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USAID CATALYZE PERU

Financial Institutions Ecosystem Mapping Assessment – Final Report

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USAID CATALYZE PERU

Financial Institutions Ecosystem Mapping Assessment – Final Report

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Submitted by:

Palladium
1331 Pennsylvania Ave. NW
Washington, DC 20004
us.catalyze.peru@thepalladiumgroup.com

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Amazonas River- Loreto, Peru.

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TABLE OF CONTENTS

- List of Tables.....iv
- List of Graphsiv
- List of Chartsv
- List of Mapsv
- List of Boxesv
- List of Acronyms.....vi
- Executive Summary I
- I. Introduction to CATALYZE Peru 4
- II. Assessment Background and Objectives 5
- III. Peruvian Amazon: Definition and Description 6
 - Geographic Delineation of the Peruvian Amazon 6
 - Trends in Peru’s Amazon (Population, Economy, and Productivity) 9
- IV. Peruvian Amazon: Financial System Landscape 11
 - Digital Technology-Enabled Financing in the Amazon 22
- V. FI Perceptions About Financing Supply and Demand in the Peruvian Amazon 22
 - Profile of FI Interviewees 22
 - FI Perceptions of Barriers to Expanded Financing in the Peruvian Amazon 24
 - FI Perceptions of Success Factors for Expanded Financing in the Peruvian Amazon 26
 - FI Perceptions of Challenges Facing Borrowers To Access and Manage Financing 28
 - FI Perceptions About Future Financing Prospects for the Peruvian Amazon 30
 - Private Company Interviewee Corroboration of FI Perceptions 30
- VI. Estimated Peruvian Amazon Financing Supply 32
- VII. Opportunities: Partnering with Financial Institutions 32
 - FI Perceptions of Opportunity Sectors and Strategies to Expand Financing in the Peruvian Amazon 32
 - Opportunities: FI Perceptions of Priority Training and TA Needs of FIs 34
 - Opportunities: Prioritization of Potential FI Partners for Catalyze Peru 35
 - Opportunities: Guarantee Funds Available to Peruvian Financial Sector 37
 - Opportunities: Multilateral Institutional Investment Available to Peruvian Financial Sector 37
 - Opportunities: Alternative Securities Market Listings for Peruvian Amazon 38
- VIII. Recommendations 38
 - Recommendations for the Role of Catalyze Peru to Incentivize Investment 39
 - Recommendations for the Role of Catalyze Peru to Provide TA and Other Services to Address Investment Barriers 39

	Recommendations for the Role of the Private Sector to Expand Investment in the Peruvian Amazon.....	42
	Recommendations for the Role of the GOP to Expand Investment in the Peruvian Amazon.....	44
IX.	Bibliography.....	47
XI.	Annexes	50
	Assessment Methodology and Scope	50
	Peruvian Amazon Demographic and Economic Data.....	52
	Peru Macroeconomic Environment and Sovereign Rating	54
	Peru Financial System Landscape: Lending and Savings	57
	Peru Financial System Landscape: Portfolio Quality	62
	Peru Financial System Landscape: Reactiva Program	68
	Peru Financial System Landscape: Interest Rates.....	69
	Peru Financial System Landscape: Cost Structure, Efficiency, and Profitability	75
	Digital Technology: Enabled Financing.....	78
	Estimated Peruvian Amazon Financing Supply Methodology	82
	Opportunities: Guarantee Funds.....	83
	Opportunities: Development Finance Institutions	89
	Assessment Interview Guide	92
	List of Interviewees.....	95

LIST OF TABLES

Table 1: Peru Population & Amazon Population by Department, Area, and Density (2020)	9
Table 2: Peruvian Amazon Financial Institutions by Lender Type (38 FIs)	12
Table 3: Peru and Peruvian Amazon Cooperative by Classification (2019)	15
Table 4: Savings and Credit Cooperatives in the Peruvian Amazon by Classification, Level of Operations, Province, and Department (2019)	15
Table 5: Increase in ATMs and Point of Sale (POS) Terminals 2010-2019.....	17
Table 6: Increase in ATMs and Point of Sale (POS) by Financial Institution Type 2010-2019	17
Table 7: Estimated Peruvian Amazon Financing Supply Calculation Methodology	32
Table 8: Potential FI Partners to Participate in CATALYZE Peru Competitive Procurement and Selection Processes	36
Table 9: GDP per Capita by Peruvian Amazon Department (2019).....	52
Table 10: Capital Investment per Worker by Peruvian Amazon Department (2019).....	53
Table 11: Monthly Public Budget per Capita by Peruvian Amazon Department (2020)	53
Table 12: Access to Credit by Peruvian Amazon Department (2020).....	54
Table 13: Changes in Peru's GDP (2018–2020).....	56
Table 14: Peruvian Amazon FI Offices by Department.....	59
Table 15: Number of Businesses by Type in the CATALYZE Peruvian Amazon region	60
Table 16: Number of Formal Businesses and Estimates of Informal Businesses in Peruvian Amazon.....	60
Table 17: Peruvian Amazon Loans by Credit & Entity Type (2019) (in thousands of soles).....	60
Table 18: Loans by Credit Type & Department (% of total in Peruvian Amazon) (2019).....	61
Table 19: Deposits Collected in Peruvian Amazon by FI Type (2010–2019)	62
Table 20: Peru Portfolio Classification by Business Type Loan & Repayment Category (2019).....	63
Table 21: Peru Portfolio Quality by Type of Credit (%) (2019).....	65
Table 22: Peru Businesses Utilizing Reactiva Peru Program by Business Type.....	69
Table 23: Peru Annual Effective Interest Rate (2019–2020)	70
Table 24: Peru Cost Structure by FI Type (2020)	75
Table 25: Access to Phone & Internet Connectivity by Amazon Department (2018)	78
Table 26: Fixed Internet Lines by Amazon Department.....	78
Table 27: Percentage of Schools with Internet Access by Amazon Department	79
Table 28: Peruvian Amazon Debt Financing Supply Calculation Methodology.....	83
Table 29: COFIDE Loan Portfolio by FI Type (2018 & 2019)	83
Table 30: COFIDE Average Annual Effective Interest Rate per Loan Product (2018 & 2019)	84
Table 31: COFIDE Credit Portfolio by Economic Sector (2018 & 2019).....	84
Table 32: COFIDE EFSF (\$US M) (2018 & 2019)	84
Table 33: COFIDE COVID-19 Relief Resources	86
Table 34: Tax Exemption Amounts for Peruvian Amazon Firms.....	87
Table 35: List of FIs and Private Sector Entities Interviewed.....	95

LIST OF GRAPHS

Graph 1: Peruvian Amazon Evolution in Number of Offices by FI Type (2010-2019)	16
Graph 2: Peruvian Amazon Distribution of Loans by Credit Type (2019).....	18
Graph 3: Peru GDP Sectoral Composition (2018–2020)	56
Graph 4: Peru and Peruvian Amazon Number of Direct Lending FIs (2020)	57
Graph 5: Peru and Peruvian Amazon FIs by Category (2020).....	58
Graph 6: Peruvian Amazon Number of FIs and their Offices, excluding Cooperatives (2010–2019).....	58
Graph 7: Percentage of Loans Made in Peruvian Amazon (2010–2019).....	59
Graph 8: Peruvian Amazon Deposits / Lending (2010–2019).....	61
Graph 9: Comparison of Overdue Loans by Peruvian Amazon Department (August 2020)	62

Graph 10: Peru Portfolio Classification by Business Type Loan & Repayment Category (%) (2019)	64
Graph 11: Peru Percentage of Loans Classified as Normal by FI Type (2019).....	64
Graph 12: Peru Portfolio Quality by FI Type (%) (2019)	65
Graph 13: Peru Comparison of Overdue Portfolio by FI Type (%) (2019 & 2020)	66
Graph 14: Peru Comparison of Refinanced and Restructured Portfolio by FI Type (%) (2019 & 2020) ...	66
Graph 15: Peru Comparison of Loan Loss Reserves as % of Overdue Portfolio by FI Type (2019 & 2020)	67
Graph 16: Distribution of Reactiva Peru Funds by Business Type in Peruvian Amazon (2020).....	68
Graph 17: Peruvian Amazon Distribution of Reactiva Peru Funds by Business Type (2020)	68
Graph 18: Peru Global Capital Ratio by FI Type (%)	70
Graph 19: Peru Comparative Profitability by FI Type (%) (2019 & 2020)	74
Graph 20: Peru Financial Statement Ratios by FI Type (2020)	76
Graph 21: Peru Efficiency Comparisons by FI Type (%).....	76
Graph 22: Peru Comparative Profitability by FI Type (%) (2019 & 2020)	77
Graph 23: Peru Percentage Change in Financial Transactions by Physical Channel (2020)	80
Graph 24: FOGAPI Percentage Guarantees by Economic Sector	88
Graph 25: FOGAPI Guarantees Utilized by Peruvian Department.....	88
Graph 26: FOGAPI Individual Guarantee by Type of Business	89
Graph 27: IDB Activities in Peru.....	91

LIST OF CHARTS

Chart 1: Variation Between Peru’s & Amazon GDP (2010–2019) (Base 2010=100)	10
Chart 2: Variation Between Amazon GDP & Loans (2010–2019) (Base Index 2010=100).....	52
Chart 3: Emerging Markets Bond Index (EMBI): Peru, Latin America (Latin EMBIG), and Emerging Markets (EMBIG) – Stripped Spread in Basis Points (100 basis points = 1%).....	57
Chart 4: Peru Evolution of National Spread between Earned (Loans) and Interest Paid (on Deposits) on Interest Rates in Domestic Currency (%) (annual averages)	69
Chart 5: Peru Banks’ Average Annual Lending Interest Rates, for terms up to 360 days	71
Chart 6: Peru Banks’ Average Annual Lending Interest Rates, for 360+ day terms	72
Chart 7: Peru Banks’ Average Annual Lending Interest Rates to MSMEs.....	72
Chart 8: Peru Cajas Municipales’ Average Annual Lending Interest Rates by Business Type & Term Length (2011-2020)	73
Chart 9: Peru Banks’ Average Annual Lending Interest Rate for Consumer & Mortgage Loans.....	73
Chart 10: Peru Cajas Municipales’ Average Annual Lending Interest Rate (2011-2020)	74
Chart 11: Peru Number of Virtual vs. In-Person Financial Transactions (2019-2020)	79
Chart 12: COFIDE Financial Sector Sustainability Strategies.....	83

LIST OF MAPS

Map 1: Peruvian Amazon Topographical Map with Population Density (2021)	7
Map 2: CATALYZE Peru Zones.....	8
Map 3: Peruvian Amazon Financial Institutions by Type and Number of Offices (2020).....	13
Map 4: Peruvian Amazon Financial Institutions by Total Deposits and Loans (2020).....	14

LIST OF BOXES

Box 1: CATALYZE Peru Definition of the Peruvian Amazon	8
Box 2: Peruvian Savings and Credit Cooperatives Classifications 2021	15
Box 3: Business Type Classifications: SBS and Government of Peru	17

LIST OF ACRONYMS

ASBANC	Asociación de Bancos del Perú (Bank Association of Peru)
ASM	Alternative Securities Market (Mercado Alternativo de Valores)
ATM	Automated Teller Machine
B	Billion
BASP	Business Advisory Service Provider
BCRP	Banco Central de Reserva del Perú (Central Bank of Peru)
BVL	Bolsa de Valores (Stock Exchange)
CAFE	Coffee Alliance for Excellence
CAVALI	Registro Central de Valores y Liquidaciones (Central Registry for Securities and Settlements)
COFIDE	Corporación Financiera de Desarrollo (Peru's Development Finance Corporation)
COOPAC	Cooperativas de Ahorro y Crédito (Cooperatives for Savings and Credit)
COVID-19	Novel Coronavirus 19
CRAC	Caja Rural de Ahorro y Crédito (Rural Savings and Credit Fund)
DCA	Development Credit Authority
DEVIDA	Comisión Nacional para el Desarrollo y Vida sin Drogas (National Commission for Development and Life without Drugs)
DFC	Development Finance Corporation
DFI	Development Finance Institution
DL	Decreto Legislativo (Legislative Decree)
DU	Decreto de Urgencia (Emergency Decree)
EDPYME	Entidad de Desarrollo para la Pequeña y Microempresa (Development Entity for Small and Micro Enterprise)
EFS	Entities of the Financial System
EFSF	Financiamiento Estructurado Empresarial Especializado (Specialized Structured Business Financing)
FAE	Fondo de Apoyo Empresarial (Business Support Fund)
FENACREP	Federación Nacional de Cooperativas de Ahorro y Crédito del Perú (National Federation of Savings and Credit Cooperatives of Peru)
FI	Financial Institution
FOGAPI	Fondo de Garantía de la Pequeña Industria (Guarantee Fund for Small Industry)
FONDESAM	Fondo para el Desarrollo Amazónico (Amazon Development Fund)
FX	Foreign Exchange
GDP	Gross Domestic Product
GoP	Government of Peru
ICLV	Registro Central de Valores y Liquidaciones (Central Registry for Securities and Settlements)
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
INEI	Instituto Nacional de Estadística e Informática (National Institute of Statistics and Informatics)
INCORE	Índice de Competitividad Regional (Regional Competitiveness Index)
IPE	Instituto Peruano de Economía (Peruvian Economic Institute)
IR	Inflation Report
LAB	Innovation Laboratory

LAC	Latin America and Caribbean
MASL	Meters above Sea Level
MAV	Mercado Alternativo de Valores
M	Million
M&E	Monitoring and Evaluation
MAAP	Monitoring in the Andean Amazon Project
MDA	Mecanismos de Desarrollo Alternativo (Alternative Development Mechanisms)
MEF	Ministerio de Economía y Finanzas (Ministry of Economics and Finance)
MFI	Microfinance Institution
MINAGRI	Ministerio de Agricultura y Riego (Ministry of Agriculture and Irrigation)
MSMEs	Micro, Small, and Medium Enterprises
MYPE	Micro y Pequeñas Empresas (Small and Micro Enterprises, SME)
NBFI	Non-Bank Financial Institutions
NGO	Non-Governmental Organization
PCA	Peru Cocoa Alliance
PCB	Peruvian Central Bank
PNIA	Programa Nacional de Innovación Agraria (National Agricultural Innovation Program)
PNIPA	Programa Nacional de Innovación en Pesca y Acuicultura (National Fisheries and Aquaculture Innovation Program)
POS	Point of Sale
Q	Quarter
RPMV	Registro Público del Mercado de Valores (Public Registry of Market Securities)
SBS	Superintendencia de Banca Seguros (Superintendent of Banks, Insurance Companies, and Pension Fund Administrators)
SIRTOD	Sistema de Información Regional Para la Toma de Decisiones (Regional Information System for Decision-Making)
SME	Small and Micro Enterprises
SMV	Superintendencia de Mercado de Valores (Securities Market Superintendency)
SUNAT	Superintendencia Nacional de Aduanas y de Administración Tributaria (National Superintendency of Customs and Tax Administration)
TA	Technical Assistance
USG	United States Government
VAT	Value-Added Tax
VC	Value Chain
WASH	Water, Sanitation and Hygiene

EXECUTIVE SUMMARY

CATALYZE Peru is a 3.5-year, \$15M, USAID-funded program implemented by Palladium with the objective of channeling significant financing and investment for micro, small, medium businesses (MSMEs), as well as large businesses and financial institutions (FIs) of all sizes, for the benefit of Peru's Amazon. The program is expected to mobilize tens of millions of dollars in financing from third parties (primarily FIs) for Peru's Amazon over three years.

CATALYZE Peru will use a variety of techniques to catalyze new and environmentally responsible financing into Peru's Amazon, including:

- Deal origination/structuring and other technical assistance (TA) support to help businesses and groups of businesses with interests in the Amazon to become “investment-ready.”
- Provision of training and TA for FIs and Business Advisory Service Providers (BASP) to better understand the target sectors and their risk profiles and needed mitigants.
- Provision of other financial incentives to FIs to minimize their costs and enable them to innovate and significantly expand their financing to underserved clients, sectors, and geographies. Through these various incentives, CATALYZE Peru intends to build the capacity of FIs to enter the Amazon market and profitably serve new segments, underbanked geographic areas and clients, and sectors that they historically have not served.

During the first six months of implementation, Palladium's project team and partners are assessing supply and demand for financing throughout the Amazon region, as well as the ecosystem in place to support such investments, by conducting a series of interrelated assessments:

- Financial Institutions Ecosystem Mapping Assessment: View of the financial sector supply of finance and investment in the Peruvian Amazon (this document).
- Opportunity Assessment: Initial demand scan of the opportunities for financing and investment in key supply chains throughout the Amazon.
- BASP Assessment: Analysis of the ecosystem of actors supporting identification, structuring, and closing of financing for FIs, firms, and farms in the Amazon.

