

PROJECT SUMMARY

PARTIAL GUARANTEE MECHANISM TO PROMOTE THE USE OF AGRICULTURAL TECHNOLOGIES AND PRACTICES AMONG SMALL FARMERS IN GUATEMALA (GU-G1012, GU-G1013, GU-T1323, GU-T1324)

PROJECT FINANCED BY THE LOW-EMISSION, CLIMATE-RESILIENT AGRICULTURE RISK SHARING FACILITY FOR MICRO, SMALL, AND MEDIUM-SIZED ENTERPRISES IN MEXICO AND GUATEMALA, COFINANCED BY THE GREEN CLIMATE FUND (GCF) AND IMPLEMENTED BY IDB LAB (RG-O1656)

In Guatemala, the traditional financial system has not been able to address the rural and agricultural sector's financing needs. The structural socioeconomic characteristics of farmers—including low productivity, low incomes, limited technical, financial, and marketing knowledge, exposure to climate events, and the effects of climate change—limit the availability of collateral to support their access to credit. This is one of the primary reasons why financial institutions consider the sector risky when compared to other sectors of the economy. Thus, in Guatemala, agricultural credit as a percentage of total credit is limited, amounting to only 4.1% of total credit.

The objective of the project is to strengthen Guatemalan farmers' ability to adapt to and mitigate the effects of climate change, through: **(i) access to capital promoted through a risk mitigation financial instrument—an automated partial guarantee mechanism supported by artificial intelligence (AI), Big Data, and/or data analytics that encourages savings and loan cooperatives (S&Ls) to increase their agricultural loan portfolios; and (ii) access to nonfinancial services such as climate resilient agricultural and agroforestry, financial, and market access knowledge and information that reaches the farmer directly, the central objective of which is the farmer's adoption of climate-smart agricultural technologies and practices.**

IDB Lab and the Green Climate Fund (GCF) will contribute US\$2 million in capital (as a contingent recovery investment grant - CRIG) to the automated partial guarantee mechanism to be administered by the National Federation of Credit Unions of Guatemala (FENACOAC), an unregulated second-tier financial entity that is part of the MICOOPE system and includes 25 S&Ls. FENACOAC will guarantee the loan portfolio of at least five of the system's S&Ls. The participating S&Ls are Yama Kutx, Acredicom, Salcaja, Coopsama, and Cobán located in the areas of Quetzaltenango, San Marcos, Huehuetenango, and Alta Verapaz, geographic areas characterized by their dependence on the agricultural sector. These S&Ls will in turn provide loans to farmers.

On a supplemental basis, IDB Lab and the Green Climate Fund (GFC) will contribute US\$675,000 (in technical cooperation) to provide technical assistance to the farmer. The technical assistance will be implemented by Catholic Relief Services (CRS) and Heifer International. Both organizations are nongovernmental organizations (NGOs) that specialize in technical assistance and training in climate-smart agricultural technologies and practices that promote the farmer's increased productivity and adaptation to climate change. This technical assistance seeks to strengthen Guatemalan farmers' ability to adapt, reduce their vulnerability, and reduce deforestation. From the technological perspective, the technical cooperation operation will finance the adoption of a predictive financing model for the agricultural sector that, based on AI, Big Data and/or data analytics, will supplement FENACOAC's banking core and seek to make credit management more efficient.

Thus, the project will pilot two parallel solutions that seek to strengthen farmers' access to financing: one with a risk mitigation financial instrument and, on a supplemental basis, with AI, Big Data and/or data analytics, through the use of collected data.

From the perspective of IDB Lab's portfolio, this operation offers an innovative risk mitigation financial proposal that facilitates access to financing for acquiring sustainable agricultural technologies and practices through S&Ls, financial intermediaries that are close to those most in need of access to financing, technology, and knowledge: farmers. The project is also consistent with the use of information technologies in the financial sector as a source of automation, efficiency, and cost reduction.

The project is aligned with the IDB Group's Vision 2025 in terms of reactivating the productive sector in the post-COVID context. Access to the financing provided by FENACOAC and technical assistance provided by CRS and Heifer International will promote innovation and productivity, build farmers' capacities for adapting to climate change, and generate sources of employment (green jobs). Support for farmers also promotes rural development in the region, generating better living conditions to support reduced migration in rural areas.

This is the third subproject to be financed by the Low-Emission, Climate-Resilient Agriculture Risk Sharing Facility for Micro, Small, and Medium-sized Enterprises in Mexico and Guatemala, cofinanced by the Green Climate Fund (GCF) and implemented by IDB Lab (RG-O1656). The following subprojects were financed previously: (1) Transforming degraded community lands into sustainable jobs, incomes, and carbon sinks in Mexico, implemented by Ejido Verde (ME-L1303, ME-L1302, ME-T1437), and (2) Financing climate-smart agricultural technologies for micro and small entrepreneurs and farmers in Guatemala, implemented by FUNDEA (GU-L1178, GU-L1179, GU-T1315, GU-T1316).

In accordance with Resolution DE-30/18 adopted by the IDB Board of Executive Directors on 10 July 2018, the IDB Lab Donors Committee is authorized to approve reimbursable operations financed with GCF resources in the context of a Line of Activity Project for a Risk Sharing Facility for Micro, Small, and Medium-sized Enterprises in the Agriculture and Forestry Sector in Mexico and Guatemala with the Green Climate Fund (document GN-2925), including loans, guarantees, equity, and other financial instruments permitted by the GCF and when such GCF resources administered by the Bank are used to finance, in whole or in part, the operations of IDB Lab.

The nonreimbursable technical cooperation grants financed with GCF resources in the context of the Line of Activity Project for a Risk Sharing Facility for Micro, Small, and Medium-sized Enterprises in the Agriculture and Forestry Sector in Mexico and Guatemala with the Green Climate Fund (document GN-2925) would be approved by the President or delegated by him to Bank Management within the limitations of approved delegation. (See delegation to Bank Management pursuant to document GN-2752-4, "Proposal to Modify the Procedures for Approval of Nonreimbursable Operations" of 4 August 2014, approved under Resolution DE-103/14). The IDB Board of Executive Directors would approve any nonreimbursable grant operation for projects exceeding the US\$3,000,000 limit under that delegation of authority.