i) a business plan for expanding their small-enterprise financing program; (ii) the rationale for and a description of the proposed project, detailing its objectives, activities, and expected outcomes with measurable performance indicators³ and its itemized budget; (iii) financial and institutional information on the requesting intermediary; and (iv) express evidence of the institutional commitment to expand small-enterprise financing. Projects may be selected in the order received, or—depending on the demand—through national or regional competitions.

The Line of Activity will promote SFI small-enterprise financing. Nevertheless, if, in addition to their small-enterprise financing operations, requesting SFIs should wish to expand the financial services they provide to microenterprises, both technical-cooperation goals may be supported through this Line of Activity.

² Small enterprises' total indebtedness to the financial system may not exceed US\$100,000.

³ The indicators would include (i) loans disbursed to small enterprises; (ii) aggregate lending disbursed to small enterprises; (iii) the average loan amount; (iv) the number of clients in the current portfolio; (v) the amount of the current portfolio; (vi) the number of agencies/branches that introduce the product; (vii) portfolio quality (>30 days); and (viii) the number of loan officers to be trained. The small enterprises will have more than five employees.

Expected outcomes

As a result of these activities, beneficiary SFIs should be able to strengthen their internal capacity to develop profitable programs that target small businesses. In addition, the activity should allow SFIs to significantly and sustainably increase their financing portfolio for this sector by extending loans for between US\$5,000 and US\$100,000⁴. Approximately 20 supervised financial intermediaries are expected to benefit from the Line of Activity. It is expected that a substantial portion of these funds will go to underserved markets where little credit is available for small enterprises. Specific parameters and indicators of outcomes will be developed for each individual project.

SUMMARY OF MINIMUM ELIGIBILITY REQUIREMENTS FOR FINANCIAL INTERMEDIARIES

Criterion	Description
Supervised entity	Is legally authorized to operate as a financial institution and comes under the supervision of the Central Bank, the Superintendency of Banks, or some other competent authority.
Good corporate governance	Good corporate governance policies. Functioning governance bodies. Stability in directors and managerial team.
Scale/size	Capital > US\$5,000
Portfolio quality	The institution's arrears rate (> 30 days) (calculated according to country standards) is less than or equal to the higher of (i) 8% or (ii) national commercial banking average.
Profitability and capital adequacy	The institution is financially healthy, as reflected in return-on-equity (average ROE > 10%) and capital-adequacy rates within the range considered acceptable by the country's regulatory agency.
Expansion capacity	It has the financial resources or has secured the funding sources to expand its small-enterprise lending portfolio. It must be capable of expanding its portfolio over the course of the project by at least 15 times the MIF technical cooperation amount.
Institutional commitment	It has a clear interest in the proposed operation as evidenced in its institutional business plan and a statement of express commitments from executive and management bodies. In addition, new programs will demonstrate a commitment to serve the sector (i.e. specialized department, assigned staff, etc.) and the availability of financial resources to do so.
Accountability and transparency	It meets the requirements stipulated by the supervising authority concerning reports and audits. Pursuant to existing legislation governing the country's financial system, it has in place internal policies and regulations to prevent money-laundering and the financing of illegal activities.
Level of contribution and impact on the implementation of proposed activities	Proposal demonstrates a high level of additionality, as reflected in innovation, significant expansion, services to underserved areas, etc.

⁴ The average loan each beneficiary small business will receive is estimated to range from US\$30,000 to US\$50,000.