

Ex-Ante Evaluation

Private Sector Investment Finance Division 2, Private Sector Partnership and Finance Department, Japan International Cooperation Agency

1. Name of the Project

- (1) Country: The Republic of Honduras (“Honduras”)
- (2) Project Site / Target Area: Honduras
- (3) Project: Project for promoting financial inclusion of Small and Medium-sized Enterprises
- (4) Borrower: Banco del País, S.A. (“Banpais”)
- (5) Signing Date: December 24, 2024

2. Background and Necessity of the Project

- (1) Current State and Issues of the Small and Medium-sized Enterprises, Gender Gap in Honduras

Micro, Small and Medium-sized Enterprises (“MSMEs”) play a crucial role in the Honduran economy, accounting for 70% of the working population and a total of 140,000 businesses as of 2017 (Economic Commission for Latin America and the Caribbean (ECLAC), 2018). On the other hand, the financing gap, which represents the difference between the potential demand for financing and the actual supply of financing for MSMEs in the country, is as large as \$ 2.9 billion (15% of Honduran GDP). Barriers to financial access for Small and Medium- sized enterprises (“SMEs”) (e.g. information asymmetry, high transaction costs, and the perception of high risk for SMEs) remain significant, and the sector is unable to meet the demand for working capital and capital investment. As a result, only 19% of the country's private sector credit goes to MSMEs, and 37% of MSMEs face challenges in accessing credit (National Banking and Insurance Commission (CNBS), 2020).

In addition, women-owned MSMEs (“WMSMEs”) account for only 35% of the country's MSMEs, and it is estimated that at least 23% of these WMSMEs face financing constraints (International Financial Corporation(“IFC”), 2018). In particular, for business loans, which are larger loan amounts than microcredit, both the number of loans and the average loan amount are more than 40% lower for women than for men, and the interest rate on loans is also about 5% different, indicating a gender gap (CNBS, 2023).

Under these challenges, the Government of Honduras has identified industrial

development as one of the key themes in its national plan for 2022-2026, and has listed specific measures including the support for the MSME entrepreneurship network, improving access to finance, and increasing productivity. In addition, in order to improve gender inequality, the government is implementing projects to improve women's income, mainly in the agricultural sector. The National Bank and Insurance Commission (CNBS) and other organisations are implementing the National Financial Inclusion Strategy and the Women's Financial Inclusion Programme to promote financial inclusion. Additionally, since 2024, the CNBS has defined the term 'women-owned SME' ("WSME") in line with the standards of international organisations such as the IFC, and has required financial institutions to report on their WSME portfolios, thereby promoting the data collection to address gender disparities.

This project aims to support SMEs and WSMEs by providing loans to SMEs, including women entrepreneurs, through Banpais, a local financial institution that has consistently expanded its SME portfolio over time. It also aims to support the development of portfolio data for WSMEs of Banpais through technical assistance with IFC, the co-financing institution of this project, and is therefore in line with the issues of the sector and the policies of the Government of Honduras.

(2) Japan's and JICA's Policy Cooperation Policy and Operations in the SMEs and Gender Gap in Honduras

In May 2023, at a side event on the G7 Global Infrastructure Investment Partnership, then Prime Minister Kishida announced a new policy to establish facilities, a total of \$4 billion in loans from JICA for priority sectors, including SMEs and WSMEs. On the basis of this announcement, JICA established the 'Financial Inclusion Promotion Facility ("FAFI")'. This project is in line with the FAFI's objectives.

In February 2024, then Minister for Foreign Affairs Kamikawa announced the 'Diplomatic Initiative toward Latin America and the Caribbean', which sets out Japan's diplomatic policy for addressing common issues in the Latin American region. The initiative identifies gender equality as one of the key issues, which is a common concern for Latin American countries. This project is also in line with the initiative.

Japan's Country Development Cooperation Policy for the Republic of Honduras (June 2021) lists 'strengthening socio-economic infrastructure' as one of the development issues. Specifically, one of the policies, the 'Regional Economic

Development Programme', is to contribute to improving the livelihoods of low-income earners, promoting local industries, and promoting MSMEs. The policy also states the importance of 'strategic actions to address the root causes of migration in Northern Central America, such as poverty, security and disasters, in cooperation with other countries and international organisations. This project is a co-financed with the IFC, and it is expected to contribute to poverty and migration issues by creating high-quality jobs and improving productivity through the promotion of SMEs, and is therefore in line with the Government of Japan's policy.

