

## **PROJECT SUMMARY**

### **REGIONAL FINANCIAL FACILITY FOR EMERGENCIES AND CRISES**

**(RG-L1155)**

The impacts of climate change and sustained vulnerability in the countries in the Central American region have been of the utmost concern in recent years. In November 2020, two tropical storms (Eta and Iota) caused destruction, death, and serious damage to productive industry in Honduras, Nicaragua, and Guatemala, primarily. Moreover, the COVID-19 pandemic makes the economies even more fragile, with initial figures showing many thousands of victims and a drop in GDP on the order of 10% in the region. The hardest hit populations and businesses are in the most vulnerable and marginalized segments that lack timely access to finance for economic recovery in the post-emergency phase.

In the Central American region, there is a wide range of inclusive financial services providers (IFSPs), such as production cooperatives, credit unions, and microfinance institutions—both regulated and unregulated—that offer financial services and channel financing to vulnerable segments of the population and that, as a result of these disasters, do not have the liquidity or capitalization to serve the affected population. The impact of the recent crises, together with the lockdown of the population and closing of small businesses, has drastically reduced the revenue of microenterprises, small businesses, and small-scale producers (MSBSPs), making it difficult for them to repay their debts to the IFSPs.

As of December 2020, the Central American Microfinance Network “REDCAMIF”, estimates potential demand for addressing the triple emergency (COVID-19 and Hurricanes Eta and Iota) of US\$155.3 million. In this context, Covelo José María Covelo (Covelo) has identified demand from 40 IFSPs at US\$50.6 million, to respond to the needs of affected MSBSPs operating in different sectors of the economy in the Northern Triangle countries (Honduras, El Salvador, and Guatemala) and Nicaragua.

This operation aims to turn these recurring (almost periodic) climate emergencies into an opportunity for development, creating a permanent solution to help MSBSPs and IFSPs in the region recover from the current crises and become more resilient to future emergencies, by improving their practices and increasing their capacity to respond to and impact the economic recovery of the affected population, respectively. To this end, a Regional Financial Facility for Emergencies and Crises (FREC) will be created, as a long-term (hopefully permanent), sustainable solution to respond to financing needs stemming from similar events in the future in Central America and that would also later serve the other countries in Latin America and the Caribbean (LAC).

The project will be implemented in two phases: (i) Emergency loan: this involves channeling resources through Covelo to meet the immediate financing needs of IFSPs and their customers in the Northern Triangle; and (ii) Creation and implementation of the Facility. Covelo, with the resources from the SFIDF, IDB Lab and other funders, will structure and launch the Facility—as a permanent financial vehicle.

Covelo is a private, non-profit development institution established as a foundation in 1991 and headquartered in Tegucigalpa, Honduras. It specializes in providing second-tier financing to IFSPs in Honduras and other countries in Central America.

The total project cost is expected to reach US\$60.6 million, of which the SFIDF will contribute US\$4.0 million (6.7%), broken down as follows: US\$2 million in an emergency loan to Covelo (transferable to the FREC once it is established); and a US\$2 million

investment in the FREC. These amounts will mirror IDB Lab's own contribution for the same purposes to the project, approved in February 2021.