This Financial Institutions Ecosystem Mapping Assessment is an initial step toward identifying and leveraging investors to attract their capital for greater impact to the Peruvian Amazon. Peru is home to a sophisticated and stable financial sector that has not yet shifted its attention toward expanding financing responsibly and at greater scale into its Amazon region. Peru has also not yet capitalized on tapping the billions of dollars in financing that has been made available by debt and equity funds, financial institutions, family offices, development finance institutions (DFIs), and donors globally to support sustainable and inclusive growth in environmentally sensitive areas such as Peru's Amazon.

To begin this shift in focus, a team of Peruvian and international experts conducted this assessment in Peru and internationally in October and November 2020, focusing on FIs and other entities investing in and potentially interested in expanding their investments into Peru's Amazon. The assessment questions and methodology were designed to improve the collective understanding of the nature of financing supply in the region, the nature of demand for financing, policy, and enabling environment issues that affect financing at scale, and how CATALYZE Peru can operate within this context to significantly expand financing in environmentally and socially responsible ways.

Peru's Amazon accounts for 94% of the country's forests, 65% of Peru's land mass, yet only 11.5% of the population, 3.8M people who are significantly poorer and less productive than Peru's national average; only 3.7% of all financial system lending and 1.9% of deposits, and

at significantly lower levels than the national average. The region has lower rates of public expenditure than the national average. Land biodiversity remain under significant threat.

The Amazon region extends through all or parts of nine of Peru's departments. Some departments are made up entirely of Amazon tropical forest. Other departments contain some provinces and districts of tropical forest, and other provinces and districts categorized as "*Sierra*" which are technically part of the Andes mountains. CATALYZE Peru developed a definition of the Peruvian Amazon that includes only the Amazon portion of the nine departments, based upon an altitudinal gradient lower than 2,000 meters above sea level, the standard used by Peru's government statistics agency.

The financial system in Peru's Amazon is characterized by: increased FI presence over the past decade (38 operate in the Amazon), but no presence in half of the Amazon's districts; a high concentration of microfinance institutions (MFIs) with the highest capital and transaction costs; FIs that are financially solvent and generally liquid; a prevalence of lending to consumers and to the micro and small enterprise segments; commercial banks as the largest lenders; a small percentage of national lending (3.7%) and deposits (1.9%) in proportion to its share of the population (11.5%); only 6.7% of the nation's financial cooperatives; and FIs hit hard by the global pandemic and currently suffering in terms of profitability. **The rate of adoption of digital finance and digital payments in Peru remains low, and is likely even lower in the Amazon region due to its relatively low internet penetration.**

FIs interviewed included five commercial banks, four cooperatives, three development finance institutions (DFIs), 11 impact investors, and three MFIs.¹ Perceived barriers to expanding financing at scale in the Amazon include: distances and related costs; poor infrastructure (roads, telecom, connectivity); significant risk (illegality, informality, reputational risk, social license); insufficient TA for businesses to become finance-ready; mismatch between financing terms, products, and demand; limited knowledge of the Amazon; high opportunity cost vis-à-vis other parts of Peru; too few and too small businesses; and COVID-19 recovery taking priority over expansion into new zones.

Perceived success factors among FIs to increase investment in the Amazon include: appropriate TA for potential borrowers; de-risking mechanisms (e.g., guarantees, first-loss capital); community buy-in/support; strategic partnerships with actors; and secured buyer contracts.

FI-perceived challenges facing borrowers to access and manage financing include: remote location; too small/not ready for financing; limited vision for growth; not financially literate; poor management skills/lack of training; lack of land titling/collateral; and lack of data/financials.

Both international and Peruvian FIs expressed great interest in expanding their investments in the Amazon, especially if they can be accompanied with appropriate support, such as the potential support offered by the CATALYZE Peru project. More than half of the FIs interviewed confirmed an interest in expanding their financing in Peru's Amazon, and about a quarter of FIs interviewed (principally cooperatives and impact investors) have explicit plans for financing expansion in the Amazon in the near future.

The FI Assessment team complemented FI interviews with private sector actor interviews of those also investing in or interested in expanding their investment and financing in the Peruvian Amazon. They largely corroborated FI interview findings, and also provided useful practical insights, examples, and suggestions.

The annual supply of domestic debt financing supply for the Peruvian Amazon for agriculture is estimated at \$156M per year, and \$415M per annum for manufacturing. These figures do not include equity investments or cross border investments.

¹ An additional 11 non-financial institution were interviewed, for a total of 37 entities interviewed for this assessment.

FI perceptions of opportunity sectors and strategies are: potential target sectors including agriculture, livestock, forestry, tourism, and services; longer term capital for business growth; digital infrastructure; financial products that effectively serve women and youth; and use of TA and consultants.

FI perceptions of priority training and TA needs include: understanding the Peruvian Amazon region, opportunities, and value chains; firm-level capacity building in financial management; improving the forestry enabling environment; farmer technical assistance; and FI financial product development.

The 37 interviewees represent an initial cohort of 26 potential FI and 11 other types of partners with which to work under CATALYZE Peru activities and interventions. CATALYZE Peru can invite other FIs to participate in competitive processes, or form relationships or partnerships with any other FI operating inside or outside of Peru to support expanded Amazon investments.

Guarantee funds available to the Peruvian financial sector include: COFIDE, Peru's development bank, which supports sustainable financial sector growth in various ways; and the US Government's Development Finance Corporation (DFC)'s guarantee program. Multilateral institutional investment sources include the International Finance Corporation (IFC) which offers multiple services and programs to promote financial market growth and expanded access to financial advisory services in Peru. The Inter-American Development Bank (IDB) has begun a program to support expanded bio-economy investments by the Peruvian financial sector, for which IDB is in the process of finalizing an agreement with COFIDE. Lastly, the Alternative Securities Market has potential to serve as an alternative source of financing for growing Amazon businesses at more competitive rates by further linking capital markets to Peru's pension funds.

Recommendations are organized into four sections:

(A) CATALYZE Peru incentivizing investment:

- Offer financial institutions pay for results incentives.

(B) CATALYZE Peru technical assistance to address investment barriers:

- Support robust community engagement and communications.
- Provide financial institutions training.
- Deliver financial institution-specific TA.
- Broker anchor buyer opportunities to unlock financing.
- Assist with transaction identification, structuring, and closure.
- Leverage syndicated TA to support policy shifts favorable to responsible Amazon investing for FIs.
- Expand impact measurement and management beyond CATALYZE Peru.
- Promote digital technology-enabled approaches across all investments.
- Create a facility to continue essential services past the life of CATALYZE Peru.

(C) The role of the private sector:

- Expand internet coverage and connectivity.
- Provide long-term purchase commitments that can unlock financing at scale.
- Support design and delivery of sustainable TA models to agricultural sourcing communities.
- Provide risk-sharing guarantees to help local affiliates access financing.
- Enter partnerships with other companies to support responsible market development.
- Long-term financially sustainable facility development.

(D) The role of the Government of Peru:

- Expand use of COFIDE guarantees for businesses working in the Amazon.
- Increase use of green bonds.
- Clarify regulatory environment for forest investment.

I. INTRODUCTION TO CATALYZE PERU

CATALYZE Peru is a 3.5-year, \$15M, USAID-funded program implemented by Palladium with the objective of channeling significant financing and investment for micro, small, medium, and large businesses (MSMEs)², and financial institutions (FIs)³ of all sizes, for the benefit of Peru’s Amazon. The program is expected to mobilize tens of millions of dollars in financing and investment⁴ from third parties (primarily FIs) in nine departments⁵ of Peru’s Amazon over the three years.

In a region dense with natural resources, ecological beauty, and biodiversity, CATALYZE Peru will create a sustainable suite of services utilizing a blended finance approach to facilitate new investment into the Peruvian Amazon, thereby strengthening the Amazon economy. The project will assist investors of all types and sizes—through provision of training and TA, strategic use of incentives, and innovative risk mitigation—to identify and facilitate commercially viable opportunities and business models that generate value, provide financial returns and high impact, and simultaneously protect the Amazon.

CATALYZE Peru will achieve this through three interrelated offerings:

- (1) Develop Partnerships and Structure Projects / Business Models
- (2) Strengthen FI Services to Targeted Regions, Sectors, and Value Chains
- (3) Develop Digital Technology-Enabled Information Systems to Support Projects / Business Models

Specifically, CATALYZE Peru will use a variety of techniques to catalyze new and environmentally responsible financing into Peru’s Amazon, including:

- 1) Deal origination/structuring and other TA support to help businesses and groups of businesses with interests in the Amazon⁶ to become “investment-ready.”
- 2) Provision of training and TA for FIs and Business Advisory Service Providers (BASP) to better understand the target sectors and their risk profiles and needed mitigants.
- 3) Provision of other financial incentives to FIs to minimize their costs and enable them to innovate and significantly expand their financing to underserved clients, sectors, and geographies. Through these various incentives, CATALYZE Peru intends to build the capacity of FIs to enter the Amazon market and profitably serve new segments, underbanked geographic areas and clients, and sectors that they historically have not served.

² This assessment provides descriptions of each of these sized businesses as defined by the Superintendencia de Banca Seguros (SBS) and the Government of Peru but uses the former to align with Peru’s financial system definitions.

³ For the purposes of this assessment, “financial institutions” refers to the broad universe of any entities interested in or providing financing to entities in the Amazon. The definition is broad and includes commercial banks, microfinance institutions (MFIs), non-bank financial institutions (NBFIs), “*cajas municipales* and *cajas rurales*, EDPYMEs, debt and equity funds, impact investors, family offices, leasing companies, insurance companies, and fintechs. The entities may operate inside and/or outside of Peru. Given the COVID-19 environment, other sources of non-commercial financing and investment can also be considered for firms seeking funding under CATALYZE Peru. The project intends to competitively select and engage at least a dozen private FIs in pay-for-results incentive arrangements to further stimulate them to significantly expand financing principally to companies, but also to FIs operating in the Peruvian Amazon or with operations in the Amazon for onlending.

⁴ For purposes of this document, “financing and investment” refers to debt, equity, quasi-debt, quasi-equity, and guarantees that span commercial and concessional finance, and any form of capital directed towards firms and/or FIs in the target geographic areas.

⁵ The nine departments targeted for expanded financing and investment are parts or all of Amazonas, Cusco, Huánuco, Junín, Loreto, Madre de Dios, Pasco, San Martín, and Ucayali. A specific definition of the Peruvian Amazon for this CATALYZE Peru assessment is described in Box 1 of the next section on “Peruvian Amazon: Definition and Description.” Businesses and FIs located in other regions can also benefit from financing facilitated under the program, provided the financing will positively and directly benefit entities within the Peruvian Amazon. A separate Opportunity Assessment will prioritize the areas and corridors within the nine regions, as well as the target sectors and firms for support under CATALYZE Peru.

⁶ Operating in, or sourcing from, the Amazon region of Peru.

During the first six months of implementation, Palladium’s project implementation team and partners are assessing supply and demand for financing and investment throughout the Amazon region, as well as the ecosystem in place to support such investments, by conducting a series of interrelated assessments:

- (1) Financial Institutions’ Ecosystem Mapping Assessment: View of the financial sector supply of finance and investment in the Peruvian Amazon (this document).
- (2) Opportunity Assessment: Initial demand scan of the opportunities for financing and investment in key supply chains throughout the Amazon.
- (3) BASP Assessment: Analysis of the ecosystem of actors supporting identification, structuring, and closing of financing for FIs, firms, and farms in the Amazon.

II. ASSESSMENT BACKGROUND AND OBJECTIVES

Peru is home to a sophisticated and stable financial sector that has not yet shifted its attention toward expanding financing and investment responsibly and at greater scale into its Amazon region. Peru has not yet capitalized on tapping the billions of dollars in financing and investment that has been made available by debt and equity funds, financial institutions, family offices, development finance institutions (DFIs), and donors globally to support sustainable and inclusive growth in environmentally sensitive areas such as Peru’s Amazon. This Financial Institutions Ecosystem Mapping Assessment is an initial step toward identifying and leveraging these investors to attract capital for greater impact to the Peruvian Amazon.

To begin this shift in focus, a team of Peruvian and international experts conducted this assessment in Peru and internationally in October and November 2020, focusing on FIs and other entities investing in and potentially interested in expanding their investments into Peru’s Amazon. The assessment questions and methodology were designed to improve the collective understanding of the nature of financing supply and investment in the region, the nature of demand for financing, policy, and enabling environment issues that affect financing at scale, and how CATALYZE Peru can operate within this context to significantly expand financing in environmentally and socially responsible ways.

This assessment identifies an initial set of Peruvian FIs that are well poised and interested in immediately expanding their financing and investment portfolios into the Amazon. It determines the most appropriate levels of training, TA, risk mitigation, and incentives that CATALYZE Peru and its stakeholders can potentially provide them to facilitate this expansion.

The assessment also helps begin to establish a baseline for the level of capital investment now in Peru’s Amazon, the costs of financing, types of financial products currently deployed to enterprises of all types, appropriateness of financing currently deployed, and the gaps and barriers to expansion of financing to and investment in the region.

To promote the sustainability of CATALYZE Peru and contribute to Peru’s Journey to Self-Reliance,⁷ this assessment provides ideas of how CATALYZE Peru can most efficiently blend international and Peruvian capital so that the suite of services offered under this program can convert to a sustainable, operational entity that can continue to operate beyond the project’s end date. The assessment identifies FIs and other entities that may be interested in co-investing with USAID to ensure the success of the project, to invest in enterprises seeking capital, or invest in the operational entity that emerges as the most appropriate way to provide financing services and investment in the Amazon sustainably after project close.

The FI assessment methodology and scope is described in Annex A.

⁷ <https://www.usaid.gov/selfreliance>

III. PERUVIAN AMAZON: DEFINITION AND DESCRIPTION

KEY TAKEAWAYS

Peru's Amazon is characterized by:

- 94% of the country's forests, 65% of Peru's land mass, and only 11.5% of the population.
- 3.8M people who are significantly poorer and less productive than Peru's national average.
- Land and biodiversity under significant threat.
- Access to credit at significantly lower levels than the national average.
- Lower rates of public expenditure than the national average.

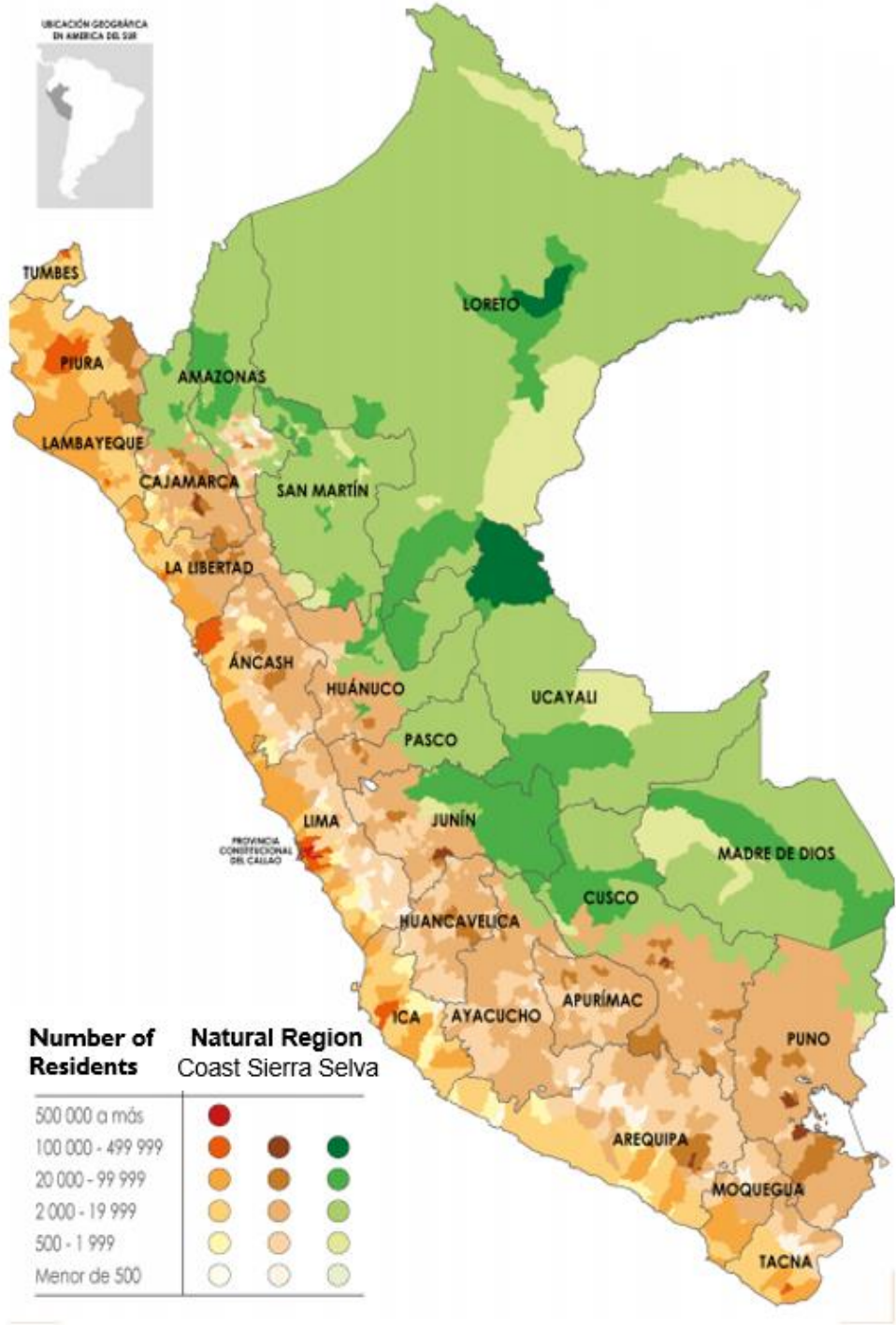
GEOGRAPHIC DELINEATION OF THE PERUVIAN AMAZON

The entirety of Peru's Amazon extends east of the Andes Mountains, and borders Ecuador, Colombia, Brazil, and Bolivia. The Amazon region extends throughout nine of Peru's departments, some of which are made up entirely of "upper" and "lower" Amazon tropical forest, as well as other departments which have provinces and districts which are categorized as "Sierra" and are technically part of the Andes mountains. The criteria used to distinguish locations in the Peruvian Amazon region for purposes of this assessment is an altitudinal gradient lower than 2,000 meters above sea level, the standard used by Peru's National Institute of Statistics and Informatics (INEI).⁸ Map 1 provides a topographical view of the Peruvian Amazon, denoted in green, along with population density. Box 1 describes how CATALYZE Peru is defining the Peruvian Amazon⁹ for this assessment, which is visually depicted in Map 2.

