

**BANCO INDUSTRIAL MSME FINANCING PARTNERSHIP
(GU-L1079)**

PROJECT ABSTRACT

Overview

Micro, Small and Medium Enterprises (“MSMEs”) are the main source of employment in Guatemala, it is estimated that they contribute with around 85% of the employment of the country¹ which in turn contribute to approximately 40% of total GDP². Despite its major economic importance, MSMEs face important challenges accessing the formal financial system, which harms their capacity to modernize and reach scale. Financing for medium-size enterprises is less scarce. However, due to the financial crisis in 2008 banks reduced their lending portfolio and focused more on corporate clients, which negatively affected the access to credit lines by medium size enterprises. It is estimated that between 350,000 and 500,000 could be bancarized, but only a small proportion of that amount would have access to banking products and services³. In Guatemala, commercial banks have stayed away from the sector due to high informality, lack of documented transactions and differences with traditional credit risk methodologies, including the lack of collateral.

Project Description

The objective of the proposed MSMEs Financing Partnership is to increase access to financing to MSMEs in Guatemala. In order to achieve this objective, IDB will join efforts with Banco Industrial, S.A. (“BI”), the largest bank in the country, to provide financing to this sector. The proposed project 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 MSMEs sector including a focus on women-led MSMEs and/or rural areas.

The Project consists of a senior secured Financing (the “Financing”) of up to US\$150 million to provide BI with long-term financing to support its MSMEs loan portfolio with a portion earmarked to support women-led MSMEs⁴ and/or rural areas across Guatemala in order to support BIs downscaling strategy into the MSME segment.

The Project will be complemented with technical assistance (“TA”) that aims to support the development of products and services to women-led MSMEs. The Project Team is coordinating with MIF the potential TA to be provided as part of the women entrepreneurship Banking (weB) initiative.

IDB’s partnership with BI is an efficient and effective approach to reach a larger group of MSMEs compared to providing direct financing to individual MSMEs. The choice of BI as a financial partner to support the Guatemalan MSMEs sector is based on the following considerations: i) the strategy of BI converges with IDB’s efforts to increase access to financing for the MSME sector, given its economic relevance; ii) BI’s strategy also converges with IDB’s country strategy in Guatemala to support rural development; iii) BI’s national coverage network will support IDB’s interest to reach MSMEs across the entire country and different economic

¹ IDB and MIF. 2008. “High Growth Small and Medium Enterprises (HGMSMEs) in Latin America Emerging Economies.” Document prepared by IDB and MIF for the OECD Kansas City Workshop, May 8.

² According to the Federacion de Pequeñas y Medianas Empresas de Guatemala (2009).

³ Desarrollo de PYMES en Guatemala- Facilitando el Florecimiento de 10,000 empresas: World Bank 2010.

⁴ Women-led SMEs as defined under the weB initiative include Women Operated Enterprise(s) means an enterprise (a) that is controlled at least fifty one percent (51%) by women, and/or (b) the chief executive officer (CEO) and/or Chief Operations Officer (COO) of which is a woman.

sectors; iv) BI has an appropriate scale to reach the private sector widely as it focuses on commercial loans and is the leading FI in Guatemala in terms of market share; v) BI has a strong risk management system and has a well-diversified loan portfolio in terms of economic sectors; and vi) the longstanding relationship of BI with the IDB Group⁵ and its demonstrated capacity to implement successfully IDB credit lines.

Expected Development Impact

The Project will help increase access to financing for the MSMEs sector through: i) the origination of short and medium term loans; ii) the expansion of the portfolio into rural areas and iii) the creation of new credit products and services for women-led MSMEs. The use of proceeds on the Financing will be monitored using internal systems with the purpose of: i) tracking the growth of the total MSME portfolio of BI (in volume and number of companies); ii) as well as of its average maturity and women-led MSMEs.

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 MSME lending through second-tier vehicles and financial services”. It is also aligned with GCI-9 objectives as to it contributes to “Development through the private sector”.
- The Project is consistent with the IDB Country Strategy with Guatemala (2012-2016) (GN-2689). The Bank’s country strategy with Guatemala 2012-2016 focuses on improving living conditions for the Guatemalan population, particularly those living in rural areas. Work will also be done in the crosscutting areas of ... gender. Furthermore, Paragraph 3.1 states that “...the Bank’s private sector windows will support the country through support access to financing for ... and small and medium-sized enterprise,...”

It contributes to SCF’s strategic target of financing 250,000 MSMEs by 2015. Also, it supports the accessBanking pillar within the beyondBanking⁶ 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 weB⁷.

⁵ BI is part of the SCF/FMK Trade Finance Facilitation Program (“TFFP”) since 2008.

⁶ 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).

⁷ weB is a joint effort between SCF’s beyondBanking Program and MIF’s Line of Activity for Promoting Small-Enterprise Financing (LASEF). weB resulted from research and on-the-ground experience demonstrating that women-owned MSMEs make up a high-growth yet underserved segment of Latin American and the Caribbean (LAC) economic activity.