

Nicaragua

**Equity investment in FINANCIERA NICARAGÜENSE DE DESARROLLO (FINDE S.A.):
a new regulated intermediary that grew out of the NGO, INSTITUTO NICARAGÜENSE DE
DESARROLLO, (FINDE)**

Client: FINANCIERA NICARAGÜENSE DE DESARROLLO (FINDE S.A)

Project number:

Beneficiaries: Nicaraguan micro-entrepreneurs

Operation: Amount and transactions: Up to US\$ 500.000 equity investment
US\$ 250.000 technical cooperation.

Term: Between 5 and 7 years

Estimated IRR: To be determined

Shareholdings: MIF will acquire approximately 15% of the capital of
FINDE S.A.

I. Project Description

Transaction. Upon conversion to a fully fledged intermediary, MIF in partnership with Desjardin and Triodos bank will purchase 40% of FINANCIERA NICARAGÜENSE DE DESARROLLO'S (FINDE S.A) CAPITAL. The international investors will join Nicaraguan investors, who will hold the remaining 60% of the capital. Among the Nicaraguan partners are two local NGO's -(FINDE and INDE) -, who will own 24% of the capital and the remaining 36% will be acquired by local individuals.

- ❑ MIF's investment will be instrumental: a) it will attract the Canadian and the Dutch investors; b) create a competitive microfinance market; c) allow the institution to grow and expand its outreach and to leverage additional liabilities from the financial markets to expand its credit portfolio.
- ❑ MIF's technical cooperation will be complemented with a local counterpart. MIF will allocate US\$ 250.000 in technical assistance which will help the institution to designing new financial services for its clientele. These new services will in turn strengthen the institutional capacity to mobilize deposits, transfer remittances from Nicaraguan migrant workers in Costa Rica and offer life insurance to microentrepreneurs.

Shareholders.

The international prospective shareholders -Desjardin, Triodos and MIF- have designed and conditioned their investment to attract a strong presence of local investors, not only local NGOs but also private personal investors who would be committed to the success of FINDE S.A. and would also guarantee the appropriate governance of the institution.

Instituto Nicaragüense de Desarrollo (INDE) and Fondo del Instituto Nicaragüense de Desarrollo (FINDE) are the main institutional investors of FINDE S.A.

The Instituto Nicaragüense de Desarrollo (INDE) was created in 1961 as an NGO whose mandate was to promote social projects sponsored by the private enterprise sector. INDE is an NGO that has over 800 medium enterprise affiliates scattered throughout the country.

The Fondo del Instituto Nicaragüense de Desarrollo (FINDE) was created in 1993 as a spin-off of INDE. FINDE's main mandate was to launch and execute a credit program oriented towards micro and small businesses. FINDE was initially funded by the German development agency GTZ.

FINANCIERA NICARAGÜENSE DE DESARROLLO (FINDE S.A.) will be the new regulated financial institution in which the international investors --Desjardin, Triodos, and MIF-- will acquire approximately 40% of the capital.

Private investors. Among the local investors are Gabriel and Javier Solórzano, together they will contribute with 15 % of the capital. Other investors are Benjamín Vives, Roger Arteaga, Ricardo Cuadra García, William Fenton Jacby S, and Jaime Lacayo who is the current manage will invest from his personal savings US \$ 60,000 in FINDE S.A.

FINDE (the NGO) did not have a technical partner. The financial technology that is applied has been developed by the institution throughout the years. Jaime Lacayo exercises a strong leadership and has emphasized the adoption of information systems, such as the development of a software package to analyze prospective clients and the use of a smart card to withdraw funds from a pre-approved credit line limit.

Beneficiaries.

It is anticipated that once FINDE S.A. is able to operate as a full fledged financial institution it will grow at a faster rate, reaching out to a wider clientele base and incorporating additional financial services to the existing ones.

	As of Dec 2001	At MIFs exit
Gross Portfolio US\$	7,238,993	20,000,000
Clients	5,282	17,000
Savings Mobilization	None	Yes
Remittances	None	Yes
Insurance	None	Yes
Institutional set up	NGO	Financial Inst.

As of December 2001 FINDE (NGO) has more than 5,000 clients, this figure will grow by a multiple of three within the next four years and the portfolio will also grow substantially once the institution is able to attract additional liabilities.

CONFIA is the other microfinancial institution that operates under the prudential regulation of the Nicaraguan Superintendency of Banks. (MIF is also considering extending a loan to CONFIA). FINDE S.A. will be the second regulated institution operating in Nicaragua. The immediate impact

of FINDE S.A. operating within the financial systems is twofold: a) it will introduce competition, widening the options to the microentrepreneurs and b) it will put additional pressure on the existing microfinance institutions to search for efficiency improvements.