⁸ To determine what is classified as Amazon based on altitudinal gradient, this assessment used Peru's National Institute of Statistics and Informatics (INEI) definitions. Jungle is considered to be territories of the eastern Andean foothills that are below 2,000 meters above sea level (MASL). Below 2,000 MASL and up to 500 MASL is considered high jungle. Below 500 MASL is considered low jungle. The CATALYZE Peru methodology identified each district, then assigned the altitude of the district capital to the entire area of the district. The portions of the nine departments classified as Peruvian Amazon in this assessment include those districts whose capital city is lower than 2,000 MASL. INEI Sistema de Consulta de Códigos Estandarizados, <http://webapp.inei.gob.pe:8080/sisconcode/main.htm#>.

⁹ A number of figures in this assessment use economic and financial data for the full nine departments of the Amazon region when information broken out by provinces and districts is not available. In these instances, the data could not be customized to fit the Peruvian Amazon as defined by CATALYZE Peru (see Box 1).

Map I: Peruvian Amazon Topographical Map with Population Density (2021)



Source: INEI, Código Ubicación Geográfica (Ubigeo), 2016

Box 1: CATALYZE Peru Definition of the Peruvian Amazon

CATALYZE Peru Amazon

For purposes of CATALYZE Peru, the FI assessment team is defining “Peruvian Amazon” economic activities to include the entire geographic territory of four departments that can be classified as tropical forest (Loreto, San Martín, Ucayali, and Madre de Dios) and the tropical forest provinces and districts within the remaining five departments, specifically:

- Amazonas department, including the provinces of Bagua, Bongará, Condorcanqui, Rodríguez de Mendoza, and Utcubamba.
- Huánuco department, including the provinces of Ambo, Huánuco, Leoncio Prado, Pachitea, and Puerto Inca.
- Pasco department, which includes Oxapampa province.
- Junín department, with the provinces of Chanchamayo and Satipo
- Cusco department, which includes the provinces of La Convención, Machupicchu in Urubamba, and the districts of Yanatile and Lares in Calca.

Source: CATALYZE Peru

Map 2: CATALYZE Peru Zones



Source: CATALYZE Peru

TRENDS IN PERU'S AMAZON (POPULATION, ECONOMY, AND PRODUCTIVITY)

As defined by CATALYZE Peru (see Box 1, Map 1, and Map 2), the Peruvian Amazon geographic area represents approximately 65% of the country's land mass and 94% of Peru's forests, but is home to under 11.5% of Peru's population.

Population. The 2020 total estimated population for the entire nine departments representing the Amazon is 6.9 million, however subtracting the Sierra population from this total, per the CATALYZE Peru definition of the Peruvian Amazon, results in a total population of 3.8 million. Each department has different characteristics and population density. Of the nine departments, Loreto has the largest population and land mass, but the lowest population density. The second most populous department, San Martín, has the highest population density of all the Amazon departments, and (as per interviews) is also generally considered the most developed department of the Amazon, with many access roads, an airport, reliable internet and cell phone coverage, and numerous businesses. Other departments with significant population density include Amazonas, the so-called "Central Forest" of Junín and Ucayali, and the Amazonian area of Cusco.

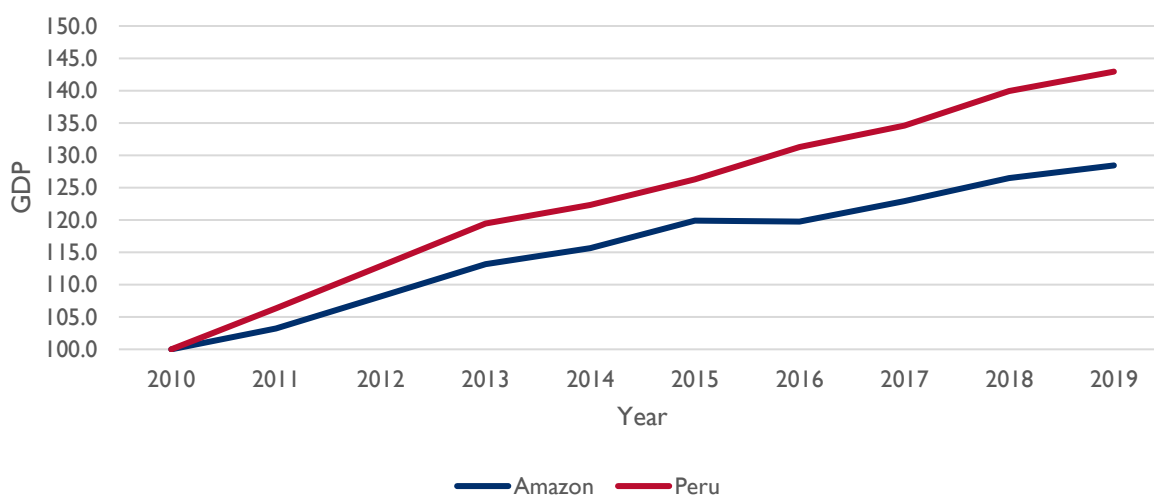
Table 1: Peru Population & Amazon Population by Department, Area, and Density (2020)

Department	Peru Population	Peruvian Amazon Population (CATALYZE Peru)	Amazon/ Total Department	Department/ Nine Departments	Area (km ²)	Density (people/ km ²)
Junín	1,361,467	149,453	10.98%	3.94%	23,945	6.2
Cusco	1,357,075	189,811	13.99%	5.00%	33,940	5.6
Loreto	1,027,559	1,027,559	100.00%	27.09%	368,773	2.8
San Martín	899,648	899,648	100.00%	23.72%	51,288	17.5
Ucayali	589,110	589,110	100.00%	15.53%	102,199	5.8
Huánuco	774,217	446,076	57.62%	11.76%	123,275	3.6
Amazonas	426,806	229,338	53.73%	6.05%	32,700	7.0
Pasco	271,904	88,405	32.51%	2.33%	17,767	5.0
Madre de Dios	173,811	173,811	100.00%	4.58%	85,301	2.0
Total	6,881,597	3,793,211	55.12%	100.00%	839,189	4.5

Source: Regional Information System for Decision-Making (Instituto Nacional de Estadística e Informática - INEI) and CATALYZE Peru

Economic and financial trends in the Amazon. While Peru more than tripled its gross domestic product (GDP) from 2010 to 2018, detailed in Annex C, the Peruvian Amazon region did not share equally in that growth. As seen in Chart 1, GDP of the nine departments that include Peru's Amazon has grown more slowly than GDP for the whole country, and the gap is widening. Between 2010 and 2019 and prior to the COVID-19 pandemic, Peru's GDP increased by 43%, whereas GDP in the nine departments where the Amazon is located increased by only 26.5%. Over that same period, an increase in loans made in the Amazon region did not lead to a corresponding improvement in GDP (see Chart 2 in Annex B). This finding has implications that CATALYZE Peru should focus on productive loans for inclusive growth.

Chart I: Variation Between Peru's & Amazon GDP (2010–2019) (Base 2010=100)



Source: National Accounts of the National Institute of Statistics and Informatics (INEI)

Per-capita income. In addition to slower GDP growth in the Peruvian Amazon as compared to Peru as described above, the weighted average GDP per capita of the CATALYZE Peru Amazon region is \$2,582, only half that of Peru's \$4,922 GDP per capita. Further details may be found in Table 9 of Annex B.

Capital investment per worker. CATALYZE Peru uses capital investment per worker as an indicator of economic productivity. Using this indicator, only Pasco (an economy based largely on oil, gas, and minerals) exceeds the Peruvian average. There is great intra-regional variation, for example San Martín's capital investment per worker is one third (35%) of that of Pasco. Details are in Table 10 in Annex B.

Public spending. Department-wide public spending remains an important driver of economic activity in Peru's nine departments that make up the Amazon. Only three Amazon departments have a per-capita budget greater than or equal to the national average (see Table 11 in Annex B).

Access to credit. An estimated 35% of Peruvians reported having access to credit (see Table 12 in Annex B). In Peru's Amazon, only two departments have credit access penetration above the national average, while the remaining departments have lower than national average rates of credit access. In Loreto and Amazonas, fewer than one in five adults access credit from the financial system.

Biodiversity. Many indigenous groups (an estimated 65 different tribes) inhabit Peru's Amazon region, some in isolation from western society. The Amazon geography is highly biodiverse and minimally developed (e.g., roads, utilities, Internet/telecommunications coverage) in contrast to the rest of the country. Its low population density and relatively low levels of development have not supported its protection in recent years. The nine departments of the Amazon suffer an estimated forest loss of anywhere between 155,000 – 160,000 hectares annually,¹⁰ lessening the productive potential of the land. This deforestation is due to the conversion of forest for other uses, primarily smallholder agriculture, illegal timber extraction, illegal mining, and road construction.

Illicit economic activity. The uniqueness and importance of the Amazon to Peru and the world further contributes to the complexity of, and interest in, responsible investing in the area. As a carbon sink, a treasure of biodiversity, and home to immense natural resources, the Amazon is an asset of

¹⁰ Based on estimates derived from an average Peruvian Amazon deforestation of 150,000-160,000 hectares per annum, from MINAM, the Peruvian Ministry of the Environment. <https://gestion.pe/peru/minam-deforestacion-en-peru-habria-alcanzado-147000-hectareas-en-el-2019-noticia/>

global importance requiring protection. It is a vital potential source of economic growth for Peru and the world, but only if its protection and responsible development are managed in a very careful balance.

There is significant illicit financial investment occurring in the Amazon, doing great damage to the region. The Paulson Institute, the Nature Conservancy, and the Cornell Atkinson Center for Sustainability released a paper and webinar, *Financing Nature: Closing the Global Biodiversity Financing Gap*,¹¹ that documents the speed and value of destructive investment into countries that far outweigh the legal and protective resources deployed by governments, civil society, donors, and private sector actors to protect the globe's forests and biodiversity.

IV. PERUVIAN AMAZON: FINANCIAL SYSTEM LANDSCAPE

KEY TAKEAWAYS

The financial system in Peru's Amazon is characterized by:

- Increased FI presence over the past decade (38 operate in the Amazon), but no presence in half of the Amazon's districts
- High concentration of MFIs with the highest capital and transaction costs
- Financially solvent and generally liquid
- Frequent lenders to consumers and to the micro and small enterprise segments
- Commercial banks as the largest lenders
- Small % of national lending (3.7%)
- FIs hit hard by the global pandemic and currently suffering in terms of profitability 94% of the country's forests, 65% of Peru's land mass, and only 11.5% of the population.

Annex C provides summary background information on Peru's macroeconomic environment including its GDP, growth rates, and poverty reduction. Notably, Peru's sovereign bond rating, as measured by the JP Morgan's Emerging Markets Bond Index Global (EMBIG) and Latin EMBIG,¹² is evidence that financial markets consider Peru the least risky country in Latin America, and less risky than the EMBIG composite benchmark of emerging market bonds (see Chart 3 in Annex C).

Financial institutions in the Amazon. The Peruvian financial system is composed of 64 financial entities overseen by the Superintendent of Banks and Insurance Companies and Pension Fund Administrators (SBS). Of these 64, two are wholesale or apex (*segundo piso* in Spanish) financial entities, meaning that they lend to other financial institutions who in turn onlend to the financial institution's customer. The two wholesale funds are the Peruvian Development Bank (COFIDE by its Spanish acronym) and the Mivivienda Fund. One of the 64 entities is a semi-public guarantee fund, Fondo de Garantía de la Pequeña Industria (FOGAPI by its Spanish acronym) that receives significant support from COFIDE; one is an open cooperative, Luz y Fuerza, comprised of employees from the electrical sector); and three others are financial leasing and factoring¹³ companies. The remaining 57 entities overseen by the SBS are commercial banks, finance companies, *cajas municipales*, *cajas rurales*, and small and micro enterprise development entities (for which this assessment uses the Spanish acronym EDPYME; they do not collect deposits from the public). All of these carry out direct lending financial operations. Peru's financial system is based on an incremental system, whereby these different types of entities can receive authorization to conduct greater volume of financial operations based on their capital adequacy and economic performance.

¹¹ <https://www.paulsoninstitute.org/key-initiatives/financing-nature-report/>

¹² J.P. Morgan Emerging Market Bond Index Global (EMBIG), measures a country's sovereign risk against the U.S. Treasury Bill, considered a risk-free rate, using a weighted basket of countries benchmark. Peru has consistently bested it (i.e., considered less risky).

<https://www.jpmorgan.com/insights/research/indices/product>

¹³ SBS also oversees bonded warehouses authorized to issue documents valued as warrants (3); electronic money issuing companies (5); funds transfer companies (5); and fiduciary services (3).

Of the 57 SBS-supervised FIs in Peru, 38 have offices in the Peruvian Amazon departments included in this assessment. These include 13 banks (including a microfinance bank called Mibanco), eight finance companies (including Caja Municipal Maynas which is the only financial institution with a main office in the Amazon region), nine cajas municipales, four cajas rurales, and four EDPYMEs, all listed in Table 2 below. The 38 Amazon FIs can be further categorized into three lending types: 1) commercial banks; 2) consumer finance entities; and 3) microfinance institutions (MFIs). Twenty-two of the 38 Amazon FIs are considered MFIs.

