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 Ecuador ("Ecuador")
（２）Project Site/Target Area: Ecuador
（３）Project: Vulnerable People Financial Inclusion Support Project
（４）Borrower: Banco Solidario S.A. (“Solidario”)
（５）Signing Date: April 4, 2025

2. Background and Necessity of the Project

（１）Current State and Issues of the Microenterprise Sector Development in Ecuador

Ecuador's high poverty rate and severe economic disparities, as well as their vicious cycle involved in further economic stagnation, are major challenges. Ecuador's economy will seriously stagnate due to the combined crises of the new coronavirus pandemic after 2020, droughts and floods caused by El Niño after 2022, deteriorating security due to intensifying conflicts among criminal organizations, and tax increases to finance security measures, with GDP growth slowing significantly to 0.1% in 2024 (IMF). With a Gini coefficient of 45.5%, domestic economic disparities remain severe (World Bank, 2022). This disparity is reflected in the poverty rate, which is 26.0% nationwide, with an absolute poverty rate of 9.8%. Employment is also an issue, with the percentage of regular workers receiving at least the legal minimum monthly wage remaining in the 30% range, unchanged from before and after the pandemic, and the majority of workers are working under economically inadequate conditions that do not meet the legal minimum wage and legal working days (INEC, 2023). The unemployment rate for young people (18-29 years old) is particularly severe at 8.2%, which is significantly higher than the 3.2% and 2.1% for those aged 30-44 and 45-64, respectively (INEC, 2023). In addition, the United Nations has pointed out that poverty is at the root of the country's current security problems (UN, September 2023), and the recruitment of young people and immigrants from poor families into criminal organizations has caused a vicious cycle of worsening security and further stagnation of the economy.

Gender disparities within the country also remain unresolved. The country has a large gender gap in labor, with a work force participation rate of 77.9% for men compared to only 52.9% for women (INEC, 2023). In terms of formal employment, 35.8% of men are in formal employment, while only 23.9% of women are in formal employment, and most women work in the informal sector. With regard to salaries, there is also a 19% wage gap between men and women in formal employment (INEC, 2022), leaving women in a more economically challenged situation.

Furthermore, in addition to these domestic conditions, Ecuador is a host country for refugees and displaced persons from Venezuela and other countries, as well as other migrants in the region, which is one of the factors contributing to the widening gap. In particular, domestic Venezuelan migrants are second only to Colombia and Peru, with 502,214 Venezuelan migrants in the country as of December 2022 (UNHCR 2022). Of these, 79% of Venezuelan migrants work in the informal sector, with a low monthly income of $84 per person (UNHCR, 2022), and creating an enabling environment for economic inclusion of Venezuelan migrants is also a challenge.

For low-income groups and many of these vulnerable groups, including women, youth, and immigrants, entrepreneurship through microcredit and other loans is an important means to economic independence, but access to finance is one barrier (UNHCR, GPFI, 2023). The finance gap for small and micro enterprises in Ecuador is estimated at $17.9 billion ($2.2 billion of which are microenterprises), which is 17.8% of GDP, the second highest in South America after Venezuela and Brazil (SME Finance Forum). In addition, according to the Financial Inclusion Report of the Banking Supervisory Agency (March 2024), the country's savings account ownership rate is 81%, while credit card ownership and microcredit are low at 28.7% and 1%, respectively, suggesting that financial inclusion, especially in terms of credit, is not progressing.

Under these circumstances, the National Development Plan for the New Ecuador 2024-2025 (released in February 2024) includes the promotion of inclusive formal employment opportunities and the integration of youth and women into the labor market as policies in the "Economic Development" area under the goal of "Creating Decent Jobs”. Furthermore, the "National Strategy for Financial Inclusion and Financial Education" points out the need to promote the development of an inclusive financial system and prioritize the improvement of access to finance, especially for vulnerable groups, including women, rural citizens, migrants, and youth (Red de Instituciones Financieras de Desarrollo, 2023).

This project will support financial inclusion of microenterprises, including vulnerable groups, in the country through a loan to Soridario, one of the leading banks in the microcredit sector in the country.

（２） Japan's and JICA's Cooperation Policy for the Microenterprise Sector in Ecuador

“Japan's Country Development Cooperation Policy for the Republic of Ecuador” (April 2020) positions the "reduction of disparities and realization of an inclusive society" as a priority area, and intends to strengthen support for efforts to reduce disparities and realize an inclusive society by providing support for regional development, education and health for the poor and disabled, and so on. In addition, the Government of Japan has decided to implement the Grant Assistance "The Project for Ensuring Protection, Humanitarian Assistance and Socio-Economic Inclusion for Venezuelan Refugees, Migrants and Internally Displaced Persons (in partnership with UNHCR)" in 2022. Through these related projects and collaboration with international organizations, the project may contribute to supporting economic self-reliance through strengthening financial inclusion not only for women and young people, but also for vulnerable groups including Venezuelan migrants and refugees. It will also be positioned in the Facility for Accelerating Financial Inclusion (FAFI), which was established in May 2023. In addition, it will contribute to the cooperation policy "Promotion of Women's Economic Empowerment" in JICA Global Agenda No. 14 "Gender Equality and Women's Empowerment," as well as to the "CORE" (Cooperation for Economic Recovery and Social Inclusion) framework that JICA has concluded with the IDB Group, which aims for cooperation in economic recovery and social inclusion in Latin America and the Caribbean. In light of the above, this project is consistent with Japan's cooperation policy.

