

Ex-Ante Evaluation
Private Sector Investment Finance Division 2
Private Sector Partnership and Finance Department, JICA

1. Name of the Project

- (1) Country: The Republic of Costa Rica (“Costa Rica”)
 - (2) Project: Project to strengthen financial inclusion for Micro, Small and Medium-sized enterprises
 - (3) Project Site / Target Area: The whole countries in Costa Rica
- L/A signing date: March 22, 2023

2. Background and Necessity of the Project

- (1) Current State and Issues of the Micro, Small and Medium-sized Enterprise (“MSME”) Sector in Costa Rica

In Costa Rica, MSME account for 97.5% of the 130,300 domestic registered enterprises. Micro enterprise compose of 80.8% of them, while small and medium sized enterprise account for 12.6% and 4.0%, respectively. MSME play an important role in the Costa Rican economy, accounting for 35.7% of GDP and creating 34% of domestic jobs (Source: Costa Rica Ministry of Economy, Industry and Commerce, 2019). The country's unemployment rate in 2021 is 13.7%, making MSME increasingly important for stabilizing employment. However, 41% of MSME face challenges in accessing finance as financial institutions are cautious about MSME credit risk, which is considered a major barrier to further MSME growth. The overall MSME financing gap is estimated US\$4,765 million, which is comparable to about 9% of GDP (World Bank, 2017).

Under these circumstances, the Costa Rican government established the Fund for the Development of Small and Medium-sized Enterprises (“FODEMIPYME”) in 2004, tied to Law 8267 “Strengthening of Small and Medium-sized Enterprises” as well as a national development fund “FONADE” in 2018, tied to the Development Banking System (“SBD”) Law to improve MSME's access to finance. Moreover, the National Development and Public Investment Plan for 2019-2022 states that the government will further improve MSME financial access with the aim of promoting innovation, productivity, and job creation. On the other hand, the size of the both funds totals around US\$433 million as of 2018, which remains inadequate for the financing needs.

Banco Improsa, a local financial institution in Costa Rica, has positioned lending to MSME as its main business through management support and other measures to MSME. This project aims to improve access to finance for MSME through Banco Improsa. In addition, the project is expected to contribute to the promotion of women's economic empowerment as a secondary effect by targeting enterprises owned and/or run by women (WMSME) as more than 30% of beneficiaries which is above the 2X Challenge criteria.

- (2) Japan’s and JICA’s Cooperation Policy and Operations on MSME
Country Development Cooperation Policy for Costa Rica (January 2017) identifies

disparity reduction as a priority area. In addition, the Rolling Plan for Costa Rica (April 2021) positions supports for regional production infrastructure and small and micro enterprises as a priority issue. As efforts to contribute to technological upgrading and strengthening international competitiveness for the development and promotion of MSME, which are necessary for the country's sustainable growth, JICA has supported various measures in this country.

3. Project Description

- (1) Project Description
 - ① Project Objective: This project aims to improve financial access to MSME, including WMSME by providing a long-term loan to Banco Improsa, thereby contributing to the promotion of MSME in Costa Rica.
 - ② Project Components: JICA's long-term loan to Banco Improsa will be sub-loaned as MSME financing, in which above 30% of funds will be distributed to WMSME.
 - ③ Project Beneficiaries(Target Group)
MSME and WMSME in Costa Rica
- (2) Estimated Project Cost: 15 million U.S. dollars
- (3) Schedule (Cooperation Period): March 2023 – March 2030
- (4) Project Implementation Structure
 - 1) Borrower: Banco Improsa S.A
- (5) Collaboration and Sharing of Roles with Other Donors
 - 1) Japan's Activity : None
 - 2) Other Donors'Activity : Co-financing with USDFC, COFIDES
- (6) Environmental and Social Considerations
 - ① Category Classification: C
 - ② Reason for Categorization: This project is based on the "JICA Guidelines for Environmental and Social Considerations" (promulgated in April 2010), because subprojects have minimal undesirable effects on the environment.
 - ③ Others / Monitoring: N/A
- (7) Cross-Sectoral Issues: N/A
- (8) Gender Classification
GI(S): Gender Integration Project
The project is expected to improve women's access to finance and promote their empowerment. The project has set the ratio of loans to women as a quantitative effectiveness indicator, and 48% of Banco Improsa's employees are women. We plan to apply for certification of this project as a 2X Challenge project.
- (9) Other Important Issues
None in particular

4 . Targeted Outcomes

(1) Quantitative Effects

Outcomes (Operation and Effect Indicators)

index-name	Baseline (Actual value in Dec. 2021)	Target (2028) (6 years after the project started)
Total value of loans to SMEs (millions Colons)	166,398	218,056
Total number of new SMEs to which the Borrower provides loans for the first time after Disbursement under this Agreement	0	282
Total number of new Women-Owned SMEs to which the Borrower provides loans for the first time after Disbursement under his Agreement	0	85

(2) Qualitative Effects

Promotion of MSME and women's empowerment.

5 . Lessons Learned from Past Projects

N/A

6 . Lessons Learned from Past Projects

The results of the ex-post evaluation of the “Micro Enterprise Assistance Project” (evaluation year: 2017), Japanese ODA loan for the Republic of Egypt, pointed out that the loan repayment rate from the final borrower was quite high. This is reportedly the result of appropriate credit decision making and monitoring activities by the borrower, but there were also factors such as the use of local NGOs familiar with the credit profile of the final borrower and the provision of various non-financial support to the final borrower and intermediary lending institutions (e.g., the feasibility studies for deal formation, the support for commercial registration procedures, business matching, marketing, holding exhibitions of products, etc.). JICA has learned the lesson that it is important to understand the credit system and non-financial support menu of the borrower and intermediary lenders when forming a project for a similar project.

In this project, Banco Improsa's screening and risk management capabilities are examined through the due diligence, and confirmed that there were no particular concerns

about their capacity. In addition, we confirmed that Banco Improsa has a wide range of non-financial support services, including a plan to provide training for MSME through the "Portal de Especialistas," a digital tool for MSME.

7 . Evaluation Results

This project is in line with Costa Rica's development challenges and policies, as well as the cooperation policy and analysis of Japan and JICA, and will contribute to sustainable economic growth through improving MSME access to finance. The support through PSIF loan is highly significant because it is considered to contribute to SDGs Goal 5 (Gender Equality), 8 (Decent Work and Economic Growth), 9 (Industry and Innovation Infrastructure), and 17 (Partnership)

8 . Plan for Future Evaluation

- (1) Indicators to be Used : As described in Section 4.
- (2) Future Evaluation Schedule (Estimate)

Ex-post evaluation is planned approximately 6 years after the L/A signing date.

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