

Ex-Ante Evaluation
Private Sector Investment Finance Division 2,
Private Sector Partnership and Finance Department,
Japan International Cooperation Agency

1. Basic Information

- (1) Country Name: Republic of Paraguay (hereinafter referred to as "Paraguay")
- (2) Project Site/Target Region Name: Paraguay
- (3) Project Name: Project to Support Small and Medium Enterprises in Paraguay
- (4) L/A Signing Date: September 23, 2025

2. Project Background and Necessity

- (1) Current Status and Challenges of the SME Sector in the Country and Positioning of This Project

Small and Medium Enterprises (SMEs) in Paraguay accounted for 23% of the labor force employed in the private sector in 2023 and represented 23% of exporting companies generating foreign exchange, making them a key economic entity (Ministry of Labor, Employment, and Social Security (MTESS) 2024; Ministry of Industry and Labor (MIC) 2023). However, SMEs contribute only 13% to the country's total revenue. Furthermore, 55% of workers in small enterprises and 47% in medium-sized enterprises earn below the minimum wage. Additionally, 51% of workers in small enterprises and 27% in medium-sized enterprises are employed informally (MTESS 2024, MIC 2023).

Furthermore, Paraguay's primary sector, centered on agriculture, has accounted for an average of 11% of GDP and 61% of export value since 2010, making it the country's main industry. Notably, Paraguay ranks third globally in soybean exports, meaning its agriculture contributes not only to the domestic economy but also to global food security (IMF 2024). Within all SMEs, those belonging to the agricultural sector, including livestock, hold the second-highest share at 25%, following wholesale and trade. This sector is expected to play a significant role in SME promotion (World Bank 2023, MIC et al. 2023).

The Paraguayan government has established 11 priority areas under the "National Development Strategy 2030" and the "National Plan for MSMEs" based on this framework to promote micro, small, and medium enterprises (hereinafter referred to as "MSMEs"), including micro-enterprises. These areas

include enhancing productivity through the use of digital platforms and increasing added value by promoting export-oriented businesses. For MSMEs in the agricultural sector, productivity enhancement initiatives are being implemented under public agency leadership. These include workshops to promote innovation in production processes and mechanization of production (MIC 2019). Furthermore, SMEs require continuous business expansion and machinery introduction to enhance productivity, making access to financing crucial. Consequently, the Paraguayan government provides funding for SMEs through institutions like the Agencia Financiera de Desarrollo, the country's policy development bank.

However, the financing gap for SMEs remains substantial at US\$386 billion (13.9% of GDP), with over half of SMEs facing difficulties in obtaining loans from private banks (CAF 2023, IFC 2022). Under these circumstances, improving financial access for SMEs, including those in the agricultural sector, has become a critical development challenge for promoting SMEs in the country, and ultimately for its economic development and job creation.

(2) Positioning of This Project within Japan's and JICA's Cooperation Policies for the SME Sector

Japan's "Country Development Cooperation Policy for the Republic of Paraguay (June 2021)" identifies reducing disparities and poverty as a key theme. It aims to contribute to sustainable economic development by supporting measures to combat poverty through enhancing the productivity of smallholder farmers and others, as well as by assisting their participation in production value chains. Furthermore, according to JICA's Country Analysis Paper (2014), addressing disparities through agricultural development emphasizing processing, distribution, and marketing is a priority item, based on factors such as the contribution of smallholder farmers to stabilizing export agriculture. This project is expected to promote the development of SMEs, including those in the agricultural sector, thereby providing stable employment opportunities for low-income groups, reducing poverty, and offering opportunities for productivity improvement to smallholder farmers. This aligns with the policies of the Government of Japan and JICA. Furthermore, this project, which aims to improve financial access for SMEs in Paraguay, aligns with the JICA Global Agenda: 4. Private Sector Development (fostering private enterprises to promote economic growth in developing countries), 5. Agriculture and Rural Development

(realizing agriculture that enriches all and eliminates poverty and hunger), and 13. Public Finance and Financial Systems (Strengthening fiscal and financial foundations to achieve economic stability and growth). Furthermore, this project is expected to contribute to SDG Goals 1 (No Poverty), 9 (Build Resilient Infrastructure, Promote Inclusive and Sustainable Industrialization, and Foster Innovation), and 17 (Strengthen the Means of Implementation and Revitalize the Global Partnership for Sustainable Development). The significance of support through overseas investment and financing is considerable.

