

Ex-Ante Evaluation (for Private Sector Investment Finance (“PSIF”) Loan)

Private Sector Investment Finance Division 2 Private Sector Partnership and Finance Department

1. Name of the Project

- (1) Country: The Republic of Peru (“Peru”)
- (2) Project: Dissemination Project for Green Financing in Peru
- (3) L/A signing date: March 20, 2024
- (4) Borrower: Banco BBVA Peru S.A. (“BBVA Peru”)

2. Background and Necessity of the Project

- (1) Current State and Issues of the Building Sector in Peru

Peru averaged about 5% real GDP growth between the early 1990s and 2019 before the COVID-19 pandemic, and energy consumption was 743 thousand TJ in 2020, about 2.1 times higher than in 1990. In conjunction with this, CO₂ emissions increased to 42.44 MtCO₂/year in 2020, approximately 2.2 times the 1990 level (Source: International Energy Agency). The government of Peru pledged at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (UNFCCC) in 2016 to reduce Peru's greenhouse gas emissions by 30% by 2030 from the 2010 baseline level.

In Peru, efforts are being made in various sectors to reduce greenhouse gas emissions. The building sector, in particular, accounts for 25% of total energy consumption in South America and is the third largest energy consumer in the country after the transportation and industrial sectors, making its reduction a pressing issue. Under these circumstances, the Peruvian government has been implementing measures such as providing concessional loans for the construction of sustainable housing and buildings through the Fondo Mivienda program, Decree No. 024-2016-Vivienda, since 2016. This program provides subsidies ranging from PEN 16,200 to 31,100 (approximately JPY 650,000 to 1,200,000) for the purchase of private housing with low environmental impact through energy and water conservation and has provided assistance for more than 8,000 units in 2022.

However, the lack of knowledge, experience, and technology among real estate developers, builders, and financial institutions has left significant room for the spread of sustainable housing and buildings. When a building is considered a green building, international environmental certifications such as the International Finance Corporation (“IFC”) certification (Excellence in Design for Greater Efficiencies, hereafter “EDGE”) and the U.S. Green Building Council certification (Leadership in Energy & Environmental Design, hereafter “LEED”), which are awarded after requirements such as reduced energy consumption and water conservation rates are met, are typically obtained. However, according to the IFC, only about 10% of buildings in Peru have acquired international standard certifications, which means there is considerable potential for the introduction of green buildings.

In this context, BBVA Peru is actively working to expand green finance ahead of other banks in the region, including the first green loan (a type of green finance in the form of a loan) in Peru and South America in November 2018.

This project aims to contribute to the fight against climate change through BBVA Peru, a local financial institution with operations throughout Peru, by supporting the spread of green buildings that meet international standards and energy-saving facilities and equipment in Peru, which is in line with the challenges of the sector and the policies of the Peruvian government.

(2) Japan's and JICA's Cooperation Policy and Operations on Climate Change

This project supports efforts by companies and individuals to reduce energy consumption and improve efficiency through green buildings, energy-saving facilities and equipment, etc. It is positioned as an environmental improvement and promotion program under the priority area "Environmental Measures" in the Country Development Cooperation Policy for Peru (March 2023) and the JICA Country Analysis Paper (March 2023). In terms of the promotion of housing supply to low- and middle-income groups through the use of local government subsidies for green buildings, the project will also contribute to the Economic and Social Infrastructure Development Program and the Comprehensive Social Promotion Program in the Priority Area "Economic and Social Infrastructure Development and Reduction of Disparities". In addition, JICA's Global Agenda (Climate Change) also states that private sector funds and technologies will be needed to achieve carbon neutrality, as public funds, technologies, and knowledge alone are insufficient and inadequate to achieve this goal. Moreover, this project falls under the Facility for Accelerating Climate Change Resilient and Sustainable Society (ACCESS), which Prime Minister Kishida announced at the side event on the Partnership for Global Infrastructure and Investment (PGII) of the G7 (Group of Seven) Hiroshima Summit in May 2023, and is designed to implement a "Co-Benefits Approach to Climate Change" that contributes to both sustainable development and climate change measures in developing countries. Based on the above, this project is in line with the cooperation policy and analysis of Japan and JICA for Peru, as well as their issue-specific project strategies.