Table 2: Peruvian Amazon Financial Institutions by Lender Type (38 FIs)

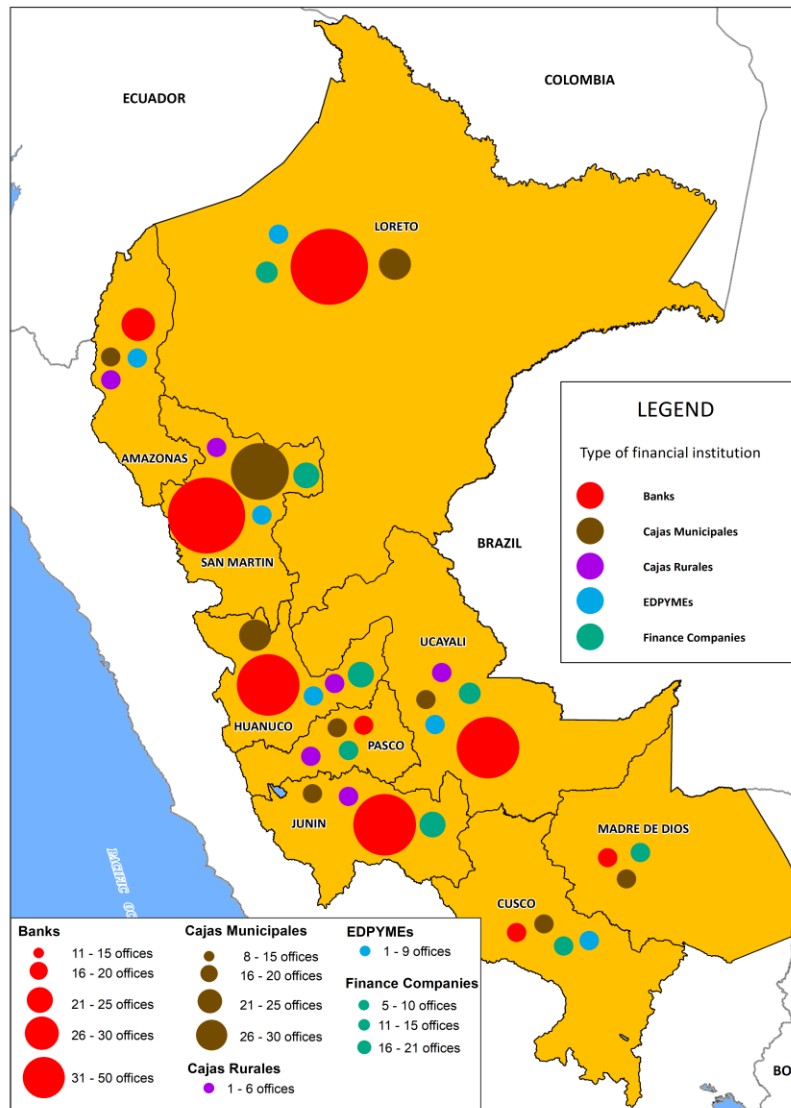
	Financial Institution CATALYZE Peruvian Amazon	Lender Type (Amazon portfolio)	Loan Portfolio (in soles)	Rating	Status
Banks					
1	Banco BBVA (Continental)	Commercial	2,020,427,952	A+	Stable
2	Banco de Crédito del Perú	Commercial	1,904,704,039	A+	Stable
3	Scotiabank	Commercial	1,292,836,779	A+	Stable
4	Banco de la Nación	Commercial	1,068,181,359	A	Stable
5	Interbank	Commercial	878,965,072	A	Stable
6	Mibanco	Microfinance	730,109,108	A	Stable
7	Banco Pichincha (Financiero)	Commercial	144,026,148	N/A	N/A
8	Agrobanco	Microfinance	143,979,045	B	Negative
9	Azteca del Perú	Consumer	55,509,351	N/A	N/A
10	Banco Falabella	Consumer	36,542,447	A-	Stable
11	Banco Ripley	Consumer	18,472,515	N/A	N/A
12	Banco de Comercio	Commercial	17,517,383	N/A	N/A
13	Banco Interamericano de Finanzas (BanBif)	Commercial	2,233,583	N/A	N/A
Finance Companies					
1	CrediScotia	Microfinance	489,565,663	A	Stable
2	Financiera Confianza	Microfinance	294,811,327	B+	Stable
3	Financiera Efectiva	Microfinance	139,476,101	B+	Stable
4	Financiera Oh!	Consumer	61,605,991	B+	Stable
5	Compartamos Financiera	Microfinance	59,670,939	A-	Stable
6	Financiera ProEmpresa	Microfinance	45,768,315	B-	Stable
7	Financiera Credinka	Microfinance	20,879,302	N/A	N/A
8	Financiera Qapaq	Microfinance	16,913,916	N/A	N/A
Cajas Municipales					
1	CMAC Piura	Microfinance	781,064,713	N/A	N/A
2	CMAC Huancayo	Microfinance	727,214,435	N/A	N/A
3	CMAC Arequipa	Microfinance	434,926,162	B+	Stable
4	CMAC Maynas	Microfinance	360,006,184	C+	Stable
5	CMAC Trujillo	Microfinance	210,290,090	B	Stable
6	CMAC Cusco	Microfinance	188,953,233	B+	Negative
7	CMAC Tacna	Microfinance	127,302,911	N/A	N/A
8	CMAC Paita	Microfinance	21,495,836	N/A	N/A
9	CMCP Lima	Microfinance	1,234,611	N/A	N/A
Cajas Rurales					
1	CRAC Los Andes	Microfinance	67,350,809	N/A	N/A
2	CRAC Raíz	Microfinance	40,713,783	C	Negative
3	CRAC Señor de Sipán	Microfinance	3,794,373	N/A	N/A
4	Caja CAT Perú	Consumer	86,306	A-	Stable
EDPYMEs					
1	EDPYME Inversiones La Cruz	Consumer	15,651,437	N/A	N/A
2	EDPYME Progreso	Consumer	13,248,072	N/A	N/A

Financial Institution		Lender Type	Loan Portfolio	Rating	Status
CATALYZE Peruvian Amazon		(Amazon portfolio)	(in soles)		
3	EDPYME Alternativa	Microfinance	10,803,193	N/A	N/A
4	EDPYME GMG	Consumer	4,179,403	N/A	N/A
Total: 38 financial institutions			12,450,511,886		

Source: *Scope and Market Share of Financial Institutions: Distribution of Offices by Geographical Zone and SBS, (2021).*

Map 3 shows the dispersion of FIs in the Peruvian Amazon, and how many offices each has. Map 4 shows the FIs' savings and loan portfolio scale. Graphs 4 and 5 in Annex D show a comparison by FI type in Peru versus in the Peruvian Amazon region.

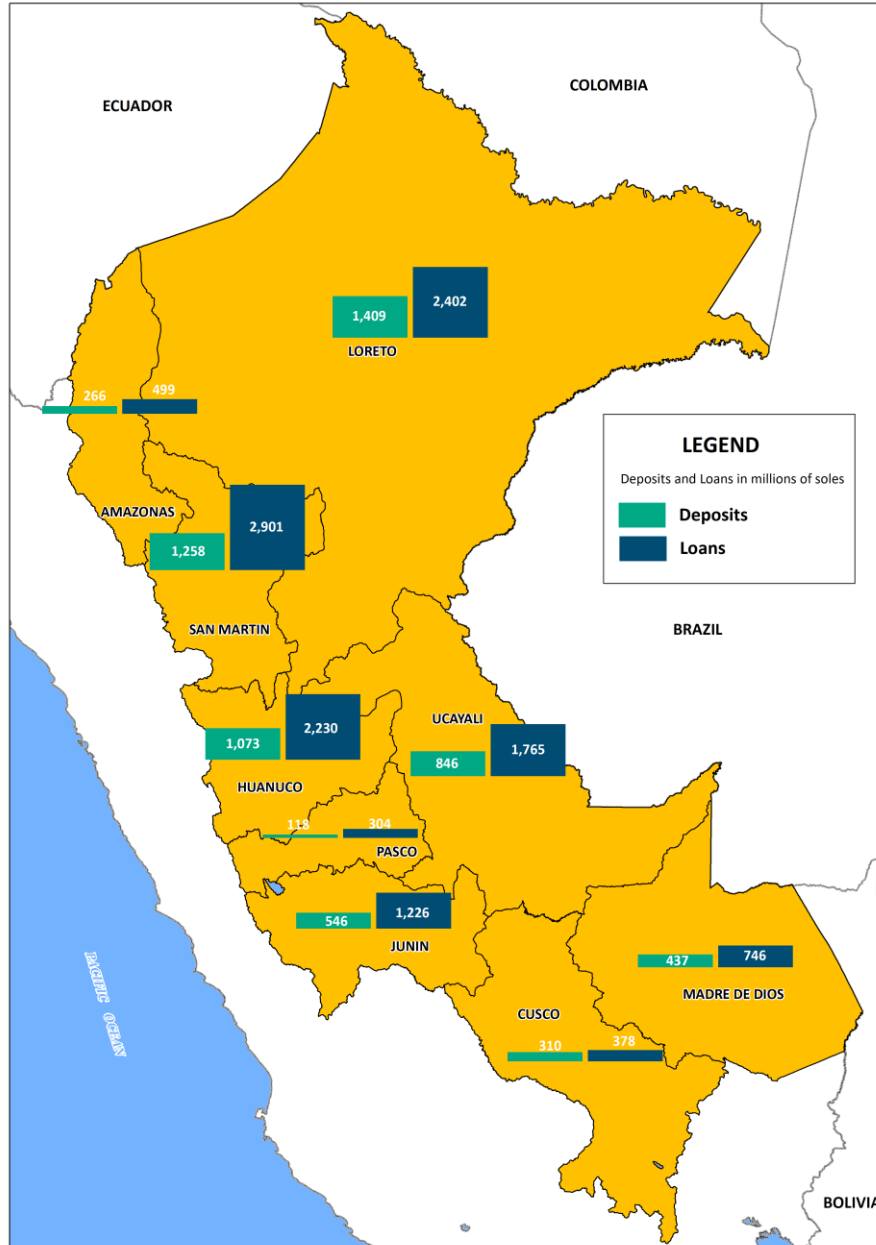
Map 3: Peruvian Amazon Financial Institutions by Type and Number of Offices (2020)



Source: "Financial System Folder", SBS¹⁴

¹⁴ Offices depicted in this map include principal offices, special offices, shared local special offices, agencies, and shared local agencies.

Map 4: Peruvian Amazon Financial Institutions by Total Deposits and Loans (2020)



Source: "Financial System Folder." SBS

Presence of cooperatives. Peruvian Law 30822¹⁵ passed in 2018 regarding savings and credit cooperatives (COOPACs) requires that all closed cooperatives¹⁶ must register with the SBS. It classifies cooperatives by level as summarized in Box 2. Following passage of the law, two central cooperatives and 437 savings and credit cooperatives successfully registered. Yet, of these 437 cooperatives operating nationally, only 29 (6.7% of the total) operate in Peru's Amazon as geographically defined by

¹⁵ Law 30822 Law amends Law 26702, General Law of the Financial System and the Insurance System and Organic Law of the Superintendency of Banking and Insurance, regarding the regulation and supervision of Savings and Credit Cooperatives, 2018, <https://www.mef.gob.pe/es/por-instrumento/ley/17927-ley-30822/file>.

¹⁶ Closed cooperatives were supervised by the Federación Nacional de Cooperativas de Ahorro y Crédito del Perú (FENACREP). Only 131 participated (latest information as of December 2018), so registration was made mandatory to move to direct SBS supervision.

CATALYZE Peru, summarized in Table 3, and tend to be among the smallest as measured by assets. A complete list of the 27 registered cooperatives located in the Peruvian Amazon is shown in Table 4, broken out by COOPAC Levels 1-3, Levels of Operation, Province, and Department.

Box 2: Peruvian Savings and Credit Cooperatives Classifications 2021

Cooperative Classification	SBS Definition	Level of Operation ¹⁷
COOPAC Level 1	Cooperatives with total assets up to \$733K.	Cooperatives that had effective SBS supervision and whose total assets correspond to Level 1.
COOPAC Level 2	Cooperatives with total assets greater than \$733K and up to \$79.4M.	Cooperatives that had effective SBS supervision and whose total assets correspond to Level 2 or 3.
COOPAC Level 3	Cooperatives with total assets greater than \$79.4M. Must have an annual risk rating.	Cooperatives that had effective SBS supervision and whose total assets correspond to Level 3.

Source: SBS, List of Savings and Credit Cooperatives (COOPAC)

Table 3: Peru and Peruvian Amazon Cooperative by Classification (2019)

Level	Peru	Amazon	Amazon/Peru
1	267	14	5.2%
2	156	12	7.7%
3	9	3	33.3%
Total	432	29	6.7%

Source: SBS data and CATALYZE Peru analysis¹⁸

Table 4: Savings and Credit Cooperatives in the Peruvian Amazon by Classification, Level of Operations, Province, and Department (2019)

No	Cooperative Name	COOPAC Level	Level of Operations	Province	Department
1	Quillabamba-Quillacoop	3	2	La Convención	Cusco
2	San Martin de Porres LTDA.	3	2	San Martín	San Martín
3	Santo Cristo de Bagazan	3	2	Rioja	San Martín
4	Amazonas	2	2	Chachapoyas	Amazonas
5	Arcangel	2	1	La Convención	Cusco
6	Del Oriente LTDA.	2	2	San Martín	San Martín
7	El Amauta LTDA.	2	2	La Convención	Cusco
8	La Florida	2	2	Chanchamayo	Junín
9	La Progresiva LTDA.	2	2	San Martín	San Martín
10	Pangoa	2	2	Satipo	Junín
11	Pedro Ruiz Gallo	2	2	Bongara	Amazonas
12	Rodriguez de Mendoza	2	1	Rodriguez de Mendoza	Amazonas
13	San Francisco LTDA. 289	2	2	Huánuco	Huánuco
14	San Jose LTDA 178	2	2	Maynas	Loreto
15	Tocache LTDA 35	2	2	Tocache	San Martín
16	Ahorroress	1	1	Leoncio Prado	Huánuco
17	Alto Mayo LTDA	1	1	Rioja	San Martín
18	Andreli	1	1	Chanchamayo	Junín
19	Bienestar Peru LTDA.	1	1	Moyobamba	San Martín

¹⁷ The specific Level of Operations activities allowed may be found in the text of Law 30822 cited above.

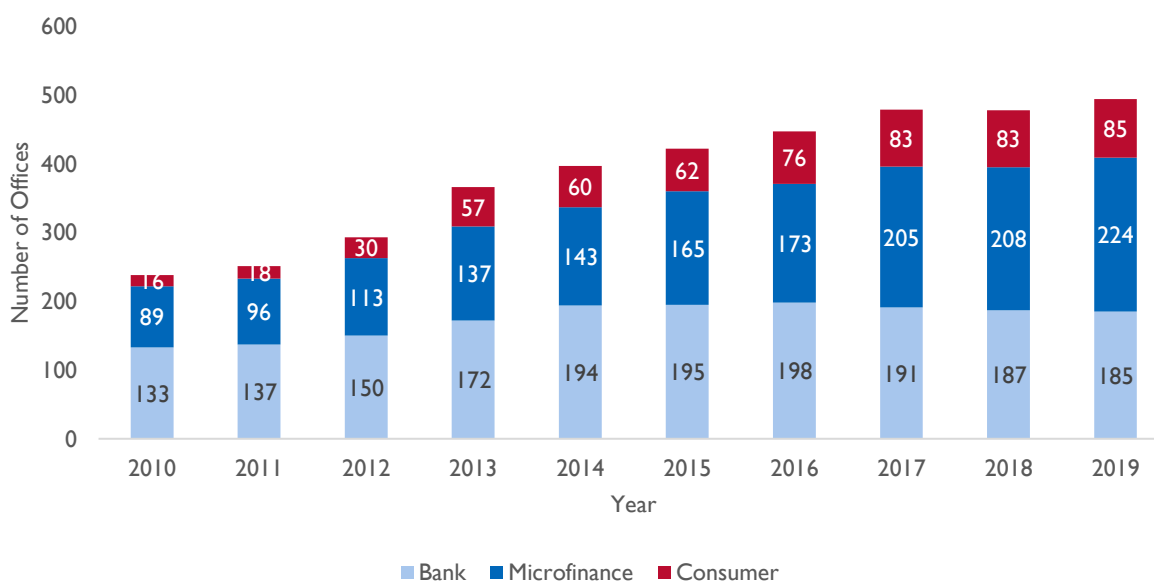
¹⁸ <https://intranet2.sbs.gob.pe/estadistica/financiera/2020/Diciembre/COOPAC002-di2020.PDF>

No	Cooperative Name	COOPAC Level	Level of Operations	Province	Department
20	Coordillera Escalera LTDA.	I	I	San Martín	San Martín
21	El Buen Porbenir	I	I	Coronel Portillo	Ucayali
22	Nuestra Senora de Guadalupe Huanuco LTDA.	I	I	Huánuco	Huánuco
23	Prosperando	I	I	Coronel Portillo	Ucayali
24	San Antonio	I	I	Picota	San Martín
25	Sembrar	I	I	Huánuco	Huánuco
26	Shanghai LTDA	I	I	Huánuco	Huánuco
27	Sol Amazonico LTDA	I	I	Coronel Portillo	Ucayali
28	Union Bongara LTDA.	I	I	Bongara	Amazonas
29	Yayantsi	I	I	La Convención	Cusco

Source: SBS, List of Savings and Credit Cooperatives (COOPAC).¹⁹

Evolution of FI Supply in Peru’s Amazon. A positive development is that the number of FIs present in the Amazon has significantly increased over the past decade. In 2010, only 22 FIs had a presence in the Amazon; by 2019 this had increased to 38 (72.7% more), as shown in Graph 6 of Annex D. The number of offices²⁰ these FIs have in the Peruvian Amazon (as defined by CATALYZE Peru) has also increased significantly over the past decade, largely stimulated by the Government of Peru’s (GoP) decentralization process and efforts by regional governments to ensure that FIs have a presence in most of Peru’s Amazon’s cities. Commercial banks increased their number of offices in the Peruvian Amazon by 39% to 185, MFI offices increased 2.5 times the original 89, to 224, while consumer finance offices increased their offices in the Amazon five-fold, for a total of 85, as seen in Graph I. The distribution of FI offices per district in each Peruvian Amazon department may be found in Table I4 of Annex D.

Graph I: Peruvian Amazon Evolution in Number of Offices by FI Type (2010-2019)



Source: Scope and Market Share of Financial Institutions: Distribution of Offices by Geographical Zone, SBS ²¹

¹⁹ Ibid.

²⁰ These FI offices are FI representative offices, and do not include third party operator “agents” that can receive payments or deposits for certain FIs located inside bodegas or small stores.

²¹ https://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=1#

While the number of automatic teller machines (ATMs) in the Peruvian Amazon increased from 2010 to 2019 across all Amazon region departments, provinces, and districts as seen in Table 5, they declined slightly in banks, while increasing most strongly in *cajas municipales* and finance companies, as well as at Banco de la Nación as seen in Table 6. Point of sale (POS) terminals also increased across the region from 2010 to 2019, while concentrated most strongly among banks, followed by *cajas municipales*, finance companies, and Banco de la Nación, depicted in Tables 5 and 6. Yet this use of technology via greater number of ATMs and POS over the last decade has not translated into the Amazon region having a greater share of either Peru’s financial services or GDP.

