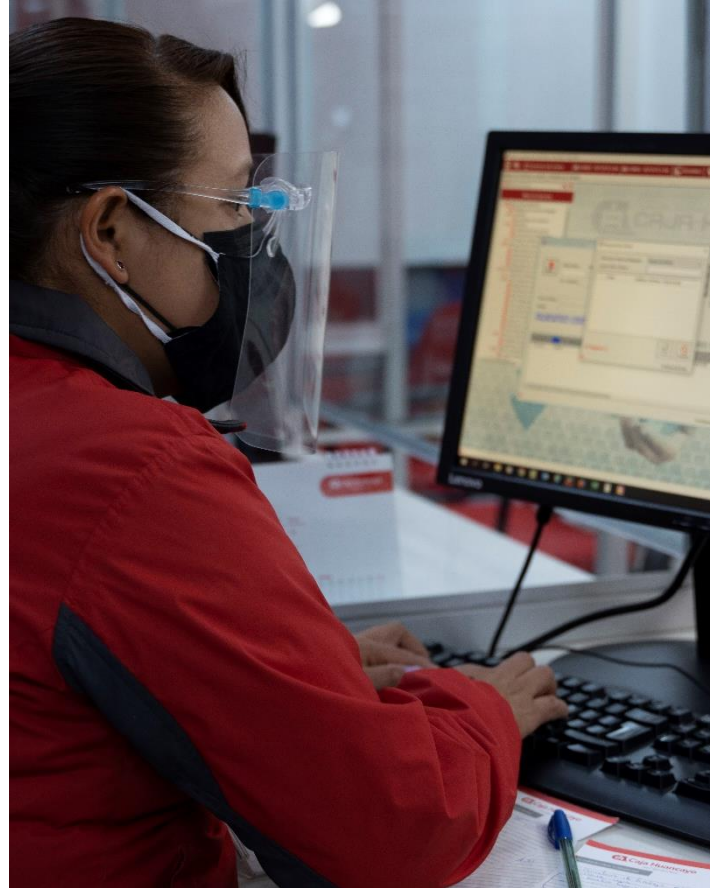


September 2022

CATALYZE PERU

CATALYZE Peru seeks to stimulate sustainable and responsible economic development and growth in Peru's Amazon region by facilitating financing for small- and medium-sized enterprises (SMEs) in the region. CATALYZE Peru works across sectors in the Peruvian Amazon both within established agricultural subsectors and by promoting new and emerging subsectors, such as non-timber forest products (NTFPs). CATALYZE Peru also actively promotes investment in other sectors such as tourism, forestry, services, and light manufacturing, among others. Much of the investment will come from the Peruvian financial sector, with the objective of increasing the appetite and capacity of Peruvian banks, cajas municipales, cajas rurales, microfinance institutions (MFIs), and cooperatives to lend to enterprises profitably and sustainably. CATALYZE Peru also mobilizes investment from cross-border impact investors and financial intermediaries via direct investments and funds.



BACKGROUND

CATALYZE Peru's learning approach is guided by its key learning questions, which also contribute to the larger, global CATALYZE learning agenda. CATALYZE actively works to answer its learning questions through an iterative process of generating spaces for knowledge exchange and dialogue among CATALYZE staff, implementing partners (e.g., financial intermediaries and Business Advisor Service Providers (BASPs)¹), private and public sector actors, civil society, and small-, medium-, and large-sized enterprises involved in program implementation. This document aims to share and disseminate learnings related to the global and Peru-specific learning questions. Throughout this process, CATALYZE Peru learns how impactful and effective its strategies are, obtains evidence-based qualitative and quantitative data, and identifies areas where strategies need to change and evolve in collaboration with stakeholders. As a result, we share the key lessons learned and strengthen stakeholder relationships, which allows us to be more effective.

¹ BASPs identify investable firms or projects, provide TA to SMEs and producer associations seeking financing, structure and secure financing.



CHALLENGE

Identification of effective strategies to promote the mobilization of private capital in the Peruvian Amazon.