The JICA Country Analysis Paper for the Republic of Honduras (March 2020) ("JCAP") analyses the need to support the creation of quality jobs and the improvement of productivity in SMEs, and also identifies 'gender (support for women's economic independence)' as a priority area as a common issue in the Central American region. In addition, the JICA Global Agenda ("JGA") for Private Sector Development aims to 'develop entrepreneurs and businesses' and 'promote investment and industry', and one of the specific approaches it takes is to 'improve access to finance'. This project is also in line with the JCAP and JGA analyses.

In addition, this project will contribute to the sustainable economic growth of Honduras and the reduction of gender inequality by improving access to financial for SMEs, including women entrepreneurs in Honduras, and is expected to contribute to the achievement of SDGs Goal 5 (Gender equality), Goal 8 (Decent work and economic growth), and Goal 17 (Partnerships for the goals).

(3) Other Donors' Activities

This project is co-financed with IFC.

3. Project Description

(1) Project Description

① Project Objective

The project aims to improve access to finance for SMEs, including WSMEs, in the Republic of Honduras by providing loans to Banpais, thereby contributing to developing SMEs, creating job opportunities, and reducing gender inequality in the country.

② Project Components

The Project provides loans to be sub-loaned through Banpais to SMEs. At least 30 per cent of JICA loan is utilized for loans to WSMEs.

③ Project Beneficiaries (Target Group)

SMEs and WSMEs in Honduras.

- (2) Estimated Project Cost: \$ 100 Million (JICA loan \$ 50 million)
- (3) Schedule: December 2024 – December 2028
- (4) Project Implementation Structure
 - Borrower and Executing Agency: Banpais
- (5) Collaboration and Sharing of Roles with Other Donors
 - 1) Japan's Activity: N/A
 - 2) Other Donors' Activity: Co-finance with IFC
- (6) Environmental and Social Consideration
 - ① Category: C
 - ② Reason for Categorization: It is judged under the JICA Environmental and Social Considerations Guidelines (promulgated in January 2022) that the undesirable effects of the Project on the environment are minimized.
- (7) Cross-Sectoral Issues: N/A
- (8) Gender Category
 - Gender-related Projects GI(S) Gender Activity Integration Projects
 - The reason for this is that this project aims to address the gender issue by setting the number of loans approved for WSME as an indicator. This is because for business loans, which are larger loans amounts than microcredits, both the number of loans and the average loan amount are more than 40% lower for women than for men, and the interest rate on loans is also about 5% different. Banpais currently does not have a system for collecting and managing data on SME loan recipients by gender, however, it is still possible to compile this information manually. Upon receiving technical assistance from IFC, the data will be prepared automatically and monitoring will be implemented accordingly.. In addition, this project will be certified by 2XChallenge (finance for women) to meet the requirements of 2XChallenge, Requirement 2 Leadership (approximately 53% of senior management are women) and Requirement 6 Portfolio (30% of JICA loans are to WSMEs) .
- (9) Other Important Issues: N/A

4. Targeted Outcomes

(1) Quantitative Effects

Indicator	Baseline (Actual value in December 2023)	Target (As of December 2027) [3 years after signing the Loan Agreement]
-----------	---	--

The outstanding loan value for SMEs (Million Lempira)	9,850	16,033
The number of SME loan using JICA Facility	0	550
The number of Women-owned Business loan using JICA Facility	0	165

* The outstanding loan value for WSMEs will be monitored as soon as the data is ready through IFC's technical assistance in this project.

(2) Qualitative Effects: Continue and expand the business of SMEs that have received loans from Banpais, maintain and expand employment, and improve access to finance (including improving gender disparities).

5 . External Factors and Risk Control

N/A

6 . Lessons Learned from Past Projects

In some previous Private Sector Investment Finance projects to financial institutions in Latin America, natural disasters such as droughts and hurricanes associated with the El Niño phenomenon in the region increased the non-performing loan ratio of the borrower and had a negative impact on the borrower's financial situation. The project country, Honduras, has also suffered damage from natural disasters such as hurricanes in the past. Through the due diligence process, JICA has confirmed that there are no particular concerns regarding Banpais' risk management and project management capabilities in relation to the risk of natural disasters. In particular, it has been confirmed that there is no concentration of the portfolio in sectors or regions with a high risk of natural disasters, and that there has been no significant impact on the non-performing loan ratio before or after a major hurricane event in 2020.

7 . Evaluation Results

As described above, this project is in line with the Honduran development issues, development policies and Japan's cooperation policy, and is recognised as necessary, has an appropriate project plan and has a good prospect of being accomplished. The support through a Private Sector Investment Finance loan is highly significant.

8 . Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post-evaluation is planned approximately 3 years after L/A signing

END