Table 5: Increase in ATMs and Point of Sale (POS) Terminals 2010-2019

	ATMs		POS	
	2010	2019	2010	2019
Departments	8	9	4	9
Provinces	16	34	22	40
Districts	23	66	46	230

Source: SBS, Financial System Folder, (2010-2019)

Table 6: Increase in ATMs and Point of Sale (POS) by Financial Institution Type 2010-2019

	ATMs		POS	
	2010	2019	2010	2019
Banks	144	114	378	7,434
Finance Companies	0	352	0	2,578
Cajas Municipales	20	407	7	3,435
Cajas Rurales	1	0	0	11
EDPYMEs	0	0	0	0
Banco de la Nación	0	135	0	1,557

Source: SBS, Financial System Folder, (2010-2019)

FI Lending in Peru’s Amazon. As of December 31, 2019, overall Peruvian financial system lending was S/²² 340.7B, or the equivalent of \$103.2B. The Amazon received S/ 12.5B soles of this lending, equivalent to approximately \$3.8B. The Amazon region has received no more than 3.5% - 4% of national loan volume in each year in the last decade, shown in Graph 7 in Annex D. One mitigating factor is that it is likely that non-bank sources financed some of the Amazon region’s growth.

Defining micro-, small, medium, and large business. Box 3 provides both SBS and GoP definition of business types. Because much of the financial data comes from SBS, that is the definition used in this assessment. Fully 95% of formal businesses in the Peruvian Amazon are micro businesses, and an estimated 82% of all businesses in the region are informal businesses (see Tables 15 and 16 in Annex D). This has implications for the type of financing and complementary services that CATALYZE Peru needs to provide to best serve these size of businesses.

Box 3: Business Type Classifications: SBS and Government of Peru

Business Type	SBS Definition	Government of Peru Definition
Micro Business	Total indebtedness in the financial system less than \$5.6K in the last six months.	Annual sales up to \$179K.
Small Business	Total indebtedness in the financial system greater than \$5.6K but less than \$83K in the last six months.	Annual sales greater than \$179K but less than \$2M.

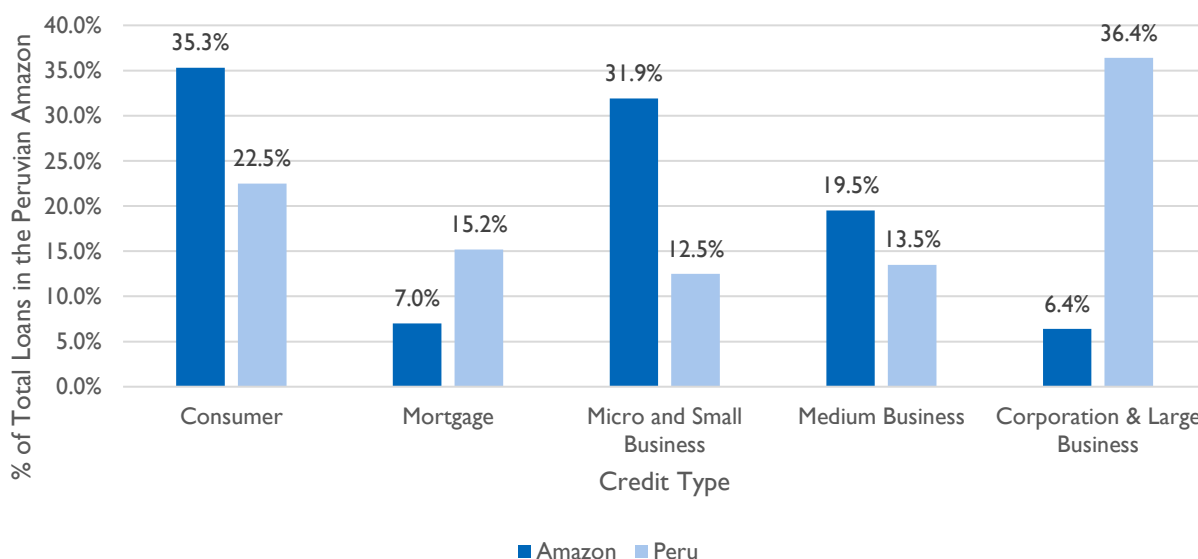
²² “S/” refers to the national currency of Peru, the Peruvian Sol.

Business Type	SBS Definition	Government of Peru Definition
Medium Business	Total indebtedness in the financial system greater than \$83K in the last six months.	Annual sales greater than \$2M but less than \$2.7M.
Large Business	Annual sales greater than \$5.6M but less than \$55.6M in last two years.	N/A
Corporations	Annual sales greater than \$55.6M in last two years.	N/A

Source: SBS Definitions - Glossary of the Superintendency of Banking and Insurance and AFP (SBS). Government of Peru - Art. 11 of Law N° 30056 of September 2, 2013: (Modification to various laws to facilitate investment, promote productive development and business growth).

Type of loans in the Peruvian Amazon. In recent years, financial companies specializing in consumer and mortgage credit have aggressively pushed real estate acquisitions, especially housing. As depicted in Graph 2, these two loan categories represent 42.3% of total financing in the Amazon 2019 (first two sets of columns). Micro and small, plus medium-size business lending, in comparison comprise 51.4% of lending. In Peru's Amazon (6.4%), and in contrast to the rest of the country (36.4%), financing to corporations and large companies is quite low. Mortgage lending also has low penetration in the region, and consumer lending outperforms micro enterprise finance. Loan volume by FI type and business size are shown in Table 17 and breakout by Amazon department is provided in Table 18 (see Annex D).

Graph 2: Peruvian Amazon Distribution of Loans by Credit Type (2019)



Source: Credit Risk, Direct Credit by Credit Type. SBS (2019))

Financing lending from deposits. Over the past 10 years, savings generated in the Amazon financed an average of 48% of the region's loans (see Graph 8 in Annex D), showing that over half of Amazon lending is funded principally by funds from other parts of Peru. As of December 2019, Amazon loans represented 3.7% of the national total and deposits accounted for 1.9% of deposits collected in Peru.²³ Within the Peruvian Amazon, most of the deposits over the last decade were captured by banks (81%) and most of the rest (18%) by *cajas municipales* (see Table 19 of Annex D). EDPYMEs are not authorized to capture savings or perform certain financial operations, limiting their financing expansion. They rely on wholesale (apex) funds offered by entities such as COFIDE to expand lending. Publicly funded *cajas municipales* and *cajas rurales* also rely on wholesale funding and benefit from concessional lines of credit, reducing the cost pressures imposed on them by competitors.

²³ Financial System File (SIF), December 2019, SBS. https://www.sbs.gob.pe/estadisticas-y-publicaciones/estadisticas-/sistema-financiero_

Notably, the Amazon region currently receives only 3.7% of all financial system lending and only 1.9%²⁴ of national deposits, despite the region representing 11.6% of the total population and 65.3% of Peru's land mass.

Peruvian Amazon FI Portfolio Quality. A key finding is that portfolio quality performed was worse than (exceeded) the national average in every department of the Peruvian Amazon (see Graph 9 of Annex E). Annex E provides further details on Peru national portfolio quality level data; little breakouts are available specific to the Amazon region.

Impact of COVID-19 on the Amazon Financial Sector. The COVID-19 health crisis triggered a deep recession induced by a national quarantine which strongly affected Peruvian FIs. The extent of this impact is not yet fully reflected in Peruvian Amazon or national financial indicators. In March 2020, the GoP introduced a number of stimulus measures to help FIs manage risk and adapt to the emergency. Massive liquidity injections were made to FIs with resources from Peru's Central Bank, as well as funds and guarantees from the Treasury.

Reactiva Peru is a large \$1.2B stimulus program in the Peruvian Amazon launched in Jun 2020; its loans represent 60% of the overall FI system loan balance as compared to December 2019 levels. In the Peruvian Amazon, the comparison of allocation of amount of funds as compared to size of business was as follows, noted in the sets of parentheses: micro businesses (3.7%,18.2%), small businesses (29.6%, 58.7%), medium-sized businesses (45.1%, 22%), and to large businesses (21.6%,1.1%) as depicted in Graphs 16 and 17 in Annex F. This shows that medium-sized businesses, although less than one quarter of number of businesses in the Amazon, received nearly half of Reactiva Peru funds. Small businesses represented nearly 60% of companies while receiving only 30% of funds. Micro businesses representing 18% of companies received 3.7% of funds. These figures do not conclude whether or not the businesses received all of the funding requested or needed. Indeed, many MSMEs benefitting from the program were one-person businesses. In total, Reactive Peru supported 22,480 companies that have their main offices in the Amazon. Reactiva loan funds to the Peruvian Amazon represented 5.5% of the program's national total, thus exceeding the region's share of national lending as of the end of 2019 of 3.7%.

Interest Rates Charged by Amazon FIs. Interest rates²⁵ in Peru are largely determined by the size of the business seeking financing. Typically, the bigger or lower risk profile the company seeking credit, the lower the interest rate it is charged. Competition is higher among banks seeking corporate and large company loans, leading to lower rates, with lower competition among FIs for serving the smaller firms, contributing to higher interest rates in those segments. Disaggregated data does not exist to document interest rates charged to Amazon businesses as compared to the rest of the country. These must be extrapolated from national data to make assumptions about interest rates paid by companies to FIs in the Amazon (see Charts 5-10 in Annex G). *Cajas municipales* lend the most to MSMEs, at interest rates 10 percentage points higher than rates charged by larger banks. Charging annual interest rates of 35% in an environment where inflation is 2.5% favors credit seekers with high-turnover business, such as commerce, and serves as a barrier to expanded financing for agricultural businesses in sectors with longer productive cycles, currently underserved by the formal financial system. Notably, there has been a general tendency over time in Peru for MFI interest rates to decrease, with some fluctuations resulting from increases in economic demand. The *cajas municipales* demonstrate this trend, with interest rates dropping almost 400 basis points (4%) from a high of 23.56% in 2011 to 19.82% in 2015, and the most recent decline in 2020 to 19.58% (see Chart 10 in Annex G).

The liquidity injections from the GoP's Reactiva Peru program have led to dramatic reductions in average interest rates charged by FIs starting in the first quarter of 2020, in some cases by half. These have had the

²⁴ Carpeta del Sistema Financiero (SIF), Dec. 2019, SBS.

²⁵ Interest rates described in this report are annualized effective interest rates, in Spanish ("Tasa Efectiva Anual").

strongest impact on loans with repayment terms over 360 days, and among medium- and large-sized companies; smaller companies more typically access short-term loans such as for working capital.

Consumer credit, which has made a push into the Amazon region, is the most expensive type of credit, especially credit card debt. Retail expansion in large cities throughout the country has increased the use of credit cards. In addition, many Peruvians finance their businesses with consumer credit (both for working capital and capital expenditures). Even when interest rates charged on consumer credit are considered high in real terms, they are lower than the rates charged by informal lenders (e.g., supplier credit, money lenders). Chart 9 in Annex G provides a graphical representation that shorter term (up to one year) consumer loan interest rates far exceed all other types of credit.

Common FI Products in the Amazon. The most common type of credit offered by the FI system in Peru are general loans; followed by foreign trade (pre- and post-shipment operations); financial leasing and lease-back, and factoring, products which received a recent boost with new regulations (Law 29623 and DUs 013 and 040, passed in 2020).²⁶

Most Amazon lending by FIs is export-oriented serving the coffee and cocoa agricultural supply chains. These crops are predominantly managed by small-scale producers, some of whom belong to cooperatives or associations, thereby facilitating their access to credit, while others (an estimated 66% of cocoa farmers in the Amazon)²⁷ are not. Lack of such association is a barrier to finance. Some of the Amazon's cooperatives have trade financing loans with Peruvian banks but must travel to Lima or other major cities on the coast to conduct these transactions because the FIs typically do not have offices or specialized personnel in the Amazon. Others (confirmed later in the FI interview section) arrange for trade financing at concessional rates from buyers or impact investors who are based in other countries.

There is no financial service or product delivery strategy designed for Peru's Amazon. One explanation is that the types of businesses operating in the region are mostly agricultural, silvopastoral,²⁸ or forestry-related, and credit to these sectors remains limited. FIs are often unfamiliar with these productive activities, and few have specialized personnel serving these sectors, even less so with a focus on the Peruvian Amazon.

Data from 2018 show that only 11% of agricultural entities across Peru accessed any type of credit from either financial or non-financial sources.²⁹ In the Amazon, 13.8% of agricultural actors accessed credit; on the coast this percentage was 23.6%, and in the Sierra region only 7.7%. The most common non-financial sources of credit for businesses in the Amazon include a relative, friend, non-governmental organization (NGOs), merchants, moneylenders, and communal savings groups such as village banks.

Financial system offices in the Amazon have little autonomy and specialization. One exception to this is the Caja Municipal Maynas, but this FI has not taken advantage of its location to become a market leader in Amazon financing. In the 1970s and 1980s, the GoP managed an Amazon bank, but it has since closed.³⁰ Large companies operating in the Amazon deal directly with bank representatives in Lima or in large cities on the coast.

In general, commercial insurance in the Amazon has had very low penetration. The GoP's agricultural bank Banco Agropecuario (Agrobanco) at one point introduced an agricultural loan through an insurance company, and some smaller banks have also developed micro insurance products, but these

²⁶ Law No. 29623, Law promotes financing through commercial invoicing, [https://www.mef.gob.pe/en/por-instrumento/decreto-supremo/12989-anexos-01-02-03-escolaridad/file#:~:text=a\)%20Ley%3A%20Ley%20N%C2%BA%2029623,N%C2%BA%20093%2D2002%2DEF](https://www.mef.gob.pe/en/por-instrumento/decreto-supremo/12989-anexos-01-02-03-escolaridad/file#:~:text=a)%20Ley%3A%20Ley%20N%C2%BA%2029623,N%C2%BA%20093%2D2002%2DEF).

²⁷ Per the Peru Cocoa Alliance.

²⁸ Silvopastoral is the intentional combination of livestock, forage plants, and trees to create a mutually beneficial method of grazing.

²⁹ INEI, 2018, National Agricultural Survey,

https://webinei.inei.gob.pe/anda_inei/index.php/catalog/ENC_HOGARES#_r=1612904419276&collection=&country=&dtype=&from=1991&page=1&ps=&sk=agropecuaria&sort_by=titl&sort_order=asc&to=2020&topic=&view=s&vk=

³⁰ SBS, 1980-2000, Statistical Compendium of Banking, https://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=23#

have very little coverage. The most widespread insurance is directly associated with loans in covering the risks of non-payment in case of the borrower's death (e.g., loan life insurance).

The Ministry of Agriculture and Irrigation (Ministerio de Agricultura y Riego, MINAGRI) has an agricultural loan program that was initially created to serve the poorest mountainous areas, but has been extended to other areas, including the Amazon. The premium for this insurance is paid in full by the GoP and covers a fixed amount per hectare located in qualified zones in case of a natural disaster. Though release of this insurance product has not prompted development of an insurance market, it is helping to build an extensive database that allows a more precise estimate of the probability of risks occurring, and how these will affect agricultural production.

Amazon FI Costs and Profitability. The International Monetary Fund (IMF) has noted that the spread between savings and borrowing rates among Peruvian FIs (in part to determine interest rates) shows a high concentration of FIs and low levels of competition³¹. In Peru, average lending rates in *soles* can be twice those at which FIs borrow (see Chart 4 in Annex G), and nearly four times as high in foreign currency.

Peru's FIs nationally demonstrate high solvency ratios, measured by comparing equity with risk-weighted assets (credit, market, operational) as compared to their global peers. This ratio measures what is commonly called "financial leverage"; that is, how many times the equity capital is multiplied in lending. As of December 2019, Peru's banks had a global capital ratio of 14.5%, well above the minimum requirement set by the Basel III standards and local laws. These ratios have increased from December 2019 to September 2020, showing that Peruvian FIs, on average, are not suffering a liquidity crisis.

Relevant to Peru's Amazon, *cajas municipales* have faced the greatest capital restrictions to future growth. This is because they must lend in line with the availability of local government resources, despite the fact their operations are distributed throughout the country. A law passed in July 2017³² strengthened *cajas municipales*' capabilities by enabling them to accept foreign investment, work with other forms of cross border funds, and issue bonds. This has led Caja Arequipa, the largest in the *caja municipal* subsystem, to receive an equity investment from Netherlands-based Rabobank. Other *cajas municipales*, such as Caja Maynas, the only *caja municipal* centrally located in the Amazon, are watching the results of this investment, which could be a replicable model by other FIs to expand their capital base. *Cajas municipales* are also seeing disproportionate drops (as compared to other FIs) in their ratios of financial income in relation to productive assets. This is in part due to the fact they obtain little income from financial services and must pay higher interest rates on deposits to obtain capital. Drops in this ratio are common among all of Peru's FIs in the wake of the pandemic, either because they have had to utilize capital from government funds such as Reactiva Peru, which allow for limited spread, or because they have had to voluntarily lower their interest rates to avoid having important customers go into default.

