

Summary
PROMOTING FINANCIAL DEMOCRACY BY SUPPORTING FEDECREDITO
A SPECIALIZED MICROFINANCE INTERMEDIARY
(ES-M1015)

Despite the importance of microenterprises in El Salvador's business fabric, and the higher than-average market penetration when compared to other countries in the Region, the demand for microfinance far outweighs available supply. The lack of microfinance is especially acute in El Salvador's rural areas. Although some microfinance institutions do serve the rural market, many limit their rural lending because of the higher transaction costs of reaching isolated areas and the additional risk associated with agricultural activities.

The project aims to address two of the key challenges highlighted in the IDB's Building Opportunities for the Majority initiative and its Financial Democracy pillar: (1) the failure of existing microfinance players to adequately serve the rural and agricultural market; and (2) the challenge of channeling remittances towards productive uses. The MIF will support Fedecredito, a second-tier microfinance institution established in 1943 which brings together all 55 of El Salvador's credit unions and worker banks. Fedecredito's mission is to contribute to the development of a strong system of microfinance institutions. Fedecredito is recognized as one of the most important promoters of microfinance in El Salvador given its broad geographic coverage, its ability to reach the lowest income segments, and its role as provider of both financial and non-financial services to support its member microfinance institutions. By choosing to work with a second-tier institution, the MIF's intervention can be deployed through a large number of small intermediary MFIs thereby maximizing the impact on the country's microenterprises.

The goal of this project is to increase the total provision of microfinance in El Salvador. The specific objectives of the project are to: (i) provide reimbursable financing to enable Fedecredito to expand its lending operations in support of its first-tier members; (ii) provide non-reimbursable technical assistance aimed at developing and launching new financial products that will be offered by Fedecredito's member MFIs, and that will target the poorest segments of the country's population, especially in rural areas. The MIF's *additionality* lies in supporting an institution that plays a pivotal role in ensuring the health and sustainability of an important part of El Salvador's microfinance industry and, most importantly, of those smaller MFIs that are present in the poorest rural areas of the country. Indeed, by acting as a centralized provider of services such as training for MFI employees, information technology applications, financial supervision and regulation, advisory services, marketing and promotion, and, in general, leveraging synergies across the member institutions, Fedecredito contributes to lowering the MFIs' operational costs and improving the performance of the Fedecredito system as a whole.