

Ex-Ante Evaluation(for Japanese ODA Loan)**Private Sector Investment Finance Division 2
Private Sector Partnership and Finance Department
Japan International Cooperation Agency****1. Name of the Project**

- (1) Country: Republic of Panama ("Panama")
 - (2) Project: Project to Promote Financial Inclusion and Improve Rural Disparities
 - (3) Project Site / Target Area: Panama
- Loan Agreement: March 1, 2024

2. Background and Necessity of the Project

- (1) Current State and Issues of the micro, small and medium enterprise Sector in Panama

Panama maintains a high economic growth rate, with approximately 75% of the country's GDP coming from the tertiary sector, mainly from canals and ports, finance, construction, and the real estate sector, which have developed due to the country's geographical advantages, dollarized economy, and the introduction of various systems to encourage foreign investment. On the other hand, the GINI coefficient is the fifth highest in the Latin American region, following Belize, Brazil, Colombia, and St. Lucia, and this coefficient has started to increase in the pandemic (49.2 in 2018, 49.9 in 2019, and 50.9 in 2021), and the correction of income inequality in the country has not progressed (World Bank, 2021). Regional disparities between urban and rural areas, especially Panama City, the capital where much of the industry is concentrated, are also a major challenge, with poverty rates ranging from 13.8% in urban areas to 40.5% in rural areas (Panama Ministry of Economy and Finance, 2022).

In correcting these disparities, the promotion of micro, small and medium enterprises (MSMEs), which account for 97% of the total number of private enterprises, is important. The statistics in 2020 of the Authority for Micro, Small and Medium Enterprise show that the number of MSMEs is expected to grow by 2030. According to the statistics, MSMEs create 56% of the country's total employment, and in order to correct income inequality and regional disparities, it is expected that income will increase through further employment growth through the promotion of MSMEs. On the other hand, due to information asymmetry, transaction costs, and the perception of high risk for MSME, the

country's MSME funding gap of \$21,269 million is equal to about 78% of its funding needs, which is not enough to meet.

In the context of rural development, it is also important to improve access to finance for MSMEs engaged in the agricultural sector (agricultural MSMEs). Agriculture accounts for about 14% of total employment in the country and plays an important role in terms of job creation, especially in rural areas where the poor account for about 40%. Strengthening food security is an urgent issue for the country, and the Strategic Government Plan announced by the Cortizo administration, which took office in July 2019, places agricultural promotion at the center of its policies.

In addition, the percentage of women MSMEs ("WMSMEs") managed by women account for 22.4%, but the average monthly real profits of women-owned enterprises in the country are 40% lower than those run by men, and financial constraints such as barriers to accessing bank loans have been cited as a factor in the situation (ILO, 2019). Therefore, gender considerations are important in MSME promotion from the perspective of reducing income inequality.

Under these circumstances, Global Bank, a Panamanian financial institution with operations throughout Panama, is actively supporting MSMEs and WMSMEs and has strength on financing the agricultural sector, a major industry in rural areas. This project will contribute to alleviating the serious financing gap faced by MSMEs and WMSMEs in the country through the financing to Global Bank,.

(2) Japan's and JICA's Policy Cooperation Policy and Operations in the micro, small and medium enterprise Sector

Japan's Country Development Cooperation Policy for the Republic of Panama (September 2018) identifies "disparity reduction" as a priority area. Specifically, JICA provides support for regional development, livelihood improvement, and agriculture and rural development through the "Program to Reduce Disparities," and support for small and medium-sized microenterprises and sustainable rural development utilizing local resources are positioned as key items in this program. In addition, JICA's Global Agenda 4 (Private Sector Development) points out the importance of small and medium-sized enterprises in economic development. In addition, this project falls under the Facility for Accelerating Financial Inclusion (FAFI), which Prime Minister Kishida announced at a side event on the G7 Global Infrastructure Investment Partnership in May 2023, and will contribute to improving access to finance for MSMEs and women in developing countries in cooperation with development finance institutions. This project is in line with the

above mentioned cooperation policy

3. Project Description

(1) Project Description

① Project Objective

This project aims to improve access to finance for MSMEs in the Republic of Panama by providing a long-term loan to Global Bank, thereby contributing to the promotion of MSMEs in the country.

② Project Components

The project will be sub-loaned to MSME loans (40% of the loan amount), WMSME loans (30%), and agricultural MSME loans (30%) through Global Bank.

③ Project Beneficiaries (Target Group)

MSME, WMSME and MSME in agriculture in Panama

(2) Estimated Project Cost

150 million USD (including US\$50 million from JICA)

(3) Schedule

March 2024 - March 2029 (5 years)

(4) Project Implementation Structure

1) Borrower: Global Bank Corporation

(5) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity: N/A

2) Other Donors' Activity: Co-financing with the Inter-American Investment Corporation (IDB Invest)

(6) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The project is to have minimal undesirable effects on the environment under the "JICA Guidelines for Environmental and Social Considerations (promulgated in January 2022).

(7) Cross-Sectoral Issues: N/A

(8) Gender Category: ■GI (Gender Informed)

< Although social and gender analysis was conducted in the screening, it did not lead to the establishment and planning of initiatives and indicators that contribute to gender mainstreaming. The project is scheduled to apply for certification as a 2X Challenge project because 30% of JICA's loan will be disbursed to Women-owned MSME and more than half of the senior managers (Management Staff, CEO, Vice Presidents) of Global Bank are women. The

project is subject to apply for 2X Challenge project.>

(9) Other Important Issues:N/A

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator name	Baseline 2023	Target (As of 2027)
Total number of new loans to MSME which the Borrower provides loans from JICA's fund	0	294
Total value of loans to MSME (MM USD\$)	624	679
Total number of new loans to WMSME which the Borrower provides loans from JICA's fund	0	197
Total value of loans to WMSME (MM USD\$)	243	264
Total number of new loans to Agricultural MSME which the Borrower provides loans from JICA's fund	0	300
Total value of loans to Agricultural MSME (MM USD\$)	200	218

2) Impact

(2) Qualitative Effects: Promotion of small and micro enterprises, promotion of agriculture, empowerment of women

(3) Internal Rate of Return: N/A

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Projects

In the ex-post evaluation of Micro Enterprise Assistance Project for the Republic of Egypt (evaluation year: 2016), it is reported that the loan repayment rate from the final borrower was very high. While this is reportedly a result of appropriate credit decision making and monitoring activities by the borrowers, the cooperation with local NGOs familiar with the credit information of the final borrowers and non-financial support to the final borrowers and intermediary lending institutions (specifically, project formation surveys, commercial registration procedures, business matching, marketing, and product exhibitions) are believed to have contributed to the solid loan performance of the borrowers. JICA has learned the lesson that it is important to understand the loan implementation system and non-financial support menu of the implementing and intermediary lending institutions when forming a deal for a similar project.

In this project, JICA closely examined Global Bank's screening and risk management capabilities through the examination, and confirmed that there were no particular concerns. As for non-financial support, the bank is providing management support to the loan recipient.

7 . Evaluation Results

As described above, the Project is in line with the development issues and policies of the Republic of Panama as well as Japan's cooperation policy. The project is expected to have high development impact and there is a high need to support the implementation of the project.

8 . Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post evaluation:4 years after the LA signing

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