OPPORTUNITY

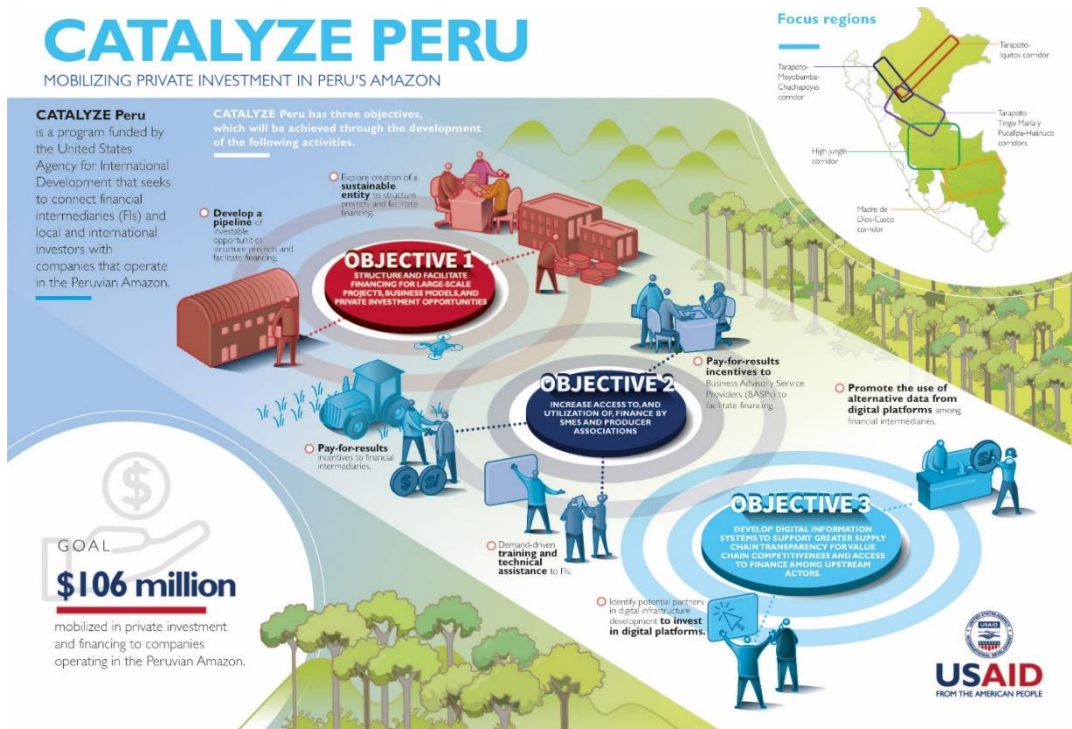
By presenting and refining the Activity's strategies, CATALYZE Peru will identify synergies with stakeholders to allow for scalability and sustainability.

PROCESS METHODOLOGY

CATALYZE Peru conducted an in-person learning event with 88 stakeholders on September 8, 2022, in Lima. The event used a participatory methodology to obtain opinions, suggestions for improvements to activity strategy, and proposals for working in synergy in response to CATALYZE Peru's current approach.

APPROACH

The CATALYZE Peru approach is presented below



LEARNING QUESTIONS



1 What strategies are most effective for increasing investment and financing for MSMEs, producer associations, and small-sized farmers in the Peruvian Amazon?

2 Are current incentives sufficient for motivating BASPs and Financial Institutions to facilitate access to finance for MSMEs? What other blended finance solutions, such as guarantees, may be/are needed?

3 In what ways do digital information systems expand access to finance and make it more efficient and affordable in the Peruvian Amazon, and what is needed to scale these types of solutions?

WHAT DID WE LEARN?

To address the above-listed learning questions, CATALYZE Peru posed a series of sub-questions to the stakeholders present at the learning event in September 2022. The following sections contain the sub-questions that were asked and the key takeaways for each.

1. Do you believe that the strategy implemented by CATALYZE PERU has impacted the BASP – client company relationship to such an extent that they would be able to continue working together without this incentive?

The participants agreed that the BASP – client company relationship has clearly achieved results in the mobilization of private capital, but the answers to the question of whether this relationship could continue without the CATALYZE Peru incentive are diverse. Many consider the relationship sustainable only under certain conditions:

- Creation of a BASP – financial intermediary platform that directly connects BASPs and FIs leading to a more efficient process of sourcing and closing financial deals.
- Identification and training of BASPs located in the Peruvian Amazon, to augment the Lima-based BASPs partnering with CATALYZE Peru.
- Implementation of a blended incentive payment strategy whereby SMEs and CATALYZE co-pay for BASP services, allowing SMEs to access services and evaluate the benefit of services.