All of Peru's FIs, including those that operate in the Amazon, will experience a challenging 2020 in terms of profitability. *Cajas rurales*, on average, were not profitable as of December 2019, and this trend has worsened in 2020. *Cajas municipales* have also been severely affected, with annualized net profit declining from 12.2% to December 2019 to 0.7% in September 2020 due to income shortfalls due to the pandemic (see Graph 22 in Annex H). Financial company profits fell to about one-quarter of previous levels, and bank profit fell by nearly half of previous amounts.

³¹ "Peru. Staying on the path of economic success". FMI 2015, Editors Alejandro Santos and Alejandro Werner. Ch. 17 Differentials in the banking sector and banking competition in Peru. <https://www.elibrary.imf.org/view/IMF071/22492-9781513521473/22492-9781513521473/ch17.xml?redirect=true>

³² "Ley 30607 Modifica y Fortalece el Funcionamiento de las Cajas Municipales de Ahorro y Crédito (CMAC)." July 13, 2017. https://leyes.congreso.gob.pe/Documentos/2016_2021/ADLP/Normas_Legales/30607-LEY.pdf

DIGITAL TECHNOLOGY-ENABLED FINANCING IN THE AMAZON

While the Global Findex reports that the proportion of banked adults has been increasing in Peru (from 29% in 2014 to 43% in 2018), the rate of adoption of digital finance and digital payments in Peru remains low. Digital finance is generally seen as a cost-savings measure to reduce transaction costs to make loans, which are higher among MFIs. Despite this, the uptake of digital finance in the Amazon is low, in part due to the region's low levels of access to internet and telephone connectivity as compared to the average in Peru. All Amazon region departments except Madre de Dios have lower mobile internet and telephone access (55% or less) than the Peruvian national average (see Table 25 in Annex I) and all departments have 30% or fewer households with fixed internet access, also below the national average (see Table 26 in Annex I). CATALYZE Peru's ability to support digital solutions will require sufficient internet access in the region.

V. FI PERCEPTIONS ABOUT FINANCING SUPPLY AND DEMAND IN THE PERUVIAN AMAZON

PROFILE OF FI INTERVIEWEES

In addition to secondary data collection, the assessment team interviewed 26 representatives of financial institutions with interests in Peru and Peru's Amazon, both inside and outside of Peru. FIs interviewed include five commercial banks, four cooperatives, three development finance Institutions, 11 impact investors³³, and three MFIs, using these categories to segment responses. These FIs focus on the range of lending market segments in the Amazon, from smallholder farmers, to microenterprises, small and medium enterprises, and even large enterprises. Some of the FI interviewees make equity investments. A full list of the FIs, and private entities, interviewed can be found in Annex N.

The 26 FI interviewees largely corroborated the secondary data collection figures secondary data findings, namely that commercial banks currently top the league table in financing to the Amazon, followed by MFIs, cooperatives, and impact investors. Banks and impact investors interviewed are both wholesale (apex) and direct lenders, in that they invest both in Peruvian FIs for onlending, as well as directly to individual companies. Impact investors and DFIs interviewed have the highest minimum ticket sizes to invest in Amazon enterprises or FIs—\$500,000 and \$5M, respectively—while MFIs and cooperatives have the lowest minimum ticket sizes.

Interviewees also corroborated data collection findings on lending distribution (insufficient SME access to financing in the Amazon), overall financial system lending to Amazon businesses (low relative to other parts of the country), and financing of lending (most expensive for MFIs and cooperatives and FIs making the smallest size loans).

Common financing products. FIs interviewed discussed the range of financing options offered, including short-term and long-term debt, savings, mezzanine debt, equity, leasing, group loans, consumer credit, SME credit, first-loss guarantee capital, debt to public entities, and education loans. By far, the most common product offered in the Amazon was debt. The type of FI largely determines the type of financing offered; all MFIs and cooperatives interviewed reported offering savings products, and none indicated they offer equity or mezzanine capital to their clients or members. The other types of FIs interviewed (commercial banks, DFIs, impact investors) all reported offering a mix of debt, equity, and mezzanine capital.

³³ Impact investors are defined as investors that seek a financial return along with intentional impact. Financial return expectations range from market rate to below market rate. They invest in a range of asset classes. Some are debt investors, some invest equity. As such, their investment product offerings and therefore categorization may overlap with other categories of interviewees.

Destination of financing. Assessment interviewees reported their financing was concentrated into the agriculture and the subsectors of agroforestry and livestock, followed by business and trade, construction, electricity and water, manufacturing, and fishing/aquaculture sectors.

Impact conscious. The large majority of FIs interviewed that are active in Peru’s Amazon are highly impact-conscious with their financing, with 24 of 26 indicating interest in the socioeconomic outcomes of their activities, and more than half indicating interest in their lending having positive environmental outcomes.³⁴ This impact focus likely shapes the sectoral financing prioritized by these lenders, as FIs prioritize sectors with higher potential for positive socioeconomic and environmental impact, while still seeking positive financial returns.

Portfolio quality. All FIs interviewed discussed portfolio quality in terms of pre- and post-COVID-19. Pre-COVID-19, few FIs reported significant challenges; however, in the current era, the pandemic’s impact on portfolio quality varies greatly based on the type of institution, its exposure in Peru and the Amazon, and the sectors and target populations to which it lends. International impact investors and DFIs mostly reported minimal impact to their portfolios in Peru, with a few exceptions, such as investments in tourism or transportation services.

International FIs reported that due to COVID-19, parts of their portfolio have required some portfolio restructuring, but total restructuring and defaults were very rare. Domestic FIs, and in particular MFIs with high numbers of urban or informal customers with high default rates, have had to restructure significant portions of their portfolios due to COVID-19 and the rapidly changing circumstances of their current clients. Government injections of capital to mitigate COVID-19’s impact on the financial sector are also complicating portfolio quality measurement in the short term in that it may be masking possible forthcoming portfolio deterioration. Financial cooperatives that lend significant portions of their portfolios into the Amazon report continued healthy loan portfolios in the agriculture sector, as agriculture was deemed an essential service by the GoP. During the pandemic, agricultural lending to sectors such as coffee and cocoa have continued in rural areas in the Amazon, with minimal disruption.

Interest rates. Interest rates offered by FIs also varied depending on the type of FI interviewed, recording interest rates anywhere from 0% to 25%. Commercial banks, cooperatives (starting at 10%), and impact investors (5–15%) reported the lowest lending interest rates. MFIs uniformly reported offering financing at interest rates above 26%.

Financing costs. Financing costs varied among interviewees; this is described in pre- and post-COVID-19 terms. Some cooperatives lost all credit lines after the pandemic hit, as their portfolios reduced too dramatically to qualify for financing. In the interim, they are only financing loans with member savings until they recover from the crisis. One cooperative reported spending 50% of its profits on capital. Others report accessing international capital at anywhere from 0% (Kiva) to 10.5%, all at lower rates than they can access domestically. In some cases, international financing is provided in U.S. dollars, and the foreign exchange costs add another six points to their financing costs. Repayment of the dollar-denominated loans represents further foreign exchange risk and expense if the Peruvian nuevo sol further devalues against the foreign lending currency. Almost all MFIs and cooperatives reported accessing concessional capital from the GoP under the FAE program, but demand for this capital plummeted dramatically in the COVID-19 era and interest rates are no longer attractive.

“The impact of COVID on our portfolio was less than we expected...we haven’t had any problems with repayment. We had to do some reprogramming of loans, but only a few...It has taken longer to get new loans approved these past months, mostly due to lack of travel and the speed we can complete the due diligence.”

– *Latin American impact investor*

³⁴ Source: CATALYZE Peru FI Assessment Interviews.

FI PERCEPTIONS OF BARRIERS TO EXPANDED FINANCING IN THE PERUVIAN AMAZON

KEY TAKEAWAYS

Perceived barriers to expanding financing at scale in the Amazon include:

- Distances and related costs.
- Poor infrastructure (roads, telecom, connectivity).
- Significant risk (illegality, informality, reputational risk, social license).
- Insufficient TA for businesses to become finance ready.
- Mismatch between financing terms, products, and demand.
- Limited knowledge of the Amazon.
- High opportunity cost vs. other parts of Peru.
- Too few and too small businesses.
- COVID-19 recovery takes priority over expansion into new zones.

Assessment interviews with 26 FIs uncovered a wide range of barriers that are perceived to limit expanded, licit financing across the Peruvian Amazon, discussed below.

Distances and related costs. All FI types (commercial banks, cooperatives, DFIs, impact investors and MFIs) pointed to distance as a major challenge for them to serve FI customers. Given FI penetration in the Amazon relative to the rest of the country, and the great distances to travel, higher transport costs relative to the rest of Peru dissuade potential FI customers from obtaining and servicing financing and making savings deposits. FIs have difficulty seeing the cost-benefit of opening offices in new regions without an assured client base.

Poor infrastructure. Limited infrastructure and connectivity is another important category of barriers inhibiting investment in the Amazon. The most common issue quoted in this category is distance. The Amazon is huge, with a relatively small population (3.8 million of Peru's 32 million total) scattered across hundreds of tiny communities in remote areas, far from each other and from urban centers. It is not cost-effective to do business in the Amazon, as the distances are costly and challenging to navigate given the limited transportation infrastructure, and the time it takes to travel from the capital to the Amazon, and points within the Amazon. All FIs interviewed insist on in-person verification of potential clients, which significantly drives up their cost of financing. The Amazon has spotty cell phone coverage and very limited internet connectivity with low bandwidth (corroborating above earlier cited digital data findings), further complicating communications and successful business and finance transactions. Much of the region has no access to electricity, and FIs and private companies with remote offices must rely solely on solar power. With so many industries and companies operating closer to Lima, urban centers, and the coast that are more easily reached by road and air, the opportunity costs of investing in the Peruvian Amazon are extremely high.

Significant risk. FIs interviewed commented on the risks present in investing in the Amazon (beyond the traditional FI risks) far more frequently than the opportunities or rewards. For many FIs, the proximity of doing business alongside some of the illegal activity occurring in the Amazon (e.g., narcotics production and trafficking, illegal logging and mining) is highly unattractive, and increases already high risk even further. Limited state presence throughout the Amazon enables the spread of illegal behavior and also poses security risks for FIs and the Amazon's inhabitants. Other FIs discussed the high levels of reputational risk involved in financing in the Amazon, and the fine line one must walk when managing community relations to avoid inciting social conflict and high-profile protests by community members who are not always aligned with investor interests. Investment failures in the Amazon are highly publicized, and negative examples serve as a strong deterrent to new investors.

Insufficient TA. Lack of TA for firms and farms in the Amazon is also perceived by FIs as another major barrier to finance, further increasing FI risk. Without the right capacity building support to complement financing, either to prepare for financing or to manage it appropriately, FIs fear that the smallest firms will be unable to responsibly utilize financing and repay their loans.

Mismatch between financing terms, products, and demand. Most DFIs, commercial banks, and impact investors interviewed mentioned how few businesses in the Amazon were capable of meeting their investment criteria given minimum ticket sizes, collateral or other risk mitigation requirements, certification requirements or in some cases, the requirement that recipients of financing be organized into formal cooperatives or associations. While the investment criteria and associated risk tolerance and appetite is understandable, the reality is that most DFIs, impact investors, and commercial banks do not have products that currently match the needed financing in Peru's Amazon. None of the FIs interviewed mentioned a need or an interest in modifying their investment criteria. However, all were intrigued and interested in hearing about how costs could be lowered, and risks could be mitigated in expanding in the Amazon via CATALYZE Peru's incentive fund for FIs.

The FI interviews uncovered a general recognition that Peru's financial system is lagging behind the rest of the world in adapting financial products and services to the digital realm. Five Peruvian FIs (one bank, two cooperatives, and two MFIs) mentioned having digital finance products either already operational or in development, and all cited the need to quickly expand their offerings in this arena.

One trade association representative noted that although one can argue that the MFI sector is highly developed in Peru, interest rates charged to the segment's borrowers do not seem to adequately reflect the mission for which they were originally founded—as a poverty alleviation tool.

Limited knowledge of the region. More than half of the FIs interviewed (mostly DFIs, impact investors, some MFIs and cooperatives) mentioned their limited knowledge base of the Amazon market, financing opportunities and the potential for expanded financing growth. Although many FIs operate in the Amazon, few perceive they have sufficient knowledge of the agricultural sector to scale their lending there without staff who are much better trained in the relevant supply chains and sectors representing financing demand.

FI interviews also demonstrated that the cooperatives and MFIs already lending in the Amazon (especially those in the rural areas) are most knowledgeable about the region and which products are most appropriate for the market segments in the region.

High opportunity cost. Almost all DFIs and impact investors mentioned Peru as a country of interest for investment (corroborating Peru's earlier-mentioned positive sovereign risk rating data), but only one had an explicit focus on Amazon investment. This impact investor is seeking to create a regional fund for the Amazon spanning multiple countries and asked whether CATALYZE Peru could potentially contribute first-loss resources to complement its capital raising efforts. Most of the interviewed FIs can meet their placement targets by closing financing in other parts of Peru (or in other countries), where the financing barriers are perceived to be far lower, and where there are much larger concentrations of businesses that meet their investment criteria.

“We spend 50% of our profits paying for the costs of capital.”

– Peruvian financial cooperative operating in Amazon

Too few and too small businesses to invest in. The Amazon is perceived as a market with a high concentration of many micro and small-sized farms and businesses, fewer medium-sized businesses and very few large industries. It is a highly atomized market. Most businesses in the region are considered either too young or too small to be “investment-ready” without significant effort.

COVID-19 recovery. All Peruvian FIs that responded to the question about how COVID-19 has affected their operations mentioned putting their expansion plans on hold until they can recover losses, or clients and get their portfolio and operations to a more “normal” state as a first priority over new programming. International impact investors and DFIs generally saw less disruption in their financing as a result of COVID-19 than most Peru-based FIs.

“Everything we wanted to do this year was turned upside down because of COVID. We have had to radically change our plans. Lots of businesses disappeared, and we are still in the midst of this. We are reprogramming and refinancing loans, reducing interest rates, looking for solutions for our small business customers. No one was prepared for this, so this was a huge challenge...the bank has taken a big hit, but we are starting to recover. The crisis for us and our clients will go well into 2021.”

– *Representative, MFI*

FI PERCEPTIONS OF SUCCESS FACTORS FOR EXPANDED FINANCING IN THE PERUVIAN AMAZON

KEY TAKEAWAYS

Perceived success factors among FIs for expanded financing in the Peruvian Amazon include:

- Appropriate TA for potential borrowers.
- De-risking mechanisms (e.g., guarantees, first-loss capital).
- Community buy-in/support.
- Strategic partnerships with actors.
- Secured buyer contracts.

Appropriate TA. TA provision to firms in the Amazon was widely mentioned by FIs interviewed as an important success factor to expanded financing in the Amazon. FIs mentioned many types of TA required by firms in the Amazon, including helping prepare companies for financing, financing deal packaging, and post-financing TA support. FIs interviewed reported a mismatch of supply and demand of TA for firms in the Amazon. Supply of firm-level TA is considered insufficient, and the quality of TA provided is also considered low.

Some FIs serving the micro and small client base in the Amazon rely on external consultants to provide TA support in client origination and deal packaging, principally to small cocoa farmers of the USAID Peru-supported Peru Cocoa Alliance (PCA). They noted that the agricultural TA provided by the PCA to farmers is an important success factor accompanying their lending.

A few impact investors and DFIs commented on the relatively undeveloped financial advisory market in Peru as compared to other parts of the world, such as Asia or even Africa. These FIs mentioned that locating qualified consultants capable of identifying and structuring complex financing deals in Peru is a challenge and finding those with Amazon experience is even more difficult.

“What you need in Peru are more former bankers who understand these sectors/places and can structure these complex deals. There are very few of these in Latin America. This sector is more developed in Africa and Asia.”

– *Global impact investor*

Interviews provided evidence that, with very few exceptions, impact investors, commercial banks, and DFIs prefer to rely on their own personnel, reputations, conference attendance, and referrals from trusted parties to identify and source financing deals. Some of these FI actors mentioned experience working with consultants in the past to structure and close larger financing deals for MSME investees in Peru and the Amazon, but in these cases, the consultants were identified, hired, and compensated directly by the investee firms. The costs of these consulting arrangements are therefore largely unknown to the FIs interviewed. The FIs uniformly agreed they would consider any good investable deal that came

across their desks, and that pipeline development, deal structuring, and deal closure support would be especially welcome given the restrictions the pandemic has placed on their international travel. A few DFIs and impact investors noted a need to rely more on consultants to assist them in pipeline development and due diligence work given travel restrictions, whom they mostly source from Lima.

