

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: Guatemala (“Guatemala”)
- (2) Project Site / Target Area : the whole country
- (3) Project name: Project to Support Small and Medium Enterprises in Guatemala (“the Project”)
- (4) Loan Agreement: June 27, 2025

2 . Background and Necessity of the Project

(1) Current State and Challenges of the SME Sector in Guatemala and the Background of the Project

According to the National Institute of Statistics (2015), small and medium-sized enterprises (hereinafter referred to as “SMEs”) account for approximately 30% of annual sales generated by private companies in Guatemala, and around 40% of foreign currency earnings derived from export businesses. SMEs thus play a crucial role in the country’s economy. In particular, according to a survey by the Guatemalan Social Security Institute, 58% of private companies providing social security to their employees are SMEs, underscoring their importance in ensuring stable employment and income within the country (Government of Guatemala, 2015). While Guatemala has maintained a stable economic growth rate of 3–4% since 2010, it is estimated that more than half of the population lives in poverty—on less than five dollars a day. Moreover, over 10% of the population (more than 2 million people) have migrated to the United States, including as unauthorized immigrant, in search of employment, resulting in a serious outflow of labor. In 2024, remittances from migrants amounted to USD 21.5 billion, equivalent to almost 20% of Guatemala’s GDP (Bank of Guatemala, 2025). According to IOM, while 44% of remittances are used for household consumption, 29% go to investment and savings, and 15% to productive activities. However, despite these allocations, their overall impact on job creation and sustainable development in local economies remains limited.

Additionally, since the majority of migrants are men, challenges have emerged in areas such as employment opportunities and financial inclusion for women who

remain in the country (Ministry of Economy, Guatemala, 2024).

In response, the Government of Guatemala has identified SMEs promotion as one of its key policy priorities under the General Government Policy (Política General de Gobierno, 2024–2028). The Ministry of Economy has established offices in 17 of the country's 22 departments to implement this policy and provides a variety of support programs to SMEs. These include: innovation support for traditional handicrafts, promotion of cooperative formation within industries, creation of entrepreneurial networks and financial support, assistance in obtaining government certification, and support for exports. Additionally, the government has implemented local economic revitalization initiatives such as the “Mi Pueblo Mi Producto” program, modeled after Japan’s “One Village One Product” movement.

On the other hand, SMEs in Guatemala face a large financing gap of USD 15 billion, which is approximately 15% of the country's GDP (USD 95 billion) (World Bank, 2022). Barriers to accessing finance remain high due to factors such as high costs, excessive collateral requirements, rigid product designs, and limited consumer protection. One of the reasons is that lending conditions, including interest rates, are often not viable for SMEs (World Bank, 2023). Guatemala also ranks 93rd out of 146 countries in the Global Gender Gap Index (2024), placing it among the lowest in Latin America and the Caribbean, behind El Salvador and Belize. SMEs located in rural areas, as well as those led or employing large numbers of women, are often perceived as high-risk compared to urban-based companies. While most commercial banks have their headquarters in urban areas, many operate through banking agents in rural regions. For example, Banco Industrial has over 6,500 agents serving rural communities. Nevertheless, financial access in these areas remains challenging for many households.

Rural SMEs face additional challenges due to their distance from major markets and the limited development of non-agricultural industries caused by population outflow to urban centers. Female entrepreneurs also face social constraints stemming from male-dominated cultural norms, which limit their access to capital, human networks, and educational opportunities (IDB Invest, 2023).

This project aims to improve access to finance for SMEs and women-owned SMEs (hereinafter referred to as “WSMEs”) by providing a loan to Banco Industrial S.A. (hereinafter referred to as “BI” or “the Borrower”), a local Guatemalan bank. The project is expected to contribute to economic growth and

employment expansion in Guatemala, in alignment with the country's development challenges and government policy objectives.

(2) Japan's and JICA's Policy and Operations in SME Sector in Guatemala

In Japan's Country Development Cooperation Policy for the Republic of Guatemala" (September 2023), economic and social development for vulnerable populations is identified as one of the priority areas. The policy highlights the importance of promoting economic development—particularly in regions where low-income groups and indigenous populations are concentrated—through initiatives such as the promotion of SMEs. The creation of employment and revitalization of local economies through SMEs promotion is also expected to contribute to addressing the issue of irregular migration, which has become a growing concern in the Central America region in recent years.

JICA has been actively supporting micro, small, and medium-sized enterprises (MSMEs), including women-led businesses, through a range of technical cooperation projects. These include support for "Strengthening Monitoring and Evaluation Systems for Gender Regional Policy" in collaboration with the Central American Integration System (SICA), the "Capacity Development for Women Entrepreneurs" project in Guatemala, the "Local Industry Development Project," the "Facilitator Training for Quality and Productivity Improvement of SMEs," and the "One Village One Product (OVOP) Regional Advisor" initiative. While these projects have mainly benefited microenterprises and sole proprietors, the current project is expected to facilitate access to finance for such businesses as they grow into small and medium-sized enterprises.