Rationale of the Project: MIF's equity participation will have an important additionality effect in as much as it is expanding the private shareholdings of FINDE SA. The project will also have a strong demonstration effect to at least ten NGOs which are providing microcredit to approximately 100,000 clients. The design, implementation and documentation of this project will not be much different than similar investments that MIF has formalized in other countries, for example: with Caja de Ahorro y Préstamo los Andes (Bolivia), Financiera Calpia (El Salvador), Bangente (Venezuela), Banco de la Pequeña Empresa (Dominican Republic) and Sociedad Financiera Ecuatorial (Ecuador). MIF has developed a competitive advantage and a know-how within this cluster of transations.

II. Objectives

- General:
- a) Expand and deepen the reach-out of the Nicaraguan financial system to the microenterprise sector, particularly increasing the supply of financial products to the sector such as: savings facilities, life insurance and transfer of remittances.
 - b) Encourage competition among the formal financial institutions and to induce existing NGOs to search for efficiency.
- Specific:
- a) Accelerate the design and supply of new financial services. This will require adjustments in the current information, accounting and managerial systems.
 - b) Foster an institutional building process by supporting a new intermediary that has a successful track-record allocating credit to microenterprises and generating financial and developmental results. This new intermediary is poised to access the Nicaraguan financial sector, but will need to adjust its systems and its liability management capacity. Furthermore MIF is investing on a temporary time horizon thereby encouraging private local investor to take control of the institutions once MIF exits the investment.
 - c) MIF's technical assistance will allow to modernize and set up its savings mobilization capacity, only to the extent that this capacity is developed can FINDE S.A. become an independent sustainable institution.

	Real	Expected Results
	As of December 2001	At exit
Financials		
Assets US \$	9,619,836	21,000,000
Liabilities US \$	7,621,365	14,500,000
Equity US \$	1,998,471	6,500,000
Branches	10	15
Number of clients	5,282	17,000
Annual Profits US \$	504,907	1,450,000
Productivity		
Loans portfolio/credit officer	282	400
Monthly loans per officer	26	33

III. Value added

MIF has successfully invested in similar microfinancial institutions located in El Salvador, Bolivia, República Dominicana, Venezuela and Ecuador. The presence of MIF, Desjardin and Triodos will give FINDE S.A. a strong capital base, not only in terms of the level of solvency but also a good name which will be essential to access the financial and capital markets of Nicaragua.

MIF, Desjardin and Triodos will perform an exhaustive due diligence process and will only execute the investment once the institution is operating under the prudential regulation and control of the Superintendency of Banks. The 40% equity participation of MIF, Desjarding and Triodos will have an equivalent participation in the board of directors of the institution, it is expected that 2 out of the 5 board members will be appointed by these shareholders.

MIF will remain a shareholder approximately (5 to 7 years) – the exact date will be negotiated among the international investors and the local shareholders - upon which a put-option, given by the local investors at the time of MIF's entrance, will be executed, thus transferring the property rights to Nicaraguan investors.

The local authorities have expressed interest and support for this transaction, the reason being that in addition to the funds invested, these international investors will provide experience, lessons learned from similar institutions in different countries and an improved governance structure.

Competition. The new financial institution (FINDE S.A) will compete with the financiera CONFIA and with at least 10 other NGOs that provide credit to the microenterprise sector. The potential microenterprise sector in Nicaragua has been estimated at 500,000 clients, with no more than 20% of these being served by existing microfinance institutions. Only regulated financial institutions (Confia and Finde S.A.) are able to supply financial services different than loans, such as: leasing, factoring, credit cards, foreign exchange operations, savings account, etc.

IV. Technical Assistant

The major challenges that FINDE S.A. will face are the modernization of its liability management practices and the introduction of additional financial products that NGOs are not permitted to offer. Mobilizing deposits from the public requires not only more secure and safe facilities but also setting up policies, training of personnel, organizational and systems upgrades, and an efficient treasury department.

MIF and possibly Desjardin will co-finance these incremental and necessary expenses.

Another service that FINDE S.A. could offer to its clientele is life insurance to cover the credit risk in case of death of the clients. Desjardin offers this service to its clients and could provide FINDE S.A. with the technology.

MIF is also trying to connect FINDE S.A. with the largest bank in Costa Rica, Banco Nacional so that the transfer of remittances from Nicaraguan migrant workers to their families in Nicaragua can be sent at lower costs. Ideally, Finde S.A and Banco Nacional would set up a partnership similar to the one MIF help established between Banco Solidario and the Cajas de Ahorro de España. Banco Nacional has expressed interest in this relationship which would be compatible to an existing arrangement that they have signed with Bancentro in Nicaragua.

V. Risks of the operation

As part of the due diligence process the team will emphasize the design of mitigation strategies to the following risks: financial risk, credit risk, operational risk, liquidity risk, solvency risk, interest rate risk, and the capacity of the institution to cope with macroeconomic shocks.

It is anticipated that the transaction will be structured in close coordination with the Region 2 of the IDB and the country office who have an in depth knowledge of the status of the Nicaraguan financial markets.