

Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division,
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: United Mexican States

Project: Microfinance Project for Women-owned Businesses

Loan Agreement: March 24, 2021

Borrower: Banco Compartamos S.A., Institucion de Banca Multiple ("Compartamos")

2. Background and Necessity of the Project

(1) Current State and Issues of the Microfinance Sector in Mexico

Mexico is advanced in economic development. With a per capita GNI of 9,430 dollars (2019), it ranks as an upper-middle-income country or higher. Yet a large gap exists between the rich and poor, with a high concentration of riches on the wealthy few. The country's Gini index stands at 0.454 (2018). In fact, poverty remains a serious problem in Mexico. Although the proportion of people living in absolute poverty is only 1.7 percent (2018)--a figure comparable to other Central American countries, a large population means that the country has many poor people in absolute terms. The four southern states of Chiapas, Oaxaca, Guerrero, and Puebla ("the four poorest states") fare especially poorly, with their Human Development Index hovering around 0.71, compared with 0.78 for the national average, according to UNDP.

The Mexican government's National Development Plan 2019-2024, released in April 2019, calls for promoting the development of an inclusive financial system as part of efforts to achieve equal, sustainable, and balanced economic growth across the country. It places a special emphasis on the need to prioritize improved access to finance for the poor. On national average, 32 percent of adults lack access to financial services in Mexico. The figure is as high as 40 percent in the southern region, where the four poorest states are located. People in the region have less access to financial institutions, including microfinance institutions ("MFIs"), than in other regions, according to the World Bank. The percentage of the population with assets is characteristically low. The figure is especially low among small businesses, which account for 70 percent of the domestic working-age population--especially those owned by women, according to the World Bank and Mexico's finance ministry. A significant gender gap is noted by the Inter-American Development Bank, which estimates that the percentage of adults with access to credit services (investment and financing services) is 33 percent for men and 29 percent for women. The Mexican

government states that it is committed to promoting development in the country's poor areas, including the four poorest states, based on the Central America-Mexico Comprehensive Development Plan, released in May 2019 by the UN Economic Commission for Latin America and the Caribbean. Poverty is a driver for migration from Mexico to the United States.

The Project is designed to support the microfinance arm of Compartamos, the largest MFI in Mexico, which is facing the situation described above. The bank focuses on those whose monthly income is below the national average. Some 90 percent of its existing clients are women. As it stands, 17 percent of its outstanding microfinance loans are for the four poorest states. The Project plans to allocate at least 40 percent of JICA loans to these states. The Project is expected to help improve financial access for small and women-owned businesses in these states, to which the Mexican government attaches importance.

(2) Japan and JICA's Policy and Operations in the Microfinance Sector

Japan's Country Assistance Policy for the United Mexican States, released in April 2014, sets out the basic policy of supporting sustainable growth toward an inclusive Mexico. Identifying industrial promotion as one of its priority areas, this policy calls for development cooperation for small and medium-sized enterprises (SMEs) and wider supporting industries. As part of its efforts to address social issues associated with an increasingly sophisticated economy in the country, JICA also intends to assist the economic self-sufficiency of low-income earners through the Project. Such assistance to the four poorest states is expected to contribute indirectly to reducing emigration to the US. In that sense, the Project will support the pursuit of economic prosperity under the Vision for a Free and Open Indo-Pacific.

Furthermore, the Project will contribute to the 2X Challenge: Financing for Women, an initiative to which Japan made financial commitments with other G7 members.

(3) Other Donors' Activity

This Project involves co-financing with USDFC and Citi.

3. Project Description

(1) Project Objective: The Project is designed to improve access to finance for small businesses, especially those owned by women, through lending to the microfinance business that Compartamos conducts across Mexico, including four of the poorest states; i.e., Chiapas, Oaxaca, Guerrero, and Puebla, thereby contributing to supporting the economic self-sufficiency of low-income earners in the country.

(2) Project Site / Target Area: Mexico as a whole

(3) Project Components: Lending under the Project will finance loan funds for the microfinance business that Compartamos conducts across Mexico and support the bank's plan to expand the business. At least 40 percent of the 50 million dollars provided by JICA will be allocated to the poorest states.

(4) Environmental and Social Consideration / Cross-sectoral Issues / Gender Categorization

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The Project is likely to have a minimal adverse impact on the environment as defined by the JICA Guidelines for Environmental and Social Considerations of April 2010.

2) Category of Gender: ■GI(P) (women-targeted project)

<Reason for Categorization> The Project is categorized as a women-targeted project, because it focuses mainly on women-owned businesses and aims to support women's empowerment by improving their access to finance. We plan to apply for the recognition of the Project as a 2X Challenge project.

3) Cross-Cutting Issues: None in particular.

(5) Other Important Issues

The Project involves co-financing with USDFC's guarantee scheme. Collaboration with Other Donors

4. Targeted Outcomes

(1) Quantitative Effects

Quantitative effects will be assessed by measuring the increase in the amounts of microfinance in Mexico as a whole and the four poorest states (including the increased amount for women-owned businesses).

(2) Qualitative Effects

Improved income for small businesses (especially those owned by women)

5. External Factors and Risk Control

None in particular.

6. Lessons Learned from Past Projects

The ex-post evaluation of the Agricultural Credit for Rural Development and Job Creation Project, an ODA "two-step" loan project through the Bank for Agriculture and Agricultural Cooperatives in the Kingdom of Thailand, stressed the importance of

developing the appraisal and risk management capacity of the intermediary financial institution for sustainable operations. Our appraisal has found that Compartamos has a standardized system in place for appraisal, loan management, and risk management, supported by 15,128 employees and 776 branches across the country. Since its foundation in 1990, the bank has been growing steadily. There is no particular concern with its appraisal and risk management capacity, although its financial performance for 2020 was affected by the COVID-19 pandemic.

7. Evaluation Results

The Project will likely contribute to five of the SDGs: Goal 1 (No Poverty), Goal 5 (Gender Equality), Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry, Innovation and Infrastructure), and Goal 17 (Partnerships for the Goals). All these aspects suggest that it is highly relevant to support the implementation of the Project.

8. Plan for Future Evaluation

- (1) Indicators to be Used: As shown in Section 4 above.
- (2) Timing: At the settlement of accounts in December 2024 (planned)

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