3. Project Description

（１） Project Description

① Project Objective

The project aims to improve access to finance for microenterprises operated by low- and middle-income people, including vulnerable groups (women, young people, and immigrants) in the Republic of Ecuador by providing loans to Solidario, thereby contributing to improving the livelihoods of the vulnerable groups, improving disparities, and reducing poverty in the country.

② Project Components

The project provides loans to be sub-loaned through Solidario to microenterprises operated by low- and middle-income people, including vulnerable groups (women, young people, and immigrants) in Ecuador. At least 50% of JICA loan will be utilized for loans to women.

③ Project Beneficiaries (Target Group)

Microenterprises operated by low- and middle-income people, including vulnerable groups (women, young people, and immigrants) in Ecuador.

（２）Estimated Project Cost: $20 million (JICA loan $10 million)

（３）Schedule: April 2025 - April 2029

（４）Project Implementation Structure:

Borrower and Executing Agency: Solidario

（５）Cooperation and Sharing of Roles with Other Donors

1）Japan's Activities: N/A

2）Other Donor’s Activity: Co-finance with IDB Invest

（６）Environmental and social Consideration

Environmental and Social Consideration

① Category: C

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

（７）Cross-Sectoral issues: N/A

（８）Gender Category: 【Not applicable】 GI: Gender mainstreaming needs assessment and analysis projects

Although social and gender analysis was conducted in the review process, the project did not reach a set of initiatives and indicators that contribute to gender equality and women's empowerment. However, while the proportion of total outstanding microcredit loans to women-clients under Solidario's microcredit loans for low- and middle-income clients at the baseline year is lower than the target year, it has been agreed that the number of women-clients who benefited from JICA's fundwill be set at 50%. In addition, this project will be certified by 2XChallenge (finance for women) to meet the 2X mandatory criteria for governance and accountability, Requirement 2 Leadership (30% of Board of Directors are women) and Requirement 6 Portfolio (50% of JICA loans are to women clients) .

（９）Other Important Issues: N/A

4. Targeted Outcomes

（１）Quantitative Effects

Indicator	Baseline (as of June 2024)	Target (as of December 2027) 【3 year after signing the Loan Agreement】
1. Outstanding Microcredit Loans to Low- and Middle-Income People (Thousands of Dollars)	138,379	141,313
1-1. of which, Outstanding loans to women	82,193	83,788
1-2. of which, Outstanding loans to young people	23,418	24,321
2. Number of microcredit loans for low- and middle-income people financed by JICA (Persons)	0	3,786
2-1. of which, number of loans to women	0	1,895
2-2. of which, number of loans to young people	0	560

*As reference values, monitor ① outstanding loans to immigrants and ② the number of loans to immigrants financed by JICA loans.

（２）Qualitative Effects: Business continuity and expansion of borrowers, employment retention and expansion, increase in self-employment and entrepreneurship financed by Solidario, and increase in business investment by borrowers financed by Solidario

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, as the lessons learned that rising cost of living due to the high interest rate environment and the El Niño phenomenon are likely to lead to a deterioration in the loan loss ratio for loans to individuals and microfinance were observed, it is important to confirm the borrower's screening system, business growth prospects and buffers such as loan loss reserves. The borrower in this project also operate in the microfinance sector, which is vulnerable to interest rates and the El Niño phenomenon, and there are concerns about the impact on the quality of future loans. Under these circumstances, the borrower has set an internal NPL ratio limit for each financial instrument, and the bank's risk management department is monitoring the level.

The examination confirmed that in monitoring and loan portfolio management through changes in risk exposure and credit policies, the bank is managing NPLs such as revising the new loan plan for the product, reducing the amount of new approvals, and flexibly reviewing the customer risk profile for approval in conjunction with trends by domestic region. JICA will continue to monitor this matter during the monitoring phase in cooperation with the co-finance lender, IDB Invest.

7. Evaluation Results

As described above, this project meets Ecuador's development challenges, development policies, and Japan's cooperation policy, is recognized as necessary, has an appropriate project plan, and has a good prospect of being accomplished.

8. Plan for Future Evaluation

（１）Indicators to be used

As indicated in Section 4.

（２）Future Evaluation Schedule

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

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