

SOCIAL ENTREPRENEURSHIP PROGRAM

PROJECT SUMMARY

1. **Country:** Ecuador
2. **Project Numbers:** EC-L1254 & EC-T1430
3. **Name of Project:** Green Finance for Agricultural Sustainability
4. **Executing Agency:** Fundación de Apoyo Comunitario y Social del Ecuador (FACES)
5. **Borrower:** Fundación de Apoyo Comunitario y Social del Ecuador (FACES)
6. **IDB División:** Multilateral Investment Fund (MIF) – IDB Lab

7. Financing amounts

	<u>IDB US\$</u>	<u>LOCAL US\$</u>	<u>Total US\$</u>
Reimbursable Financing:	1,000.000	1,000.000	2.000.000
Technical Cooperation:	<u>250.000</u>	<u>250.000</u>	<u>500.000</u>
Total:	1,250.000	1,250.000	2.500.000

8. Objective and purpose of the project:

The objective of the project is to help improve the incomes of small rural producers by implementing innovative climate change adaptation measures. The purpose of the project is to channel financial resources and technical assistance using information technology tools to implement adaptation and mitigation measures that help stabilize and boost farmers' yields.

9. Project Components:

- *Reimbursable Financing*

The reimbursable financing component will be used to expand the FACES loan portfolio through a new green finance product ("Green Agriculture Microcredit") intended to finance the working capital and investment needs of at least 1,160 small farmers in northwestern Pichincha so that they are able to implement climate change adaptation technologies and other requirements that will improve the yields of their agricultural activities. The loans will be issued in the form of an individual loan product for farmers and microentrepreneurs with financing needs ranging from US\$1,000 to US\$20,000, with an estimated average of US\$4,500.8. Lending will be governed by FACES's Lending Regulations, with adjustments to approval levels and credit conditions for the project area and will also incorporate environmental risk analysis considerations relating to resilience to climate change. Among the most important aspects, these regulations will set an interest rate of between 18% and 20% for green loans (which compares favorably with rates from 21% to 24% for other FACES loans), terms of up to 30 months (estimated average of 18 months), the possibility of making monthly, bimonthly, quarterly, and even half-yearly principal repayments, and the use of solidarity-based and nonconventional guarantees tailored to the target population. As is common in many green finance programs, by offering a slightly lower interest rate than the financial institution's standard rates, the borrower is given a greater incentive to implement some of the mitigation or adaptation measures, which he or she might not otherwise pursue in the absence of this financial incentive. Despite this lower interest rate, the product continues to be financially sustainable for FACES. In the first months

of the project, FACES will work to design the details of this new product with the support of international specialists in the field. Delivery of the term sheet for the new loan product will be a condition precedent to the first disbursement of the loan proceeds.

The "Green Agriculture Microcredit" is a product to finance activities that will help reduce pressure on the ecosystem, increase resilience to climate change, reduce risks associated with climate change, and protect or restore biodiversity. All these activities are intended to have a positive impact on the environment and the pocketbook of farmers. Examples of investments that could be included under this type of loan include organic fertilizers, biodigesters, organic agriculture, resistant seed banks, crop diversification, companion planting, sustainable forest management, natural retaining walls, fish farming, water reservoirs, drip irrigation, agricultural terraces, and nurseries.

- ***Non-reimbursable Technical Cooperation***

The non-reimbursable technical cooperation component's objective is to carry out activities that support small farmers and help FACES expand access to green finance and to markets for the project-financed agricultural products. The resources provided under this technical cooperation component will be used for activities relating to: (i) the implementation of climate-resilient practices by 400 small farmers in northwestern Pichincha through technical assistance activities in the field, the implementation of demonstration models, the development of a green agriculture microcredit product, and the development of apps; and (ii) an improvement in the marketing capacity of small farmers through advisory activities relating to marketing, exchanges, participation in fairs, and marketing events with farmers. The technical cooperation component will have three types of activities, namely: (a) implementation by farmers of climate-resilient practices; (b) improved marketing capacity among farmers; and (c) project management. As a result of this component: (i) farmers will benefit from technical assistance, training in the field, and information channeled through apps, which will enable them to implement climate change adaptation and mitigation measures in their production activities and provide them with a wide range of financial, commercial, and climate-related information; (ii) farmers and their associations will receive advisory services to help them identify new high-value markets for their products and will participate in trade fairs and exchanges with other successful farmer associations, in order to sell larger volumes at better prices; and (iii) FACES will have a new green agriculture credit product, improve its credit risk analysis software, and strengthen a green agriculture credit team in the project area, which will position it to expand its operations in this line in the area. The technical cooperation component will also cofinance contracts to hire a project coordinator and an accounting-financial assistant, as well as ex post reviews of the component. Included in the project technical files, the operations plan for the technical cooperation component describes this support in greater detail and includes an itemized budget.

10. **Project Beneficiaries:** The direct beneficiaries of the project will be the approximately 1,600 farmers and microentrepreneurs residing in northwestern Pichincha, of whom 1,160 will receive green financing to enhance their resilience to climate change and improve their yields, as well as technical assistance on issues relating to the production and marketing of their products. These farmers are low-income families living in vulnerable conditions with index of unmet basic needs that stands at 88%. The vast majority rely on income from farming, small-scale commerce, and ecotourism activities. The share of women clients is expected to increase from 20% to 30% by project completion.
11. **Expected results and capture of benefits:** The project's main beneficiaries will be some 1,600 small-scale farmers and microentrepreneurs who will receive loans, information, and specific technical assistance for their production and commercial activities, of whom at least 1,160 will use their loans to implement climate change mitigation or adaptation measures.

The expected impact on the small farmers will be reflected in the investments made to increase their resilience to the effects of climate change, improved levels of marketing and productivity through use of the apps and new technologies, greater access to green credit, and lower transaction costs. With the upgrade to the FACES app planned under the technical cooperation component, the customers in the project area will receive financial information via the apps that is in line with their cultural and educational background, which will improve their credit management capacity and financial literacy. They will also receive training in adaptive production techniques and timely information to improve their access to high-value markets. In terms of quantitative results, by month 36 of the project, it is expected that: (i) at least 400 people will adopt new resilient practices and technologies for climate change adaptation and mitigation; (ii) producers with green agriculture loans will increase their sales by 20%; (iii) FACES will disburse a total of US\$4 million in loans in the area; and (iv) the project's total gross portfolio in production loans will amount to more than US\$2,000,000.

In addition, through the advisory services planned under the technical cooperation component, FACES will have a new tool to improve its climate risk management in the form of a climate risk diagnostic assessment conducted prior to the loan, which may be built into the software for managing the credit cycle or provided via an interface, based on the experiences supported by the IDB Lab with other ECOMICRO projects (DR-M1048, NI-X1008, BO-X1011, EC-T1406, and others), from which it will be possible to extract experiences and lessons learned. This tool will represent a strong innovation for FACES by making it among the first microfinance institutions in Ecuador that has the capacity to analyze the climate risk of its loan customers and make informed financing decisions about activities that mitigate climate change effects in their production cycles. By refining this credit analysis tool in this microregion of the country, it will then be able to scale application thereof up to the entire portfolio in the country (18,000 beneficiaries), a more-than-tenfold expansion.