2. Do you feel that the tools being applied by CATALYZE PERU are appropriate to enhance the participation of financial intermediaries (local and international) in the Peruvian Amazon?

The participants agreed that the performance-based grants and structured pay-for-results incentives to FIs lead to increased lending to SMEs and producer associations in the Peruvian Amazon, but some important points about this relationship should be considered:

- Technical support for SMEs should be considered as part of a financing package as both are considered necessary to achieve sustainability.
- Creation of a BASP–financial intermediary platform that directly connects BASPs and FIs, leading to a more efficient process of sourcing and closing financial deals.
- Conduct assessment of concessional capital and portfolio guarantees that could directly support the development of agricultural MSMEs.

“This space (the learning event) has allowed us to interact with other BASPs and to coordinate and identify opportunities to cooperate, which gives us the possibility of sustainability beyond the project, since we are seeing that an interesting service platform can be established, which can be operating in the Peruvian Amazon”.

— Iván Alcántara, Financial Facilitator (BASP)

3. Do you feel that the development of the business ecosystem, through the use of a digital tool, allows for sustainable growth in the Peruvian Amazon?

A consensus among the workshop participants is that there is a need to seek a solution to the challenge of digitizing data and developing digital tools. They also agreed that options should be explored to ensure sustainability and, more broadly, digital supply access in the Peruvian Amazon (where digital accessibility and connectivity is often limited). The greatest development impact will be achieved by reaching the majority of MSMEs.

The participants agreed that the development of the business ecosystem through a digital tool is positive since it will allow participants to be brought together to achieve synergies that allow exploiting market potential. Workshop participants also noted that any digital tool developed would benefit from considering the following:

- A plan to promote and spread technological tools, with training for the target audience that is not very familiar with the use of digital tools.
- A guarantee fund to partially mitigate the risk associated with financing based on a digital credit rating or process.
- A clearly-structured business model that prioritizes and plans for long-term sustainability.
- Standardized data capture processes and reduction of operating costs for actors within the business ecosystem.
- Integration between various digital systems and plan for continued improvements.
- Simple, user-friendly access to technology.
- Digitized MSMEs data with real-time information that allows interaction with buyers, suppliers, and other actors.

IMPACT

CATALYZE Peru surpassed Year 2 targets and expects to meet overall project private capital mobilization (PCM) targets:

\$46.7M TOTAL PCM at 9/30/2022		
\$20.3M PCM through BASP strategy	\$15.2M PCM through MoU strategy	\$11.2M PCM through FI strategy
47 Closed deals	5 Anchor firms with financing achieved	3,790 Borrowers received financing through FIs

INCLUSION

To increase financing for companies led by women and young people, the financial intermediaries highlighted the following: the need to implement microcredit campaigns aimed at this audience; structure and implement seed capital programs for women entrepreneurs; credit guarantees targeting women- and youth-led enterprises; non-financial services to strengthen business skills and empower women- and youth-led enterprises.

RESILIENCY DURING COVID AND INSTABILITY

CATALYZE Peru's network of BASPs identified SMEs that needed financing to recover from COVID-19. The BASPs then helped those SMEs in evaluating, structuring, and identifying financing. For example, Cacao El Rey faced significant hurdles in continuing operations due to restrictions associated with the COVID-19 pandemic. The export of products was delayed given shipping bottlenecks, which led to delays in selling products and significant cash flow constraints. To maintain production, Cacao El Rey needed working capital, which they were able to secure thanks to support received from a BASP, demonstrating the value and positive impact of the BASP.

NEXT STEPS



In the coming year, CATALYZE will apply the learnings as follows:

- Carry out the feasibility evaluation of the BASP platform - Financial Intermediaries.
- Through the 3rd BASP call, identify and train BASPs located in the Peruvian Amazon will be prioritized, since to date the BASPs are based in Lima.
- Create conditions so that the -BASP – CLIENT COMPANY relationship based on P4R is structured to incentivize BASPs to support small enterprises.
- Develop and structure a strategy to promote digital technology tools, including training for target audience that may lack technical knowledge.
- Develop a digital ecosystem with the following characteristics: simple access, user-friendly, low-cost for users, and real-time information that allows interaction between buyers and suppliers.