This project, which aims to improve financial access for SMEs in Guatemala, aligns with the following priority areas of JICA's Global Agenda 4. Private Sector Development – nurturing private enterprises to promote economic growth in developing countries, 13. Public Financial Management and Financial Systems – strengthening fiscal and financial foundations to achieve economic stability and growth, and 14. Gender Equality and Women's Empowerment – promoting a society where everyone, regardless of gender, can realize their full potential.

(3) Other Donors' Activities

N/A

3 . Project Description

(1) Project Description

① Project Objective

This project aims to support improved access to finance for SMEs and WSMEs in Guatemala by providing a loan to Banco Industrial, S.A. (“BI”), a local Guatemalan bank, thus contributing to the country’s economic growth and job creation, in alignment with the challenges faced by the sector and the policy priorities of the Government of Guatemala.

② Project Components

The loan provided under this project will be on-lent through BI to support financing for SMEs, climate change mitigation initiatives, and sustainable housing across Guatemala. The proceeds of the JICA loan will be exclusively allocated to SMEs, with 30% earmarked for WSMEs.

③ Project Beneficiaries (Target Group)

Direct Beneficiaries: SMEs receiving loans from BI

Ultimate Beneficiaries: People employed by SMEs and people who benefit from SMEs services

(2) Project Cost: 415 million US dollars (for JICA portion, 150 million US dollars)

(3) Schedule: The loans will be fully repaid in June 2029 when the Project completion

(4) Project Implementation Structure

1) Borrower: BI

2) Guarantor: N/A

3) Implementing Agency: BI

(5) Collaboration and Sharing of Roles with Other Donors: IFC, FinDev

(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: This project involves lending to SMEs without sectoral restrictions. Support for SMEs is not explicitly excluded in Guatemala’s Nationally Determined Contribution (NDC) under the Paris Agreement, and the NDC emphasizes the importance of collaboration and partnership with the private sector. Therefore, the project is consistent with the objectives and direction of the NDC.

(8) Gender Category:

Gender-related Projects GI(S) Gender Activity Integration Projects

<Details of Activities/Reason for Categorization> This project addresses

gender issues wherein women entrepreneurs and business owners face limited economic opportunities due to social constraints such as restricted access to finance, professional networks, and educational opportunities, rooted in male-dominated traditional norms. To tackle these challenges, the project sets a specific indicator aimed at increasing the proportion of loans allocated to WSMEs within the overall SME loan portfolio.

Furthermore, the project is expected to meet the criteria of the 2X Challenge Criteria 3: Employment (with at least 45% of employees and 10% of senior management being women), and Criteria 6: Investment through Financial Intermediaries (with 30% of JICA's loan proceeds allocated to WSMEs). Accordingly, an application for 2X Challenge qualification is planned.

(9) Other Important Issues: NA

4 . Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (December 2024)	Target (December 2029) (4 years after the LA)
Outstanding loan balance to SMEs	\$901.7 million	\$1,998.3 million
Outstanding loan balance to WSMEs	\$201.3 million	\$523.9 million
Cumulative number of loan approvals to SMEs under the JICA loan	0	1,378
Cumulative number of loan approvals to WSMEs under the JICA loan	0	481
Cumulative amount of loan approvals to WSMEs under the JICA loan	0	\$45 million

*In addition to the above indicators, efforts to improve financial access barriers will be monitored through BI's publicly available sustainability reports.

(2) Qualitative Effects: This project is expected to contribute to the growth of businesses operated by SMEs and WSMEs, the stabilization and

expansion of employment, and overall economic growth in Guatemala.

(3) Internal Rate of Return: Since this is a bank loan project, Internal Rate of Return (IRR) is not calculated.

5 . External Factors and Risk Control

N/A

6 . Lessons Learned from Past Projects

In evaluations of past overseas investment and loan projects to financial institutions in the Latin America and Caribbean region, it has been observed that natural disasters such as droughts caused by the El Niño phenomenon and hurricanes have led to an increase in non-performing loan ratios among borrowers, negatively impacting their financial health. Guatemala has also experienced damage from natural disasters such as hurricanes in the past. During the appraisal, it was confirmed that BI manages natural disaster risks by implementing financial risk management measures including capital adequacy regulations, conducting environmental and social impact assessments, and developing risk monitoring plans with regular monitoring.

7 . Evaluation Results

This project aligns with Guatemala's development challenges and policies, as well as Japan's and JICA's cooperation policies and analyses. It is expected to contribute to gender equality and industrial development in Guatemala, thereby supporting SDG Goal 5 (Gender Equality), Goal 9 (Industry, Innovation and Infrastructure), and Goal 17 (Partnership for the Goals). Therefore, the significance of support through overseas investment and loans is substantial.

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 4 years after the LA signing (December 2029).

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