

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: Republic of Colombia ("Colombia ")

Project: Micro, Small and Medium Enterprises Development Project

Loan Agreement: March 18, 2022

2. Background and Necessity of the project

(1) Current status and Issues of the Development of the MSME Sector in Colombia:

In Colombia, the fourth largest economy in the Latin American region, Micro, Small and Medium Enterprises ("MSMEs") MSMEs are an important foundation of Colombia's social economy. The unemployment rate in the country was 10.72% and the second highest after Costa Rica in this region. Thus, the promotion of small, medium, and micro enterprises, which account for the majority of employment generation, is an important issue for Colombia. On the other hand, 62% of the country's MSMEs are reported to lack adequate access to finance. MSME lending in Colombia has not grown significantly, with an estimated fund gap of approximately \$56.2 billion USD (19% of GDP), indicating the necessity to improve access to finance for MSME growth.(IFC (2017)).

The Colombian government has identified in its National Development Plan (Plan Nacional de Desarrollo (2018-2022)), improving access to finance as an issue in the promotion of micro, small, and medium enterprises. Various MSME support policies have been implemented under the Ministry of Commerce, Industry, and Tourism, including strengthening productivity in various sectors through government-affiliated financial institutions, improving access to finance, promoting exports, promoting digitalization, and encouraging investment in research and development.

Under these circumstances, this project aims to improve MSMEs' access to finance through Davivienda, a local financial institution with operations throughout Colombia. Davivienda is also actively engaged in lending to women-owned MSMEs ("WMSMEs"). In addition, Davivienda is actively engaged in financing for women-owned MSMEs ("WMSMEs"), and will allocate more than 30% of the JICA loan amount to WMSMEs which meet the 2X Challenge criteria.

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

In Japanese Government's "Country Assistance Policy" for the Republic of Colombia" (May 2021) sets "support for balanced and sustainable socio-economic development aimed at consolidating the peace process" as its basic policy and focuses on "balanced socio-economic development in the implementation phase of the peace process" to foster new industries and improve productivity. The policy also includes support for the private sector in accessing funds to support intellectual production activities and quality improvement. In recent years, the Oita OVOP Colombia Promotion Project (2014-2020), a technical cooperation project to support the revitalization of the local economy,

and the Technical Cooperation "OVOP for Inclusive Regional Development Regional Branding Project" (from 2021), etc., and the improvement of MSME's access to finance is expected to contribute to the further promotion of rural development. As described above, this project contributes to strengthening access to private sector funds, and is therefore consistent with the issues facing the sector and Japan's cooperation policy.

3. Project Description

(1) Project Objectives

The objective of this project is to improve MSMEs' access to finance throughout Colombia by providing a long-term loan to Banco Davivienda, thereby contributing to sustainable economic growth.

(2) Project Site/Target Area

Whole Country of Colombia

(3) Project Component

The loan for this project will be sub-loaned by Davivienda to MSMEs. In addition, at least 30% of the JICA loan disbursement will be used to finance MSMEs which meet the 2x Challenge criteria.

(4) Environmental and social considerations/ Cross-cutting issues/ Gender classification

1) Environmental and Social Considerations

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) Gender Classification:.

GI (S) Gender Activity Integration Projects

<Reason for Categorization> This project does not include goals related to the promotion of women's empowerment in the project goals, but explicitly incorporates specific initiatives that contribute to gender equality and women's empowerment.

3) Cross-cutting issues: none in particular.

4. Targeted Outcomes

(1) Quantitative Effect: Measure the number of borrowers of MSME loans increased under JICA loan (number of loans) , the number of borrowers of MSME loans which meet the 2X Challenge criteria under JICA loan (number of loans) and outstanding loans to MSMEs (billion COP).

(2) Qualitative effects: improved MSME access to finance.

5. External Factors and Risk Control

(1) Prerequisite: None in particular

- (2) External conditions: None in particular

6 . Lessons Learned from Past Projects

In “Micro Enterprise Assistance Project” (ODA loan) in the Republic of Egypt, the loan repayment rate from the final borrower is reported to have been very high. This is considered as the result of appropriate credit judgment and monitoring activities by the borrowers. However, the use of local NGOs that are familiar with the credit information of the final borrowers and non-financial support to the final borrowers and intermediary lending institutions (specifically, case formation surveys, commercial registration procedures, business matching, marketing, and product exhibitions), which is believed to have contributed to the solid loan performance of the borrowers. It is key, when forming a deal for a similar project, to confirm the existence of the loan implementation system, non-financial support menu and intermediary lending institutions.

In this project, it was confirmed that there were no particular concerns for Davivienda's screening and risk management capabilities. As for non-financial support, Davivienda provides substantial support through its website, including know-how information and management tools (various applications, etc.) necessary for starting and running a business.

7 . Evaluation Results

The Project will likely contribute to five of the SDGs: Goal, Goal 5 (Gender Equality), Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry, Innovation and Infrastructure), Goal 10 (Reduced inequalities) and Goal 17 (Partnerships for the Goals). All these aspects suggest that it is highly relevant to support the implementation of the Project

Goal 5 (Gender Equality):

- Target 5.5. Ensure women’s full and effective participation and equal opportunities for leadership at all levels of decision-making in political, economic and public life.

Goal 8 (Decent work and economic growth):

- Target 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

Goal 9 (Industry, innovation and infrastructure):

- Target 9.3 Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

Goal 10 (Reduced inequalities).

- Target 10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity,

origin, religion or economic or other status.

8 . Plan for Future Evaluation

(1) Indicators to be Used

As shown in Section 4 above.

(2) Timing

Ex-post evaluation: 2026