

## **PROJECT SUMMARY**

### **DIVERSIFICATION IN SECOND-TIER MECHANISM TO SUPPORT RURAL FINANCE (HO-M1049)**

The project will scale up the supply of rural credit in Honduras, through the diversification of credit products offered and types of institutional clients served by the José María Covelo Foundation, a not-for-profit private entity that provides second-tier financial services. For the scale-up, the project will tap into two innovative factors: (i) the provision of direct loans to local market institutions that have financing instruments (ELMIFs), specifically suppliers of agricultural inputs and technology solutions, export firms, and rural producer cooperatives. The ELMIFs are familiar with borrowers in rural and periurban areas and generally have financing programs to serve those customers, but with very little access to external financing sources, they are run primarily on capital contributions from their members; (ii) the provision of subordinated debt to a group of microfinance institutions (MFIs) that work in rural farming areas and need more net capital to leverage financing and grow their operations. Subordinated debt is an instrument that is rarely used in the Honduran microfinance market and almost not at all among MFIs working in rural agricultural areas in Honduras. The two components of the project will improve the Foundation's current capacity to meet its diversification objectives more effectively and efficiently, while expanding its operations in rural areas. A reimbursable financing component will strengthen the financing capacity of ELMIFs and MFIs, resulting in a larger portfolio volume, distributed among various types of first-tier institutions. Meanwhile, through a technical assistance component, the Foundation will fine-tune its financial products and risk assessment tools and generate others that can be transferred to ELMIFs.