

## Ecuador : CONAFIPS COVID-19 Credit Line Project

**1. Project Information**

|                                   |  |                        |   |
|-----------------------------------|--|------------------------|---|
| Project ID:                       | P000435  | Instrument ID:         | L0435A  |
| Member:                           | Ecuador  | Region:                | Latin America and the Caribbean                         |
| Sector:                           | CRF-Finance/Liquidity  | Sub-sector:            | N/A   |
| Instrument type:                  | <input checked="" type="checkbox"/> Loan:50.00 US Dollar million<br><input type="checkbox"/> Guarantee   | Lead Co-financier (s): |   |
| ES category:                      | FI   | Borrowing Entity:      | Corporacion Nacional De Finanzas Populares y Solidarias |
| Implementing Entity:              | Corporacion Nacional De Finanzas Populares y Solidarias  |                        |   |
| Project Team Leader:              | Manuel Cervero Bárcena   |                        |   |
| Responsible DG:                   | Gregory Liu  |                        |   |
| Responsible Department:           | INF2   |                        |   |
| Project Team Members:             | Natalia Sanz, Team Member;<br>Rizal Rivai, OSD - Procurement Specialist;<br>Bernardita Saez, Project Counsel;<br>Aditi Khosla, Alternate Counsel;<br>Shonell Robinson, OSD - Financial Management Specialist;<br>Pedro Ferraz, OSD - Environment & Social Development Specialist;<br>Jiaming Yu, Project admin   |                        |   |
| Completed Site Visits by AIIB:    | Jul, 2023<br>July 23-27 , 2023 In-person monitoring mission to CONAFIPS headquarters in Quito. Review of the effectiveness conditions, POM review, procurement, environmental, social and implementation aspects of the Project<br>Dec, 2023<br>Dec 10-14, 2023 Site visit by AIIB E&S consultant, comprised of: (1) Management Interview at CONAFIPS headquarters, (2) visit to six operations under the facility |                        |   |
| Planned Site Visits by AIIB:      | Mar, 2024<br>Tentatively scheduled in Q1 2024.   |                        |   |
| Current Red Flags Assigned:       | 0  |                        |   |
| Current Monitoring Regime:        | Regular Monitoring   |                        |   |
| Previous Red Flags Assigned:      |  |                        |   |
| Previous Red Flags Assigned Date: | N/A  |                        |   |

**2. Project Summary and Objectives**

The Project's objective is to promote access to credit and meet the liquidity needs of Micro, Small and Medium Enterprises (MSMEs) in response to the COVID-19 crisis in Ecuador. This is a multisectoral credit line under the COVID19 Crisis Recovery Facility (CRF). The Project components consisted of:

1 - Capitalization of FOGEPS for special COVID-19 Program (USD 9.8 million). This Component finances the capitalization of the Fund for Guarantees of the Popular and Solidary Economy (FOGEPS) in order to respond to the liquidity challenges of MSMEs posed by the COVID-19 outbreak. CONAFIPS provides guarantees to qualified

Participating Financial Institutions (PFIs), allowing the financial inclusion of MSMEs unable to provide collateral.

2 - Credit Line Intermediated by CONAFIPS to PFIs for on-lending to MSMEs (USD 40.0 million). This Component finances the provision of lines of credit by CONAFIPS to eligible PFIs, which in turn will on-lend to MSMEs.

3 - Project Management (USD 0.2 million). This component supports the consulting services for project management, implementation, monitoring, and project audits. Eligible expenditures include i) the hiring of local consultants to support the PIU in the implementation, reporting, and monitoring of the Project and ii) the hiring of consulting firms to carry out Project-level external audits.

