

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: Republic of Peru ("Peru")
 - (2) Project: Project for Financial Inclusion of Micro and Small Enterprises in Northern Regions
 - (3) Project Site / Target Area: Peru
- Loan Agreement: April 11, 2025

2. Background and Necessity of the Project

- (1) Current State and Issues of Micro and Small Enterprises Finance Sector and the Priority of the Project in the Country

Peru has a population of approximately 30 million people, of which the Lima-Callao metropolitan area has a population of approximately 10 million. The main reason for this population distribution is the economic and social disparity between the metropolitan area and the rural areas. The population continuously flows from the rural areas, where poverty is severe, to the metropolitan area, which is the economic center of the country. The rural areas, where the population has been hollowed out, are in a vicious cycle of sluggish economic activity and increasingly severe poverty. Of the eight provinces in the north region, Cajamarca and Loreto are the poorest in the country, with poverty rates of 44.5% and 43.5%, respectively, while the average for the eight provinces is 31.0%, higher than the national average of 29.0%. Gender inequality is also a serious social issue. The overall employment rate of women in Peru is 64.77%, which is lower than that of men at 79.10%. Gender income gap between women and men remains large and in average women earn only 74.1% of men's average income (World Economic Forum, 2023). Women's limited employment opportunities are due to the many domestic roles traditionally held by women and the lack of flexible work options (2022, National Bureau of Information and Statistics of Peru).

Most of the employment and livelihood creation among the poor in Peru is carried out by small and micro enterprises. They account for 99.4% of the total number of enterprises in the country, 88.6% of private sector employment (Ministry of Production, Peru, 2021), and 85.8% of employment among the poor (INEI, 2024). In addition, microenterprises -businesses with a sole proprietor with relatively flexible work arrangements- represents a valuable support for

women with families to secure the income they need (2016, UKAID). In fact, 73.6% of the economically active population of women in Peru work in microenterprises or employ themselves as sole proprietors, and the percentage reaches 84.1% if small enterprises are included.

However, the country's financial sector lends mainly to large corporations in metropolitan areas and large cities, and loans to small and micro businesses account for only 23.2% of total loans in the country, including loans to medium-sized enterprises. In the eight northern provinces that are the main target of this project, there is also a serious financing gap. The percentage of the adult population with financial access in the eight states averages only 30.86% compared to the national average of 35.11%, Loreto has the lowest percentage of 18.36%, followed by the 25.83% of Amazonas (2024, National Bureau of Information and Statistics). This limited access to finance has led to a negative spiral of inactivity in the economy of small and micro businesses which are the main source of employment and livelihood for the poor, making it more difficult for financial institutions to extend credit.

Under these circumstances, the Peruvian government has set "improvement of regional financial mechanisms" as a major goal in its National Competitiveness Plan, and is working to promote financial inclusion in rural areas. Mibanco is the pioneer and the largest financial institution in the microfinance sector in the country, with a wide market share in the sector and the highest share for loans to small and micro businesses in the eight northern provinces.

By providing loans to Mibanco, this project aims to promote financial inclusion of small and micro businesses, especially in the northern region, which is the poorest region in Peru, thereby contributing to poverty and disparity reduction in the country.

(2) Japan's and JICA's Policy Cooperation Policy and Operations in the Micro and Small Enterprises Sector in the Country

This project is in line with the priority areas of "Improvement of Economic and Social Infrastructure" and "Reduction of Disparities" in Japan's Country Development Cooperation Policy for Peru (2023), "Reduction of Disparities between Rural and Urban Areas" in JICA Country Analysis Paper (2022), "Improvement of Competitiveness of Private Sector" and "Improvement of Financial Access" in the global agenda of Private Sector Development. In addition, this project is subject to Facility for Accelerating Financial Inclusion (FAFI), which Former 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 small and micro enterprises in developing countries, in cooperation with development financial institutions. This project is in line with the above-mentioned cooperation policy. In the northern part of the country where this project is located, Japanese ODA loans and technical assistance in the tourism and irrigation sectors are being developed across the state, and a high synergy with these project assets is expected.

3. Project Description

(1) Project Description

① Project Objective

This project aims to improve access to finance for small and micro businesses in the Republic of Peru, mainly in the northern part of the country, by providing a loan to Mibanco, thereby contributing to reduce regional disparities in the country.

② Project Components

The project loans will be provided by Mibanco to small and micro businesses in eight northern Peruvian states: Tumbes, Piura, Lambayeque, Cajamarca, Amazonas, Loreto, San Martin, and La Libertad. 70% of the total loan amount will be sub-loaned to small and micro businesses in northern region, and 30% of the total loan amount will be sub-loaned to women-owned small and micro enterprises throughout Peru.

③ Project Beneficiaries (Target Group)

Small and micro businesses in northern Peru and small and micro businesses owned by women throughout Peru.

(2) Estimated Project Cost

100 million USD (JICA's loan: 50 million USD)

(3) Schedule

April 2025- April 2028 (3 years)

(4) Project Implementation Structure

1) Borrower: Mibanco, Banco de la Microempresa S.A. (Mibanco)

(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

- ① Poverty Alleviation and Poverty Consideration: This project expand credit to small and micro businesses in areas with high poverty rates.
- ② Disability rights: This project prohibits discrimination on the basis of disability in lending and complies with ensuring information accessibility.

(8) Gender Category: GI(S): Gender Informed (Significant)

< To address the issue of limited employment opportunities and financial inclusion for women, this project will provide loans to women-owned small and micro businesses and set the balance of loans and number of borrowers as indicators. In addition, because the project meets 2X Challenge (Finance for Women) requirements 2 Leadership (at least 30% of the board members of the borrower are women) and requirement 6 (at least 30% of the loan portfolio is women-owned small and micro businesses), 2X Plans to apply for Challenge certification >

(9) Other Important Issues: N/A

4. Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator name	Baseline September 2024	Target (As of December 2027)
Mibanco's gross outstanding loan amount for Micro and Small Enterprises (Million PEN)	10,802	11,542
Mibanco's gross outstanding loan amount for Micro and Small Enterprises in North region (Million PEN)	3,168	3,418
Mibanco's gross outstanding loan amount for Women-owned Micro and Small Enterprises (Million PEN)	4,905	5,365
The number of loans to Micro and Small Enterprises, funded by JICA	0	15,890
The number of loans to Micro and Small Enterprises in North region, funded by JICA	0	14,482
The number of loans to Women-	0	4,767

owned Micro and Small Enterprises, funded by JICA		
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2) Impact

(2) Qualitative Effects: Improved access to finance for small and micro businesses, promotion of small and micro businesses and maintenance and expansion of employment, correction of regional disparities, correction of gender disparities in employment opportunities and income.

(3) Internal Rate of Return: N/A

5. External Factors and Risk Control

N/A

6. Lessons Learned from Past Projects

In past evaluations of loan for financial institutions in Private Sector Investment Finance in the Latin American region, the deterioration of non-performing loans affected by the COVID-19 Pandemic and the deterioration in profitability have been identified as a risk. Loans subject to the repayment moratorium measures introduced by the government are at risk of becoming non-performing in the future and should therefore be closely monitored.

7. Evaluation Results

As described above, this project is in line with the development issues in Peru, 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: Around December 2028

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