Interviewees uniformly agree that businesses of all sizes in the Amazon receiving financing require a wide range of TA to support deal closure assistance with business growth. Currently, the market for such business services in the Amazon is undeveloped, and the demand for this type of TA far outstrips supply. Many large companies involved in commercial production or sourcing products from the Amazon offer TA with internal resources to firms and farms upstream in their specific supply chains. The remainder of TA is insufficient to meet demand. TA is provided by a range of donor implementing partners, municipal governments, vocational institutes, and trade associations in a largely uncoordinated fashion, with varied levels of quality and on non-commercial terms. CATALYZE Peru's assessment team members also uncovered examples of one FI in the Amazon charging farmers for TA by adding the cost as 100 basis points (one percentage point) to the loan interest rate, which reportedly was not successful in scaling these TA services and primarily increased the cost of financing to farmers.

“With our new agricultural fund, we want every investment to be a transformation project. Agronomists accompany us now to structure deals together with financial institutions to figure out what is needed to support the transformation we want and better ways to serve farmers. Then we agree on a pathway and a set of activities to achieve these goals.”

– *Global impact investor with Amazon investments*

Recognizing this gap in the financial services market, the IDB is in the process of providing COFIDE with \$3M in TA funding to facilitate environmentally responsible financing in the Amazon, targeting FIs and firms. CATALYZE Peru has a similar-sized budget for the same purpose, with a greater focus on anchor firm identification and firm-level assistance that leads to closing financing transactions. Palladium and the IDB have agreed that it makes sense to collaborate between CATALYZE Peru and COFIDE programs to ensure their provision of TA is complementary and supports sustainable market development of business services to FIs and Amazon businesses.

“You need that anchor firm (buyer) at the center of these deals, or you won't get the growth you need to make this work (in the Amazon). The SME businesses can only absorb so much (capital), so the rest of the deal has to be around expanding their networks of suppliers and smallholders. You don't want to only focus the capital in one place – this is risky, so this structured partnership model will work very well.”

– *Latin American impact investor*

De-risking mechanisms. Expanding guarantees was another success factor in Amazon investing mentioned by a third of respondents. However, some FIs provided a caveat to that statement, mentioning that the guarantees available in Peru are insufficient or inadequate to mitigate the risk. One DFI that routinely funds guarantees emphasized that guarantee mechanisms alone are insufficient to reduce risks for FIs to motivate new investment (see text box). The DFI had previously offered guarantees covering 100% losses to FIs in Peru but was refused. The firms that disproportionately access guarantees are those of sufficient size that can afford the cost to prepare the paperwork.

“We have learned from experience that guarantees alone to motivate banks is insufficient. We've offered first-loss guarantees of 100% to Peruvian banks to lend to different sectors, and they pass.”

– *Latin American DFI representative*

Community buy-in. A significant portion of the available land in the Amazon is managed by indigenous communities. About half of the FIs discussed the critical importance of obtaining community buy-in for any new Amazon investments. They also highlighted how FIs and investors that have not sufficiently managed the issues of land rights or the broader non-financial and financial interests of communities in the region have faced social unrest.

Strategic partnerships. Some of the most frequently quoted success factors (e.g., TA, proper regulatory environment, easy-to-access guarantees, and partnership formation) underscore the need to mobilize and coordinate multiple actors to build successful investment opportunities in the Amazon, with community buy-in, sustainable TA, and active support from Peru’s regional and national governments.

“We have the financing. We have that part clear. What we need to enter the Amazon is the other support.”

– *Peruvian financial cooperative*

Secured buyer contracts. Some FIs, notably impact investors and financial cooperatives with operations in the Amazon, highlighted the need for approved offtaker or buyer purchase contracts to ensure that borrowers have sufficient cash flow to ensure loan repayment.

FI PERCEPTIONS OF CHALLENGES FACING BORROWERS TO ACCESS AND MANAGE FINANCING

KEY TAKEAWAYS

FI perceived challenges facing borrowers to access and manage financing:

- Remote location
- Too small/not ready for financing
- Limited vision for growth
- Not financially literate
- Poor management skills/lack of training
- Lack of land titling/collateral
- Lack of data/financials
- Limited access to TA

Remote location. FIs interviewed serving micro and small businesses in the Amazon noted how location limits both FI growth (low savings mobilization) as well as the perception of savings security at an FI among clients. FIs located in the Amazon reported that the tradition of clients saving their money informally (e.g., under a mattress) was alive and well, mostly due to the high cost for clients to use transportation to an FI or FI agent to make a deposit, in addition to limited client trust in FIs.

Often customers in the Amazon need to travel long distances to access internet in cafes or obtain a cell phone signal. These “disconnected” customers are seen to have historically distrusted conducting business digitally and prefer face-to-face interactions. While the pandemic and ensuing restrictions pushed many businesses and individuals to shift to digital financing transactions, the lack of physical infrastructure to support connectivity in the Amazon has exacerbated the already limited access to finance faced by its population.

Too small/not ready for financing. FIs point to high numbers of many very small, unregistered businesses and unbanked potential clients, all of which undermine the FI’s ability to collect data, make projections, and understand potential borrowers’ businesses to adequately measure risk.

Limited vision for growth. Multiple impact investors that focus on agricultural financing pointed to borrower characteristics that limit their expansion in the Amazon, namely lack of vision among business owners, and how this influences the potential for the business to grow and scale.

Not financially literate. FIs serving micro and small entities in the Amazon were most concerned with financial literacy of their clients and include some form of loan management training for the smallest ticket borrowers, especially new borrowers. Some of the financial literacy training is offered by FIs in collaboration with agricultural alliances operating in the Amazon (the Peru Cocoa Alliance and the Coffee Alliance for Excellence) and is seen as a critical accompaniment to new and small borrowers to ensure credit recovery.

Poor management skills/lack of training. FIs perceive Amazon businesses as weakly governed, and the labor force available to work for the FI in the region as largely unskilled. Many FIs and companies struggle to recruit qualified staff from the region, rather importing labor into the Amazon to work at FI offices from other parts of Peru.

Lack of land titling/collateral. Most FIs interviewed discussed the challenges surrounding land titling in the Amazon and the difficulties this presents for potential borrowers to provide collateral (as well as for larger, commercial, agribusiness investors to find contiguous plots of land on which to invest). Most Peru-based FIs still rely on traditional forms of collateral. Limited potential borrower collateral is perceived as a less relevant issue for the cooperatives and MFIs operating in the Amazon that have more flexible borrower collateral requirements. Some of the Amazon's MFIs offer group guarantees via village banking to mitigate collateral challenges, albeit at very small scale.

Lack of data/financials. All FIs, and especially those catering to the smallest ticket customers, focused on potential borrowers' financials. Impact investors also mentioned their disappointment at the level of financial management of Amazon businesses as compared to other parts of Peru, and the difficulty that businesses face when their accounting is not in order to a level needed to access financing.

Limited access to TA. FIs catering to small farmers in the Amazon (cooperatives, *cajas*, MFIs) and other FIs indirectly serving them (e.g., impact investors) were insistent on the need for agricultural financing to be linked to appropriate agricultural technical assistance. Most FIs functioning in the Amazon that offer agricultural financing to small farmers do so for farmers to access improved agricultural inputs. Utilizing agricultural inputs without appropriate guidance can lead to low yields and lower likelihood for FIs to recover their financing. As such, financing and TA are inextricably linked to ensure smallholder farmers' loan repayments and improved credit worthiness.

“For us, the biggest barriers (for Amazon investment) are project size, and remote location. It's not so much a problem of collateral as the lack of anchor buyers to buy what they are selling, and the ability of the business of that size to grow. Most of these businesses are not scalable and have limited vision. The more remote the operation, the more difficult it is to make an investment work.”

– *Latin American impact investor*

“If you can teach FIs how to do these sorts of new investments, and you take some of the risk away, lend them money to expand, help them with guarantees, you will have their interest and you can have a great deal of impact. It will take time to find the right portfolio (to achieve hundreds of millions in investment). You won't reach this target immediately—it won't be overnight. Maybe it will take six years to get here, but it is achievable.”

– *Latin American asset manager, global impact investor*

FI PERCEPTIONS ABOUT FUTURE FINANCING PROSPECTS FOR THE PERUVIAN AMAZON

On the whole, both international and Peruvian FIs express great interest in expanding their investments into the Amazon, especially if they can be accompanied with appropriate support, such as what can be offered by the CATALYZE Peru project. More than half of the FIs interviewed confirmed an interest in expanding their financing in Peru's Amazon, and about a quarter of FIs interviewed (principally the cooperatives and impact investors) have explicit plans for financing expansion in the Amazon in the near future.

Impact investors interviewed were generally more cautious about the potential for large scale financing expansion in the Amazon, noting risks, barriers such as market size, and the challenges they have faced in attempting to find investees that meet their financing criteria.

To ensure that CATALYZE Peru's interventions have longevity and survive past the three-year project end date, some FI actors interviewed expressed interest in a plan for CATALYZE Peru to transition into some sort of long-term financially sustainable vehicle or facility that can continue to provide critical services and support to Amazon businesses into the future. An entity in Peru that plays the role of identifying, structuring and closing complex deals with an inclusive growth focus does not yet exist in Peru.

Four of the FIs interviewed (principally DFIs and impact investors) expressed interest during their interviews in potentially participating as an investor, partner, or recipient of services from an innovative facility, assuming it is structured in a way that is aligned with their interests. DFIs and impact investors noted the attractiveness of a portfolio approach, in which they can co-invest in a portfolio of deals (rather than the current practice of a "deal-by-deal" approach), thereby reducing costs in sourcing and serving project deals, improving risk-sharing and the cost of measuring the impact of their investments in Peru.

"\$300M is highly ambitious as a financing target for any Latin American economy, but for the Peruvian side of the Amazon, this is VERY big, especially now. This is like the equivalent of mobilizing billions of dollars into the Tennessee Valley. You would need to work with multiple catalysts from the private sector for something like this to work. To give an example, we are raising \$100M for an Amazon-focused impact fund for three countries in Latin America for Brazil, Colombia and Peru, and placing that target is considered ambitious."

– *Latin American asset manager, global impact investor*

"We would invest everything we have in the Amazon if we could."

– *Latin American impact investor*

PRIVATE COMPANY INTERVIEWEE CORROBORATION OF FI PERCEPTIONS

The FI Assessment team complemented FI interviews with interviews with private sector company representatives that are also investing in or interested in expanding their investments and financing into the Peruvian Amazon.³⁵ Private sector actors largely corroborated findings from FI interviews, and also provided practical examples and suggestions, as described below.

Barriers to expanding finance at scale in the Amazon.

Related to opportunity cost, one private company interviewed lamented how large corporates in Peru tend to look outside of

"...large agricultural businesses in Peru are looking at other countries for their next investment before they look in Peru! This is crazy. We need to look at our own country and expand our own potential first."

– *Global agricultural technology investor*

³⁵ Because of their specific current activity and/or interest in financing and investment in the Peruvian Amazon, they were included in this Financial Institutions Ecosystem Mapping Assessment, rather than in the Opportunity Assessment that focuses on the role of companies.

Peru first (to Chile or even Paraguay), rather than within the Amazon, to expand their mostly agricultural and export-related investments (see related quote in text box).

Another private company that is exporting agricultural products from the Amazon now that is seeking new ways to expand financing for its suppliers (which it finances off balance sheet now) and protect standing forests, discussed how the shifting regulatory environment surrounding forestry investment serves as a barrier to investment (see related quote in text box). An investor that is also an exporter of non-tree forest products to the U.S. was seeking to certify seed and seedlings for rosewood trees in one region for 18 months, and upon the cusp of receiving approval, learned the regulatory authority had shifted, negating all its work, and requiring it to begin the approval process all over again.

“Getting a straight answer from the Government in Peru is VERY tough. What we want is to be able to say, “I want to export this product from this place, tell me what I have to do” and have the answer be consistent. But every year the rules change. It’s like ‘the Wild West’ for permitting processes to work legally in standing forests in the Amazon.”

– *Private company investor supporting Amazon exports*

Private company investors interviewed also uniformly lamented the slow and often non-transparent process required to receive approvals to acquire contiguous plots of land on which to grow agricultural products commercially, to do business in general, and especially to operate in formerly degraded or deforested areas.

Success factors in expanding Amazon financing.

Private companies were, on the whole, more “bullish” about the possibilities of expanding their investments and operations into the Amazon as compared to FI interviewees. Companies interviewed also uniformly mentioned the importance of ensuring community buy-in from the Amazon’s inhabitants to ensure successful investment in the Amazon. A number of Peruvian and foreign companies interested in expanding their current investments in the Amazon are investigating shared ownership structures with community members as a successful investment strategy that has the added benefit of incentivizing sustainable environmental protection.

“What’s needed to enable more responsible investments in the Amazon? A positive relationship with the people in the geographic area that recognizes and rewards their contributions and allows for co-ownership in these investment projects so they can protect the land at the same time they live off it. If people have more to gain by protecting the land, they will, and they will reject the illegal elements.”

– *Private company investor supporting Amazon investments*

Challenges facing borrowers. Companies interviewed corroborated the FI perception of potential borrowers as often informal, unbanked, and largely unprepared for financing, and the need to accompany financing with appropriate TA to support borrower ability to both access and appropriately manage financing.

Perceptions for longer-term financing for the Amazon. In contrast to many of the FIs interviewed, private companies interviewed by the assessment team seem to have embraced the concept of responsible and sustainable investing in Peru’s Amazon as the inevitable future for agribusiness, and as an attractive financing opportunity.

“The Amazon is a tremendous opportunity ...if you can grow blueberries or asparagus on the Sierra or in a desert, why not in the Amazon?...if we can partner with a few large businesses in a few sectors and expand our product usage, we can double, triple yields on the same amount of land. ”

– *Global agricultural technology investor*

VI. ESTIMATED PERUVIAN AMAZON FINANCING SUPPLY

For purposes of this assessment, an estimated annual domestic debt financing supply for the Peruvian Amazon agriculture and manufacturing³⁶ sectors were calculated. The estimates do not include cross-border debt, or domestic or cross-border equity investments. The estimated annual Peruvian Amazon debt financing supply for agriculture is \$156M, and for manufacturing (small and light manufacturing) is \$415M. Methodological details are provided in Annex J.

Table 7: Estimated Peruvian Amazon Financing Supply Calculation Methodology

Item	Amount in Soles	Step
Total Loans in the CATALYZE Peru region (in soles).	S/. 12,450,511,884	A
Subtract Consumer and Mortgage Loans	- (S/. 5,231,777,007)	B
= Remaining Loans to Companies	S/. 7,218,734,878	A-B
Exchange Rate (Peruvian soles per US dollar)	S/. 3.6	C
Total in USD	\$ 2,005,204,133	(A-B)/C
Reactiva Peru lending to sectors in the Amazon	Percentage	
Agriculture Sector	7.8%	D
Manufacturing Sector	20.7%	E
Estimated Annual Lending to these Sectors	Amount in USD	
Agriculture Sector	\$ 156,405,922	[(A-B)/C] * D
Manufacturing Sector	\$ 415,077,255	[(A-B)/C] * E

Source: SBS (As of December 31, 2019), Reactiva Peru data, and CATALYZE Peru analysis

VII. OPPORTUNITIES: PARTNERING WITH FINANCIAL INSTITUTIONS

FI PERCEPTIONS OF OPPORTUNITY SECTORS AND STRATEGIES TO EXPAND FINANCING IN THE PERUVIAN AMAZON

KEY TAKEAWAYS

FI perceptions of opportunity sectors and strategies:

- Potential target sectors include agriculture, including livestock and forestry.
- Longer term capital for business growth.
- Digital infrastructure.
- Financial products that effectively serve women and youth.
- Use of TA and consultants.

Potential target sectors. FIs interviewed highlighted agriculture, including livestock and forestry, as the most obvious opportunity for expanded Amazon investment, followed by clean energy, non-tree forest products appropriate for the cosmetics industry, tourism and ecotourism, textiles/apparel, and other climate-smart enterprises. All accompanying services to agriculture are also included in this category, including logistics, irrigation inputs, and associated services.

Within agriculture, coffee, cacao, and palm oil are most frequently mentioned as developed supply chains still with significant growth potential, especially in terms of supporting improved yields through responsible agricultural practices, and improved supply chain transparency and traceability. One

³⁶ Some of the manufacturing is related to agriculture value chain such as food processing.

commercial bank investor spoke of an immediate opportunity for its bank to help palm sector clients obtain responsible sustainability certifications, an action that would open up new sales channels for palm oil producers, for which the bank could structure new lines of financing. Wood products, bananas, mango, rosewood oil, and superfoods (e.g., Brazil nuts and macambo beans) are also seen as opportunities given rising global demand for these agricultural products.

Expanded products and services. All FIs interviewed alluded to the need for expansion of different types of capital required by Amazonian businesses to grow, as very few FIs offer longer-term capital. In the Peruvian Amazon, demand for long-term capital far exceeds supply.

The importance of the digital infrastructure for ensuring consumer payments to utilities, topping up cell phone credit, and delivering government assistance was also highlighted in multiple FI interviews as an important financial service demanded in the Amazon, especially during the global pandemic when travel is restricted. Expanded and improved digital financing is another product offering that CATALYZE Peru can build upon, especially given the reductions in in-person financing services offered by FIs.