### 3. Key Dates

|                |               |                        |               |
|----------------|---------------|------------------------|---------------|
| Approval:      | Nov. 25, 2020 | Signing:               | May. 04, 2023 |
| Effective:     | Sep. 28, 2023 | Restructured (if any): |               |
| Orig. Closing: | Feb. 28, 2023 | Rev. Closing (if any): | Feb. 28, 2025 |

### 4. Disbursement Summary (USD million)

|                   |       |                                       |                     |
|-------------------|-------|---------------------------------------|---------------------|
| Contract Awarded: |       | Cancellation (if any):                | 0.00                |
| Disbursed:        | 25.00 | Latest disbursement (amount/date):    | 25.00/Nov. 02, 2023 |
| Undisbursed:      | 25.00 | Disbursement Ratio (%) <sup>1</sup> : | 50.00               |

### 5. Project Implementation Update

The loan facility (L0435A) was declared effective on September 28, 2023, and has been disbursed as follows: First disbursement: Under advance and reimbursement methods, for USD 25,000,000, made on November 5, 2023. As of December 2023, the capitalization of the FOGEPS guarantees line for USD 9.8 million was completed. The utilization of this specific line is scheduled for 2024 and will be directed toward eligible PFIs. Regarding Component 2, part of the initial disbursement (USD 10 million) was allocated to reimburse operations conducted by CONAFIPS up to the signing date on May 4<sup>th</sup> 2023. Currently, 2,481 placements have been made in second-floor operations within the eligible productive sectors and PFIs, benefiting more than 2,400 beneficiaries, 57% of whom were women. Approximately half of the operations are directed towards the agri-food sector (51%), followed by the textile manufacturing segment (16%) and cellular and radiotelecommunication components (5%). CONAFIPS relies on its internal Environmental and Social Management System (ESMS) called "*Sistema de Análisis de Riesgos Ambientales y Sociales*" ("SARAS") to manage, monitor and report on environmental and social aspects of the project. Other MDBs use the same ESMS system for their E&S implementation. AIIB assessed and confirmed CONAFIPS' technical capacity to implement their own ESMS called SARAS. As of December 2023, all operations are classified as low environmental risk by the SARAS system. One of the project's challenges and which is an added value of AIIB's participation is to assist CONAFIPS in implementing the SARAS system in the eligible PFIs that are carrying out operations within the AIIB credit line. In addition to monitoring and supervising the loan implementation, an E&S external consultant advises and conducts training sessions and capacity-building programs to implement the ESMS in clients and beneficiaries.

<sup>1</sup> Disbursement Ratio is defined as the volume (e.g. the dollar amount) of total disbursed amount as a percentage of the net committed volume.

| Components  | Physical Progress  | Environmental & Social Compliance   | Procurement  |
|---|--|---|--|
| Component 1. Capitalization of FOGEPS for special COVID-19 Program (USD 9.8 million).               | The FOGEPS Guarantees line has been capitalized and is in operation. The utilization of this specific line is set for 2024 and will be directed toward eligible PFIs.  | In compliance, subject to individual client assessment. No E&S red flags were identified during the last physical E&S mission (Dec 2023), when the E&S external consultant conducted a sample visit to 6 MSMEs under consideration. The H2 2023 E&S monitoring report was submitted and is currently under review by the external consultant. The Borrower also provided a comprehensive and detailed update of the portfolio's E&S performance during the monitoring mission in Dec. 2023. The Borrower is considered substantially in compliance with the key project covenants related to E&S. | In compliance, subject to individual client assessment. No Procurement red flags were identified during the last physical mission in Jul. 2023. The Borrower provided a comprehensive overview of the portfolio implementation from a procurement standpoint during the last mission. The Borrower is considered substantially in compliance with the key contract covenants related to Procurement. |
| Component 2. Credit Line Intermediated by CONAFIPS to PFIs for on-lending to MSMEs (USD 40 million) | Implementation of the credit line has accelerated substantially during Q4/2023, after the first disbursement. As of today, 2,481 operations have been carried out, benefiting more than 2,400 beneficiaries. | In compliance, subject to individual client assessment. No E&S red flags were identified during the last physical E&S mission (Dec 2023), when the E&S external consultant conducted a sample visit to 6 MSMEs under consideration. The H2 2023 E&S monitoring report was submitted and is currently under review by the external consultant. The Borrower also provided a comprehensive and detailed update of the portfolio's E&S performance during the monitoring mission in Dec. 2023. The Borrower is considered substantially in compliance with the key project covenants related to E&S. | In compliance, subject to individual client assessment. No Procurement red flags were identified during the last physical mission in Jul. 2023. The Borrower provided a comprehensive overview of the portfolio implementation from a procurement standpoint during the last mission. The Borrower is considered substantially in compliance with the key contract covenants related to Procurement. |

