

Ex-Ante Evaluation (for PSIF Loan)

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

1. Basic Information

Country : Republic of Ecuador

Project name: Project for sustainable portfolio and MSMEs

L/A signing date: March 27, 2023

Borrower: Banco de la Producción S.A Produbanco ("Produbanco")

2. Background and Necessity of the Project

(1) Current status and Issues of the agriculture, fisheries, and SME sectors in Ecuador

Currently, in the Republic of Ecuador (hereinafter "Ecuador"), oil and oil-related industries currently account for 32.2% of exports (in 2021 (Ministerio de Producción, Comercio Exterior, Inversiones y Pesca; hereinafter referred to as "MPCEIP"). The government of Ecuador faced a difficult economic and fiscal situation due to the decline and slump in oil prices since the end of 2014, as well as the impact of the 2016 earthquake, and requested assistance from the International Monetary Fund ("IMF") in 2019. The country is vulnerable to oil price volatility, as the further deepening economic crisis associated with the new coronavirus pandemic has led to a review of existing financial assistance programs. Under these circumstances, the country urgently needs to break away from its oil-dependent economic structure and establish a stable economic foundation.

Therefore, the Ecuadorian government is working to develop and strengthen agriculture (banana (12.7%), cacao (3.1%), coffee, etc.) and fisheries (shrimp farming (19.9%), etc.), which are major export industries after oil-related industries (source: MPCEIP). On the other hand, Ecuador's efforts to promote agriculture, forestry, and fisheries have a high environmental impact. For example, the expansion of agricultural land and shrimp aquaculture ponds has caused the deforestation of tropical forests and the reduction of mangrove forests. The Lasso administration, which was inaugurated in May 2021, has been promoting the Transición Ecológica (Ecological Transition), which aims to build a sustainable circular economy that takes the natural environment into consideration. Transición Ecológica, is at the heart of its policies. In its National Development Plan "Plan de Creación de Oportunidades 2021-2025" (September 2021), the government has set "conservation, restoration, protection and sustainable use of natural resources" as a goal in the area of ecological transition, and the policy to achieve this goal is "the sustainable use of nature". The policy to achieve this goal is "to promote the reduction of deforestation and ecosystem decline through the sustainable use and utilization of natural heritage.

In this project, 50% of the JICA loan amount will be sub-loaned to projects in the environmentally friendly industries contributing to climate-smart agriculture water treatment efficiency, and the development of plastic products that contribute to marine conservation which are aligned with IFC's Green Bond Framework and Blue Finance Framework. In Ecuador, financing and loans dedicated to this industry are limited, and the cycle of growth through loans and technical assistance/monitoring such as this project for the final borrower has not yet been established. This project is expected to foster the development of this sector by strengthening the financial framework specialized for environmentally friendly industries that have a high potential for leading as well as providing funds.

The promotion of MSMEs is also an important issue for the country's economy: according to INEC statistics, MSMEs accounted for 99.5% of the total number of private companies in Ecuador at the end of 2020. MSMEs also account for 60.4% of total

employment and play an important role in the Ecuadorian social economy (INEC, October 2021). On the other hand, the country's MSME funding gap is \$17,938 million (81.58% short of funding needs, equivalent to 16.9% of GDP), a larger gap than in neighboring countries (24.78% short in Peru and 43.36% in Bolivia) (SME Finance Forum, 2018), MSME financing needs have not been adequately addressed; Ecuador's lending to the private sector in 2021 was relatively low compared to neighboring countries at 34% of GDP, and limited access to financial services is one of the factors contributing to the country's widespread poverty and low income, and the failure of industry development efforts by successive governments (Economic Intelligence Unit, "Industry Report Financial Services Ecuador, 2nd Quarter 2022").

In this situation, the Ecuadorian government has set "industrial development focusing on the development of the circular economy" as one of the goals of the economic sector in the National Development Plan mentioned above, and as a concrete measure to realize this goal, it states that it will "strengthen the capacity of small and medium producers to conduct sustainable economic activities through credit and technical assistance," and it is committed to providing support to MSMEs. The plan also includes a commitment to support MSMEs.

Under this project, 40% of the JICA loan amount will be allocated to MSMEs in Ecuador. In addition, 10% of the JICA loan amount will be allocated to WMSMEs to improve access to finance for MSMEs.

As mentioned above, this project aims to foster environmentally friendly industries and MSME support through Produbanco, a local financial institution with operations throughout Ecuador, and is consistent with the challenges of the sector and the policies of the Ecuadorian government.

