

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: Federal Republic of Brazil (Brazil)

Project: MSME Financial Access Improvement Project in Brazil

Loan Agreement: February 4, 2022

2. Background and Necessity of the Project

(1) Current State and Issues of the Development of the MSME Sector in Brazil

Micro, Small and Medium Enterprises (MSMEs) in Brazil contribute 30% of the country's GDP, and 62% of its employment. However, financing to MSMEs in Brazil has not increased. Negative growth of GDP from 2015 to 2016 resulted in credit in Brazil being concentrated in large enterprises, and the percentage of the domestic credit balance of MSMEs is decreased from 55% in 2007 to 36% in 2018 (OECD, 2020).

Moreover, the socio-economic disparities between the southern states and northeastern states. There is a lot of poverty in northern and northeast states. The per capita GDP in northern and northeastern states is considerably lower than other regions, and the number of financial institutions per municipality is also limited compared to the southern and southeastern regions (the former has 32.1% of the country's municipalities but only 13.8% of the country's financial institutions, while the latter has 51.2% and 75.1% respectively), which is also considered to lead to disparities in access to finance for MSMEs.

Financial access for Women-owned and operated MSMEs (WMSMEs) is also an challenge. Among WMSMEs, 45% raised access to finance as an operational concern, and Brazil has the biggest funding gap for WMSMEs in Latin America. (IFC, 2014)

To tackle this situation, the Brazilian government has been promoting the "Plano Mais Brasil (Brazil's Further Leap Plan)" as a policy to promote economic growth since 2019. In "Prospera Micro e Pequena Empresa (Micro and Small Enterprise Prosperity Program)", the MSME support measure, aligned to the plan, they are promoting supports such as various consulting services and training programs for entrepreneurs. However, the MSME funding gap of \$626 billion

(35% of GDP) is large (IFC, 2017), and limited access to finance for MSMEs continues to be challenge for socioeconomic development in Brazil.

In addition, the spread of the coronavirus (COVID-19) and the implementation of restrictive measures has had a large impact on the economy, and MSMEs have suffered a big blow, accounting for 75.9% of the bankruptcy filings in Brazil.

Under these circumstances, this project will support the expansion of loans to MSMEs by the private financial institution BTG Pactual. Since 2019, BTG Pactual has been providing loans through its internet platform, and extending loans to MSMEs quickly, enabled by rapid credit operations through data analysis. In this project, more than 35% of the financing from JICA is allocated to the MSMEs in northern and northeastern states, and another 30% will also be allocated for WMSMEs, which exceeds the 2X Challenge standard. Therefore, the project complies with Brazil's developmental issues and the policies of the Brazilian government.

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

In Japanese Government's "Country Assistance Policy" for Brazil (2018), improving the investment environment is raised as ways of contributing to enhancing industrial competitiveness to promote economic growth. In JICA's Country Analysis Paper (2016), promoting investment is one of a priority area to strengthen economic mutually beneficial relationships, and direct support for private enterprises that contribute to economic and social development.

In November 2020, in "Japan-U.S.-Brazil Trilateral Exchange", it is focused on (1) strengthening policy coordination on regional issues, (2) pursuing shared economic prosperity, and (3) fortifying democratic governance. This project makes strengthening the private sector a priority area and contributes to (2), therefore it is highly meaningful to support the implementation of the project.

3. Project Description

(1) Project Objective

The object of this project is to improve access to finance for MSMEs in Brazil, by providing a long-term financing to BTG Pactual, thereby contributing to sustainable economic growth, rectifying regional disparities, and promoting women's economic empowerment.

(2) Project Site/Target Area

The whole country of Brazil

(3) Project Component

This project's financing will be used by BTG Pactual to loan to MSMEs throughout Brazil. 35% of the total amount will be allocated to the MSMEs in northern and northeastern regions, and another 30% will be allocated to WMSMEs, which meet the 2x Challenge criteria.

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

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: Based on the "Japan International Cooperation Agency Environmental and Social Consideration Guidelines" (announced in April 2010), this project's undesirable impact on the environment is considered to be minimal.

2) Gender Category:

■GI (P) (Project mainly benefiting women)

<Reason for Categorization> This project is carried out with female business operators as one of its main target groups, and as it's an initiative that contributes to female empowerment through improved financial access, it's classified as a project where women receive the main benefits, and we plan to apply to have it recognized as a 2X Challenge project.

3) Cross-Cutting Issues: None in particular.

4. Targeted Outcomes

(1) Quantitative Effects: Measure the increase in the number of MSMEs borrowers (cases) under the JICA loan, the increase in the number of MSMEs borrowers (cases) in the northern and northeastern regions under the JICA's financing, the increase in the number of borrowers (cases) of MSME loans that exceed the 2X Challenge standard due to the JICA's financing, and the loan balance for MSMEs (million real). Note that the internal rate of return is not calculated as a subproject has not been specified.

(2) Qualitative Effects: Preserving and creating employment in MSMEs sector, rectifying disparities between the northern and northeastern regions and the

other regions, and alleviating gender inequality.

5. External Factors and Risk Control

- (1) Prior Conditions: None in particular
- (2) External factors: None in particular

6. Lessons Learned from Past Projects

The Republic of Egypt “Micro Enterprise Assistance Project” (ODA loan) reported that the loan repayment rate from the final borrower was extremely high. This was considered to be as a result of the borrower carrying out proper credit judgements and monitoring activities, the utilization of local NGOs who were well acquainted with the credit standing of the final borrower, and the provision of a varied menu of support, including non-financial support for the final borrower and intermediary financial institutions (specifically project formulation surveys, commercial registration procedures, business matching, marketing, and holding exhibitions for products), which led to a stable loan performance of the borrower. The lesson learned is that it’s important to understand the implementing agency’s and intermediary financial institutions’ loan implementation system and menu of non-financial support, when formulating similar types of projects.

In this project, as BTG Pactual’s judgement and risk management ability was examined, it was confirmed that there were no particular concern. It was also confirmed that a full range of non-financial support was provided through their online platform “BTG+Business,” such as legal affairs and marketing support.

7. Evaluation Results

As described above, this project is consistent with Brazil’s developmental issues and policies, as well as Japan’s cooperation policies, its necessity has been acknowledged, the project plan is appropriate and there is a sufficient expectation of success, so it is highly meaningful 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
Ex-post evaluation: 2025

End