

PROJECT SUMMARY

Financing Climate-Smart Agricultural Technologies for Micro and Small Enterprises and Farmers in Guatemala

(GU-L1178, GU-L1179, GU-T1315, GU-T1316)

Project Financed by the Risk-sharing Facility for Micro, Small, and Medium-sized Enterprises in the Agriculture and Forestry Sector of Mexico and Guatemala, Cofinanced by the Green Climate Fund and Implemented by IDB Lab

(RG-O1656)

The agriculture sector in Guatemala produces 14% of GDP, generates approximately 30% of the country's jobs, and accounts for some 60% of exports. This dependency on agriculture, in conjunction with its structural socioeconomic conditions (such as inequity and intense poverty in the rural sector, meager access to financing and technology for agriculture, and weak technical knowledge to intensify agricultural production), have resulted in a steady advance of the agricultural frontier. This has quickened the pace of deforestation and has made Guatemala the second most climate-change-vulnerable country in Latin America and the Caribbean.

Given this context, the project's primary objective is to strengthen the capacity of Guatemalan farmers to adapt to and mitigate climate change, by providing access to capital through digital solutions for the banking and financial industry. This is seen as a mechanism for scaling up the adoption of climate-smart agricultural technologies, to enable farmers to achieve higher productivity, steady incomes, and access to technical knowledge to manage the effects of climate change.

The project also underpins the adoption of climate-smart agricultural technologies for the benefit of farmers, by innovating the business model of microfinance institutions, such as Guatemala's Foundation for Business and Agricultural Development (FUNDEA).

FUNDEA is a microfinance institution with over 28 years' experience serving Guatemalan agriculture. Its strength is its understanding of the financial and nonfinancial needs of the sector from the standpoint of micro and small-scale business owners, farmers, and entrepreneurs. FUNDEA is also active in pioneering innovations, such as its own reinvention as a business group and its institutional digital strategy. In the context of this project, FUNDEA will continue innovating to offer farmers access to financial and nonfinancial services based on technological and digital solutions.

To achieve these objectives, IDB Lab will partner with the Green Climate Fund to provide FUNDEA with a senior loan of US\$3.9 million and a technical cooperation grant of US\$300,000. The resources will then be used to create a line of credit to finance access to technological innovations in the agriculture sector. These will include solutions to optimize water resources, such as polymers for agricultural use, rain gauges, and irrigation infrastructure and systems.

The technical cooperation component will finance the support provided to farmers, and to demonstrate the use of the agricultural technologies. It will also strengthen FUNDEA's strategy of digitalization and agroclimatic data for farmers, support FUNDEA's efforts to design and adopt a management system for analyzing environmental and social risks, and provide a model for the economic, social, and environmental impact of the proposed strategies.

The project is consistent with Guatemala's progress on, and opportunities for, telecommunications and Internet penetration, and it is reinforced by FUNDEA's field presence to help mitigate the

barriers of cultural diversity and facilitate access to basic services among the country's mostly indigenous rural agricultural population.

IDB Lab's core strategy is to promote and finance digital financial innovations and climate-smart agricultural technologies, both indirectly and directly, by participating in funds or direct investments. In contrast, the Risk Sharing Facility for Micro, Small and Medium-sized Enterprises in the Agriculture and Forestry Sector of Mexico and Guatemala, facilitates access to innovation in the agriculture sector, through financial intermediaries—actors that are close to those who most need access to financing, knowledge, and technology: i.e. farmers.

The project is aligned with the IDB Group's post-pandemic sustainable recovery strategy. The financing and technical assistance provided by FUNDEA will enable farmers to strengthen their climate-change-adaptation capacities, and will create sources of employment (green jobs).

This is the second project to be financed by the Risk-sharing Facility for Micro, Small, and Medium-sized Enterprises in the Agriculture and Forestry Sector of Mexico and Guatemala, to be cofinanced by the Green Climate Fund and implemented by IDB Lab (RG-O1656). Like the first project, this is a blended finance model designed to promote financing for climate-smart technologies—an area that has traditionally been overlooked by commercial banks, which view such projects as risky and requiring lengthy repayment terms.

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

Nonreimbursable technical cooperation grants funded with Green Climate Fund resources under the Line of Activity Project for a Risk-Sharing Facility for Micro, Small and Medium-sized Enterprises in the Agriculture and Forestry Sector of Mexico and Guatemala with the Green Climate Fund (document GN-2925) would be approved either by the President or Bank Management within the limits of approved delegated authority, as specified in the document "Proposal to Modify the Procedures for Approval of Nonreimbursable Operations" (document GN-2752-4) of 4 August 2014, approved by Resolution DE-103-14. The Bank's Board of Executive Directors would approve any nonreimbursable financing operation for projects that exceed the US\$3 million limit of that delegation of authority.