

**Abstract**  
**INCREASING THE SUPPLY OF FINANCING TO RURAL PRODUCTIVE ACTIVITIES**  
**(BO-M1011)**

**Summary**

The microfinance industry in Bolivia is one of the most developed in LAC. In spite of the industry's maturity and dynamism, a number of challenges remain. Particularly important is the gap between the availability of financial services in rural areas compared to urban areas. The high costs and riskiness of serving rural clients have discouraged many microfinance institutions – especially the larger formalized ones – from attending those markets, resulting in an undersupply of financial services. Another important challenge facing the industry is to redress the imbalance in the provision of financing to productive activities compared to commercial activities. Productive activities can have a multiplier effect on a country's economy by increasing demand for raw materials and other production inputs as well as through their heavy reliance on labor and associated services.

This project seeks to provide a line of credit, as well as a technical assistance grant to support one of the few microfinance institutions in Bolivia that distinguishes itself through its focus on the rural productive sector. The Agrocapital Foundation is a private, non-profit organization that was created in 1992 with the mission of contributing to the development of Bolivia's rural and peri-urban areas. The institution is unique in that it has been endowed with a very large equity base comparable to some of Bolivia's largest microfinance institutions. Agrocapital has not been able to meet the increasing demand for its services because its NGO status prevents it from taking client deposits thereby severely limiting the funds for on-lending. Indeed, Agrocapital has submitted a formal request to the Bolivian Superintendency of Banks and Financial Institutions to obtain FFP status. With this, Agrocapital will be able to capture client deposits and leverage its healthy equity base to greatly expand its outreach.

The goal of this project is to achieve a deepening in the total provision of financial services in rural areas of Bolivia. The specific objective is to enable the expansion of Agrocapital's lending activity by providing financing for on-lending and by supporting institutional strengthening activities aimed at helping the institution formalize. The MIF's *additionality* lies in enabling the formalization of a specialized institution serving an unattended market niche, and in providing it with a substantial portion of the capital it needs to satisfy the unmet financing needs of its clients. Agrocapital's rural focus and its expertise in lending to the productive sector differentiates it from other regulated institutions and makes its growth and formalization extremely important. Indeed, this operation is particularly interesting because of the opportunity to demonstrate to other microfinance institutions that are presently targeting urban areas that lending to the rural productive sector is viable on a large scale.