3. Project Overview

(1) Project Overview

① Project Purpose

This project provides financing to Sudameris, a local bank in Paraguay, to support improved access to finance for SMEs, including those in the country's agricultural sector. This contributes to Paraguay's economic growth and job creation, aligning with the challenges of this sector and the Paraguayan government's policies.

② Project Details

JICA Loan The loan will be on-lent through Sudameris to SMEs nationwide in Paraguay. Of this amount, 30% is planned to be utilized for SMEs engaged in the agricultural sector.

③ Project Beneficiaries (Target Group)

Paraguayan SMEs, SMEs engaged in the agricultural sector

(2) Total Project Cost: USD 370 million (For JICA portion USD 100 million)

(3) Project Implementation Schedule (Cooperation Period): September 2025 to September 2032

(4) Project Implementation Structure

1) Borrower: Sudameris Bank S.A.E.C.A.

2) Implementing Agency: Sudameris Bank S.A.E.C.A.

(5) Coordination and Role Sharing with Other Projects and Aid Agencies

1) Japan's Assistance Activities: None

2) Assistance Activities by Other Aid Agencies: co-financed with the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (FMO), Promotion et Participation pour la Coopération Économique (Proparco), Development Finance Institute Canada Inc. (FinDev Canada), Banco Finantia and Commercial Bank of Dubai.

(6) Environmental and Social Considerations

① Category: C

② Basis for Category Classification: Under the "JICA Environmental and Social Considerations Guidelines" (published January 2022), the project is judged to have minimal undesirable environmental impacts.

(7) Cross-cutting Issues: None

(8) Gender Classification: [Not Applicable] ■GI (Gender Mainstreaming Needs Assessment/Analysis Project)

<Activity Content/Classification Reason> No initiatives contributing to gender equality or women's empowerment, nor the establishment or planning of related indicators, were undertaken.

(9) Other Special Notes: None

4. Targeted Outcomes

(1) Quantitative Effects

Indicator Name	Baseline (End of December 2024)	Target Value (End of December 2031) 6 years after LA signing
Outstanding SME Loans (million USD)	1,024	1,645
Outstanding Agricultural SME Loans (million USD)	243	390
Number of SME Loan Approvals through JICA Financing	0	170
Number of Agricultural SME Loan Approvals through JICA Financing	0	80

(2) Qualitative Effects: Paraguay's economic growth and employment expansion, promotion and business expansion of SMEs

5. External Factors and Risk Control

N/A

6. Lessons from Past Projects

In past evaluations of financial institution lending projects for overseas investment and financing in Latin America and the Caribbean, natural disasters such as droughts associated with El Niño phenomena and hurricanes increased the non-performing loan ratio of borrowers, negatively impacting their finances. Paraguay has also experienced damage from natural disasters like thunderstorms in the past. During the review, Sudameris' risk management and project supervision capabilities regarding natural disaster risks were confirmed. In addition to managing risks through the above financial risk management, Sudameris minimizes damage from recurring climate-related events by granting payment deferrals based on mitigation measures established by financial authorities when climate change risks materialize. Furthermore, with technical assistance from the IMF, the entire financial sector plans to introduce a new risk framework for climate change risks. Sudameris, individually, aims to establish assessment methodologies for these risks with the cooperation of a DFI. Paraguay experienced drought and flood damage in 2019 and 2022. However, no significant impact, such as a substantial decline in loan amounts or deterioration in the non-performing loan ratio, was observed around those years. Furthermore, while the macroeconomy (GDP growth rate) turned negative in 2019, it returned to positive growth the following year and thereafter. Therefore, no particular concerns are identified.

7. Evaluation Results

As outlined above, this project aligns with Paraguay's development challenges, development policies, and Japan's cooperation policy. It is expected to have high development significance, and the need to support its implementation is strong. Furthermore, it is considered to contribute to SDG Goal 1 (No Poverty), Goal 9 (Industry, Innovation and Infrastructure), and Goal 17 (Partnerships for the Goals). The significance of support through overseas investment and financing is substantial.

8. Plan for Future Evaluation

(1) Indicators to be Used for Future Evaluation

As outlined in Section 4.

(2) Future Evaluation Schedule

A post-implementation evaluation is scheduled to be conducted approximately six years after the signing of the LA.

End