**Financial Management:**

CONAFIPS maintains adequate financial management arrangements. Based on the loan reporting and the physical mission conducted in Dec. 2023, there is evidence of proper review, authorization, and segregation of duties over the projects' transactions. No significant internal control deficiencies were identified. The Borrower is in compliance with the key project covenants related to Financial Management.

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**6. Status of the Grievance Redress Mechanism (GRM)**

CONAFIPS has established an External Communication Mechanism (ECM), a GRM equivalent for financial intermediaries, and requires sub-borrowers to establish a GRM at the sub-project level. CONAFIPS indicates that GRMs have been established and grievances received at the sub-project level are generally addressed and closed within determined timelines. Reportedly, no complaint regarding the AIIB credit Line was filed via CONAFIPS' ECM, as confirmed during the virtual E&S visit of Dec. 2023. CONAFIPS ECM website:  
<https://www.finanzaspopulares.gob.ec/denuncias/>

**7. Results Monitoring (please refer to the full RMF, which can be found on the last page of this PIMR)**

**Remarks:**

Provisional numbers based on completed operations (reimbursement). The values will be defined during the implementation period.

| Project Objectives Indicators                                      | Indicator level | Unit Measure of | Cumulative Target Values |       |        |        |        |        |        |        |        |        |        |        |            |        |        | Frequency | Responsibility | Comments |
|--|-----------------|-----------------|--------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|--------|--------|-----------|----------------|----------|
|  |                 |                 | Baseline                 |       | 2022   |        | 2023   |        | 2024   |        | 2025   |        | 2026   |        | End Target |        |        |           |                |          |
|  |                 |                 | Year                     | Value | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Year       | Target | Actual |           |                |          |
| Number of credits to final beneficiaries delivered with AIIB funds | Project         | Number          | 2022                     | 0     | 0      | 0      | 703    | 2,481  | 2,112  |        | 3,520  |        | 4,929  |        | 2027       | 7,042  |        |           |                |          |
| Number of guarantees delivered with AIIB funds                     | Project         | Number          | 2022                     | 0     | 0      | 0      | 127    | 0      | 377    |        | 627    |        | 877    |        | 2027       | 1,252  |        |           |                |          |
| Number of final credit beneficiaries receiving AIIB funds          | Project         | Number          | 2022                     | 0     | 0      | 0      | 586    | 2,424  | 1,760  |        | 2,934  |        | 4,108  |        | 2027       | 5,868  |        |           |                |          |

| Project Intermediate Indicators  | Indicator level | Unit Measure of | Cumulative Target Values |       |        |        |        |        |        |        |        |        |        |        |            |        |        | Frequency | Responsibility | Comments |
|--|-----------------|-----------------|--------------------------|-------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|------------|--------|--------|-----------|----------------|----------|
|  |                 |                 | Baseline                 |       | 2022   |        | 2023   |        | 2024   |        | 2025   |        | 2026   |        | End Target |        |        |           |                |          |
|  |                 |                 | Year                     | Value | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Target | Actual | Year       | Target | Actual |           |                |          |
| Number of final beneficiaries receiving guarantees with AIIB funds   | Project         | Number          | 2022                     | 0     | 0      | 0      | 106    | 0      | 314    |        | 523    |        | 731    |        | 2027       | 1,043  |        |           |                |          |
| Component 1: Financial Inclusion Program - AIIB's program default rate should be less than 50% of the public financial sector default rate | Project         | %               | 2022                     | 0     | 0      | 0      | <50    | <1     | <50    |        | <50    |        | <50    |        | 2027       | <50    |        |           |                |          |