(2) Japan and JICA's policy and operations in the agriculture, fisheries, and SME sectors

The Country Cooperation Policy for Ecuador (April 2020) identifies "Economic Infrastructure Development" as a priority area, and specifically supports the improvement of competitiveness, quality control and improvement of SMEs through the "Industrial Development and Competitiveness Program", which contributes to Global Agenda 4 (Private Sector Development). This will contribute to Global Agenda 4 (Private Sector Development). In addition, the project has identified "Environmental Conservation and Disaster Prevention" as a priority area, and will also promote cooperation in efforts to conserve a rich natural environment through the "Environmental Conservation Program," which will contribute to Global Agenda 17 (Conservation of the Natural Environment). This project is consistent with these cooperation policies.

(3) Other Donor's Activity

The International Finance Corporation (IFC) is providing the loan to the borrower of the project.

3. Project Description

(1) Project Objective

This project aims to improve access to finance for the country's environmentally friendly industry and MSMEs by providing long-term loans to Produbanco throughout Ecuador, thereby contributing to the development of the environmentally friendly industry and the promotion of MSMEs in the country.

(2) Project Site/Target Area

The whole country of Ecuador

(3) Project Components

This project is used for sub-loan from Produbanco, in which 50% is allocated to environmentally friendly industry, 40% is allocated to MSME and 10% is allocated to WMSME.

(4) Estimated Project Cost

180 million U.S. dollars

(5) Project Implementation Structure

Borrower: Banco de la Producción S.A Produbanco

Co-Lender: IFC

(6) Environmental and social considerations, cross-cutting issues, gender classification

1) Environmental and Social Considerations

① Category Classification: FI

② Reason for categorization: This project is based on the "JICA Guidelines for Environmental and Social Considerations" (promulgated in January 2022), because subprojects cannot be identified before JICA's loan approval, and such subprojects are expected to have environmental impacts.

③ Other: In this project, Produbanco will categorize each subproject based on its own environmental and social considerations system, the Ecuadorian national legal system, and the "JICA Guidelines for Environmental and Social Considerations," and necessary measures will be taken for the corresponding category. Note that subprojects do not include Category A projects.

2) Cross-sectoral issues: This project aims to develop eco-friendly industries and MSMEs through Produbanco, a local financial institution with operations throughout Ecuador.

3) Gender Classification: ■GI(S) Gender Activity Integration Projects

<Reason for classification> Although the project goals do not directly include a goal related to the promotion of women's empowerment, the project explicitly incorporates specific initiatives that contribute to gender equality and women's empowerment.

4. Target Outcomes

(1) Quantitative effects: number of borrowers increased for loans to environmentally friendly industries due to JICA loans (cases), number of borrowers increased for MSME loans due to JICA loans (cases), number of borrowers increased for MSME loans above the 2X Challenge level due to JICA loans (cases) and outstanding loans to MSMEs (million dollars), MSME loans outstanding above the 2X Challenge level (millions of dollars) and loans outstanding to environmentally friendly industries (millions of dollars) are measured. The internal rate of return is not calculated since no subprojects were identified.

(2) Qualitative Effects: Development of environmentally friendly industries and promotion of small and micro enterprises

5. Assumptions and external conditions

None in particular.

6. Lessons Learned from Past Projects

In the "Environmental Development Project" of the Republic of the Philippines (yen loan; ex-post evaluation in FY2019), it was reported that the end-user (environmental operator) did not provide sufficient information on the indicator data in the evaluation. This is a lesson learned that it is essential to establish a target year based on environmental projects over a long period of time and to set indicators that can be clearly measured by end-users. Produbanco, whose monitoring of the project will be important, has been working with IFC's Green Bond Framework and Blue Finance Framework to develop a proprietary system to monitor and monitor the project's progress in line with the above frameworks. Produbanco has established a system to monitor loans made in line with the above frameworks, with the bank's own system to check with the final borrower whether the project is in line with eco-friendly industries, and the environmental review team to certify the loan, and the internal risk team to monitor various reports.

7. Evaluation Results

This project is in line with Ecuador's development challenges and policies, as well as the cooperation policy and analysis of Japan and JICA, and will contribute to sustainable social and economic development through fostering and promoting environmentally friendly industries and improving access to finance. The support through overseas investments and loans is highly significant because it is considered to contribute to SDG Goals 8 (improving access to financial services), 14 (ocean conservation), 15 (forest conservation), and 17 (partnerships).

8. Plan for Future Evaluation

(1) Indicators to be used

As described in Section 4.

(2) Timing

Ex-post evaluation: 4 years after the signing date

End