(3) Other Donors' Activities

The IFC is providing a loan to BBVA Peru.

3. Project Description

(1) Project Description

- ① Project Objective: This project aims to contribute to climate change countermeasures and sustainable economic growth by providing a long-term loan to BBVA Peru to promote the spread of green buildings that meet international standards and energy-efficient facilities and equipment through green financing by BBVA Peru, for reducing energy consumption and improving energy efficiency among corporations and individuals in the country.
- ② Project Site / Target Area: The whole country of Peru.
- ③ Project Components: JICA's long-term loan to BBVA Peru will be sub-loaned as green financing for green buildings and energy-saving facilities and equipment in order to support the reduction of energy consumption and the improvement of energy efficiency by corporations and individuals in the country.

(2) Project Implementation Structure

- ① Borrower: BBVA Peru
- ② Co-Lender: IFC

(3) 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 Others/Monitoring: BBVA Peru will categorize each subproject based on its own environmental and social considerations 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.

(4) Gender Category

Gender Informed [GI]

Although a social and gender analysis was conducted during the due diligence, this project did not establish or plan any initiatives and indicators that would contribute to gender mainstreaming. BBVA Peru is an institution that is actively working to contribute to gender equality within the organization as part of its efforts to strengthen diversity.

(5) Cross-sectoral Issues

Since the project is expected to reduce greenhouse gas emissions by 5,406 tons/year (CO₂ equivalent), it will contribute to climate change mitigation measures.

4. Targeted Outcomes

(1) Quantitative Effects

Outcomes (Operation and Effect Indicators): Number of loans provided by the Borrower that are financing the Green Building Development Subproject through JICA Loan; Volume of loans provided by the Borrower that are financing the Green Building Development Subproject; Number of loans provided by the Borrower that are financing the Energy Efficiency Subproject through JICA Loan; Volume of loans provided by the Borrower that are financing the Energy Efficiency Subproject. (Note: Green Buildings are those that are certified by EDGE or LEED. In addition, greenhouse gas emission reductions (tons/year) will be monitored as a reference.)

(2) Qualitative Effects

Increase in the amount of loans for green financing in Peru.

5. Lessons Learned from Past Projects

In the ex-post evaluation of the Energy Renovation Infrastructure Assistance Program (evaluation year: 2021), Japanese ODA loan for Corporación Financiera de Desarrollo S.A., the lessons learned are (1) it is essential to conduct market research as much as possible at the planning stage and reflect the results in the project scheme to minimize any mismatch between the financial needs of end users and the project scheme of the ODA loan, and (2) it was not appropriate to evaluate the sustainability of the project based on the actual utilization of the revolving fund which accumulated the principal and interest repaid from the sub-loan and was to be continuously utilized for the project, because the fund from sub-loan repayments was not accumulated owing to the relatively short grace period of the ODA loan repayments.

In this project, (1) the IFC estimates that Peru has sufficient room for green building construction, and end-users' financing needs have been confirmed based on BBVA Peru's track record of green financing and future projections, and (2) the sub-loan repayment period will be one to two years, which is within the grace period. Although a revolving fund is not set up, the repayment proceeds will be reutilized as green financing, and the sustainability of the project effect will be evaluated based on the increase in the green financing outstanding, so there are no particular concerns.

6. Evaluation Results

This project is in line with Peru'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 a PSIF loan is highly significant because it is considered to contribute to SDG Goals 8 (Decent Work and Economic Growth), 13 (Climate Action), and 17 (Partnerships for the Goals).

7. Plan for Future Evaluation

(1) Indicators to Be Used

As described in Section 4.

(2) Future Evaluation Schedule

Ex-post evaluation: five years after the L/A signing date.

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