“What is needed on the development side to support supply chain growth requires more investment than we can make given the size of our buying. An important aspect of success in our work is to collaborate with other brands that are actually competitors, so together we can co-invest and build up (forestry) sectors with likeminded actors.”

– *Private company investor supporting Amazon exports*

A few FIs interviewed mentioned the need for more appropriate product design targeting women and youth-led enterprises in the Amazon. A focus on gender in lending is gradually taking root among Peru’s FIs, with support from international donors, nonprofit organizations, cooperatives, and international FIs. Financial products directed toward women exist in some FIs, as do trained personnel to deliver them. However, levels of literacy and financial literacy among women are lower than among men in Peru, and this affects the rate of financing uptake for women. The GoP is involved in multiple international efforts to promote financial inclusion among its population and is promoting use of bank accounts to transfer funds from social programs to low-income populations, including women, throughout the country.

Some Peruvian FIs are putting in place programs and policies to promote greater gender inclusivity in lending, as well promoting respectful intercultural practices to be more inclusive of indigenous populations. Of the FIs interviewed for this assessment, two cooperatives and one MFI indicated that they have designed or are designing lines of credit specifically for women. While one MFI reported investing 68% of its portfolio in women clients, most banks have no specific focus on investing in women. One DFI and one impact investor mentioned women’s economic empowerment as a critical focus area. However, financing efforts for youth remain rare among Peru’s FIs. Peruvian law requires that borrowers be 18 years or older to be eligible for a loan. The GoP recently began a program managed by the banking association (ASBANC) to promote financial education in schools and offer loans to youth to acquire assets to facilitate their economic activities, such as motorcycles or moto-taxis. Few FIs interviewed reported offering financing products tailored to youth, with the exception of one cooperative with a youth entrepreneurship line of credit.

The conclusion from interviews is that Peruvian FIs are not yet fully embracing women and youth as priority target segments for financing in general for Peru, nor specifically in the Amazon. Product development for these target segments can be an opportunity for CATALYZE Peru.

Use of Consultants. Peruvian FIs generally do not rely on external deal originators, financial advisors, or other consultants to bring more financing to smaller entities in the Amazon. Most FIs interviewed for this study provide these services with in-house staff. However, there are exceptions, such as the example provided by the PCA, which co-finances 12 financial consultants (non-FI employees) working

with *cajas* and five FIs in three regions of the Amazon (San Martín, Huánuco, Ucayali). PCA consultants identify potential credit customers from PCA's 20,000+ strong database of agroforestry farmers. The PCA and 12 consultants have assisted 7,342 of approximately 25,000 agroforestry farmers and micro entrepreneurs access \$15.8M in loans over the past four years through a combination of cost-shared consultants and FI training.³⁷ PCA is supporting FIs to create appropriate products targeting cacao-related clients and sectors to purposefully link TA with financing via participation of FIs and agricultural technology providers in the training, and has provided lead farmers "schools of excellence."

Businesses in Peru have accessed TA directly from consultants via GoP-supported consultants through a range of programs over the past 20 years designed to improve competitiveness, including Incagro, PNIA, PNIPA, Innova Peru, and Fondecyt. GoP-provided services are viewed as an important form of support to Peruvian and Amazon firms but have not yet resulted in the development of a vibrant TA market to improve business readiness for financing in Peru. They do not operate on a commercial basis.

Partnering with the IDB/COFIDE. The IDB has developed a government program targeting FIs to use loan capital, risk sharing guarantees, and TA to the financial sector, working with COFIDE. The program aims to build capacity to expand lending and mitigate risk in the Peruvian Amazon, all in ways that protect the Amazon while it is also being responsibly developed. The program will be implemented by the GoP via COFIDE. The program is also considering design of an externally managed trust; a feasibility study will be conducted to guide this effort. The IDB recognizes that this is an innovative program, and as such COFIDE will require capacity building to successfully implement the program. It is seeking the active collaboration of CATALYZE Peru to build on best practices in successful FI expansion of investment in the Amazon. Both the IDB Bioeconomy/COFIDE program and CATALYZE Peru can operate complementary financial incentive and TA programs.

OPPORTUNITIES: FI PERCEPTIONS OF PRIORITY TRAINING AND TA NEEDS OF FIS

KEY TAKEAWAYS OF THIS SECTION

FI perceptions of priority training and TA needs:

- Understanding the Amazon region, opportunities, and value chains.
- Firm-level capacity building in financial management.
- Improving the forestry enabling environment.
- Farmer technical assistance.
- FI financial product development.

FIs and private sector actors interviewed suggested a wide range of topics on which CATALYZE Peru can provide training and capacity building to expand financing at scale into the Amazon. Training and TA subjects differ based on the type of FI involved, as well as the size and type of entity benefitting from financing.

Understanding the Amazon region, opportunities, and value chains. The most frequent comment from FIs is that they are not familiar enough with the Amazon to quickly expand their investments without incurring significant risk. The pandemic exacerbates information asymmetry, as all FIs have significantly reduced their travel in general and are even less likely to travel to the Peruvian Amazon before the pandemic ends. Understanding target value chains and agricultural buyers, when and

³⁷ The structure of PCA consultant fees for FIs is as follows: Consultants identify upstream credit customers, assist them to fill out loan applications, and finalize financing. For this service, a consultant is paid \$350/month by the PCA; in addition, the FI compensates the consultant with social benefits and a success fee of 1.25% of the loans placed successfully that meet the following criteria: (1) minimum of 80,000 soles lent monthly, (2) 15–20 new clients on-boarded each month, and (3) default rates under 2%.

how loans are repaid, value chain timing and cash flows, and the full risks of lending to these value chains are all critical to assess and correctly price risk.

Firm-level capacity building in financial management. Given the limited experience of most companies in Peru's Amazon in managing access to credit, many FIs and companies highlighted the need for companies, cooperatives, farms, and communities to be prepared to receive larger ticket financing. Some lenders already provide this capacity-building for their recipients (e.g., NESsT, Root Capital). Others, especially Peruvian MFIs and financial cooperatives, rely strongly on USAID programs (e.g., PCA and Coffee Alliance for Excellence, both of which have specific end dates) to provide financial education capacity building. Firm-level financial education support is seen as critical to the success of entities like the Norandino and Tocache cooperatives that maintain agricultural portfolios in the Amazon in both coffee and cacao.

Improving the forestry enabling environment. Private companies that are investing their own resources into the Amazon to promote sustainable agriculture mentioned interest in receiving assistance to navigate what was referred to as a murky enabling environment to make forestry investments. Processes to certify seeds and seedlings reportedly change frequently. Transparency is reported to be limited in terms of navigating the system to be able to make the investments needed to maintain standing forests while also helping inhabitants take advantage of income-generating opportunities.

Farmer technical assistance. Cooperatives, DFIs, impact investors, and MFIs all point to the need for agricultural TA to farms and firms, cooperatives, aggregators, and service companies at greater scale and explicitly linked to markets and financing to support repayment and growth. At the MSME level, Peru's largest bank lender to the Amazon suggested that it can be assured of the soundness and sustainability of future investments in palm oil if it can help its investee firms prepare for responsible palm oil certifications. At the farmer level, despite a few notable exceptions in cacao, palm, and banana, most efforts to concurrently provide agricultural TA, financing, and market linkages in the Amazon remain fragmented, small, and uncoordinated. As such, they are costly, inefficient, and not easily scalable in their current form. There are exceptions where these services are offered in a coordinated fashion and leverage private sector investment to provide it at scale (e.g., Husqvarna, Yara, San Fernando, Naandanjain, and other private companies and actors within PCA supporting training for 25,000 farmers). These examples offer important insights on how to more actively involve private sector actors to provide TA in ways that can be commercially viable and scalable under CATALYZE Peru.

FI product development. Cooperatives, MFIs, and DFIs noted interest in receiving TA and/or capacity building to structure financial products that appropriately target, tailor, and meet the demand of Peruvian Amazon-focused borrowers or investees. Tailored FI product design in the Amazon has been demonstrated to work well to reduce a mismatch between financial product offering and MSME borrower needs.

OPPORTUNITIES: PRIORITIZATION OF POTENTIAL FI PARTNERS FOR CATALYZE PERU

The assessment team developed a set of criteria to pre-identify an initial cohort of potential FI partners with which to work via CATALYZE Peru activities and interventions. The ranking criteria include:

1. Interest in partnering with the CATALYZE Peru program.
2. Interest in expanding environmentally responsible, inclusive lending in the Peruvian Amazon.
3. Availability of capital to place in new financing benefitting the Peruvian Amazon.
4. Experience investing responsibly in Peruvian Amazon.
5. Financing and financial services provided address financing demand in the Peruvian Amazon.

CATALYZE Peru intends to select FI partners through a competitive process. Table 8, categorized by type of FI, shows an initial list of potential financing partners. The list is not exhaustive and in no way precludes CATALYZE Peru from inviting other FIs to participate in competitive processes or forming relationships or partnerships with any other FI operating inside or outside of Peru to support expanded Amazon investments. It is a preliminary list providing evidence that there are FIs actively interested in partnering with CATALYZE Peru in myriad ways. It also demonstrates that there are FIs that have the capability and resources to expand their investments into the Amazon quickly if provided the appropriate support.

Table 8: Potential FI Partners to Participate in CATALYZE Peru Competitive Procurement and Selection Processes

Name of Organization	
Type: Universal Commercial Banks	
1	Banco Pichincha
2	BBVA
3	BCP
4	CitiBank
5	RaboBank
Type: Cooperatives	
1	ABACO
2	Cooperativa Norandino
3	Cooperativa PRISMA
4	Cooperativa Tocache
Type: DFIs	
1	FinDev Canada
2	FMO
3	IDB
Type: Impact Investors	
1	Bamboo Capital ³⁸
2	EcoEnterprises Fund
3	GAWA Capital
4	Global Partnerships
5	Grassroots Business Fund
6	Impact Finance
7	INCOFIN
8	NESsT
9	Oikocredit
10	PG Impact
11	Root Capital
Type: MFIs	
1	Caja Huancayo
2	Financiera Confianza
3	Mibanco

Source: CATALYZE Peru FI Assessment Interviews.

³⁸ Palladium and Bamboo Capital Partners announced the formation of a strategic partnership between the two companies in September 2020 in which Palladium acquired a minority stake in Bamboo Capital Partners. <https://thepalladiumgroup.com/news/Bamboo-is-Now-the-Asset-Management-Arm-of-Palladium>

OPPORTUNITIES: GUARANTEE FUNDS AVAILABLE TO PERUVIAN FINANCIAL SECTOR

This section describes two key guarantee programs relevant to CATALYZE Peru: GoP's COFIDE program, and the United States Government's Development Finance Corporation (DFC) guarantee program.³⁹

NATIONAL GUARANTEE FUNDS

COFIDE AND FOGAPI

COFIDE is Peru's development bank and is committed to the social, sustainable, and inclusive development of the country and all Peruvians. Further details on COFIDE's sustainability strategy values, its lending program by type of financial institution, interest rates charged, guarantee utilization per sector, wholesale loans per Peruvian financial institution may be found in Annex K. FOGAPI is dedicated to the growth of small industry. FOGAPI provides guarantees and other innovative products and services to support sustainable development of MSMEs. Further information on FOGAPI may be found in Annex K.

“COFIDE's support is helpful but could be expanded. They only cover 25% of the size of a financing deal, but for this to be interesting to my bank, we need 50% guarantee coverage. COFIDE can increase coverage to 50% but with major approvals that take time. We would prefer there were more, and more flexible guarantees to help us expand our already considerable lending into the Amazon.”

– *Universal Bank representative in Peru*

DFC GUARANTEE PROGRAM

USAID's Development Credit Authority (DCA) program has a track record of providing guarantees to financial institutions working in the Peruvian Amazon. Details on guarantees placed in the Peruvian Amazon are further described in Annex K. The assessment team suggests there is potential to structure similar guarantees under DFC, where the guarantee program now operates, in ways that can motivate expanded FI investment in the Peruvian Amazon under CATALYZE Peru, if this is of interest to the USG.

OPPORTUNITIES: MULTILATERAL INSTITUTIONAL INVESTMENT AVAILABLE TO PERUVIAN FINANCIAL SECTOR

INTERNATIONAL FINANCE CORPORATION (IFC)

See Annex L for information on International Finance Corporation (IFC).

INTER-AMERICAN DEVELOPMENT BANK (IDB)

See Annex L for information on IDB. Most relevant for CATALYZE Peru is the IDB's most recent program to support expanded bio-economy investments by the Peruvian financial sector, for which IDB is in the process of finalizing an agreement with COFIDE. The soon-to-be-launched Bioenterprise Program will use a mix of non-reimbursable, concessional capital (\$20M) to be lent to FIs, \$2M in risk-sharing guarantees, and \$3M in TA to improve the ability of Peru's financial sector to support environmentally and socially responsible investments into Peru's Amazon. As part of this program, the IDB and COFIDE are designing a trust that can potentially capture additional resources to continue the services provided over the long term. Given the similarities in objectives and the complementarity in programming and proposed activities, representatives of the IDB, COFIDE, and CATALYZE Peru have held two initial meetings, and have agreed to continue to coordinate on the design and rollout of both incentive programs to ensure that activities complement each other, are sustainable over the long term, and leverage each other for success. The GoP should structure the program to ensure that it promote rather than crowds out private investment.

³⁹ Prior to 2020, the guarantee program was part of USAID as the Development Credit Authority (DCA) program.

OPPORTUNITIES: ALTERNATIVE SECURITIES MARKET LISTINGS FOR PERUVIAN AMAZON

Currently, there are no Amazon-focused companies listed on the Lima Stock Exchange or Alternative Securities Market (ASM). Some investors have been attracted to the Peruvian Amazon to offset their global carbon footprints, and show it is possible to develop sustainable activities that are forest-friendly, protective of biodiversity, and have zero or very few greenhouse gas emissions. The best-known related initiatives identified are those led by AJE Group (AJE) sourcing aguaje pulp for soft drinks, and plantations managed by the Dyer Group.

The ASM was created by Peru's Banking Superintendent to improve access to credit for non-corporate businesses via the stock market. The ASM targets businesses in Peru with annual incomes under S/. 350M soles (\$97M). Benefits of firms listing on the ASM include:

- Ability to access alternative forms of financing at competitive costs.
- Possibility to qualify for financing by issuing bonds or other short-term instruments.
- Special oversight.
- Improved market positioning.
- 50% reduction in fees and tariffs by regulatory agencies of *Bolsa de Valores* (BVL), *Registro Central de Valores y Liquidaciones* CAVALI (ICLV), and *Superintendencia de Mercado de Valores* (SMV).
- Adoption of best practices in capital raising.
- Requirements and terms are more flexible to enter stock market in public registry (*Registro Público del Mercado de Valores*) and to sign up for Lima stock market if interested (BVL).
- More flexible requirements to present information after making offers (*realización de la oferta*).
- Structured formats to present required information to access the ASM, and more simplified procedures, reducing time and financing costs.

The ASM has potential to serve as an alternative source of financing for growing Amazon businesses at more competitive rates by linking the market more directly to Peruvian institutional investors such as pension funds. As evidence of this potential, at the beginning of 2020, ASM representatives approached producer organizations in the Amazon supported by PCA to discuss the procedures to raise alternative financing from the pension fund into productive zones. Unfortunately, due to the pandemic, a cooperative (Alto Huallaga) that had begun the paperwork to work with the ASM ceased the process. Palladium's financing program for USAID that ended in Ghana in 2018 successfully structured a \$90M line of credit for a major cocoa trader with pension fund involvement (the first of its kind in Ghana). These examples provide evidence that such a strategy can work, provided appropriate TA exists to structure these types of complex transactions.

VIII. RECOMMENDATIONS

The Peruvian Amazon presents abundant opportunity for responsible, inclusive, and environmentally sustainable high impact investment, along with a wide range of associated risks. Designing a fit-for-purpose CATALYZE Peru strategy is essential. The recommendations in this section are based on the cumulative analysis and synthesis of information from previous sections of this Assessment. It is organized into four sections as recommendations for: (A) CATALYZE Peru incentivizing investment; (B) CATALYZE Peru technical assistance to address investment barriers; (C) the role of the private sector; and (D) the role of the Government of Peru.

RECOMMENDATIONS FOR THE ROLE OF CATALYZE PERU TO INCENTIVIZE INVESTMENT

CATALYZE Peru can incentivize financial institutions via stimulus payments as described below.

Offer financial institution stimulus incentives. To mitigate the high transaction costs of doing business in the Amazon and the opportunity costs as compared to “easier” investment opportunities (such as investing on the coast or in the *Sierra*), CATALYZE Peru should offer incentives in the form of competitive flexible grants to financing entities that buy down investor risks and costs of lending at scale in the Amazon.

As has been piloted in other markets for USAID, the incentives can be priced in one of the following two ways:

- As a percentage (1%–3%) paid upon financing disbursed in line with investment plans, as FIs or firms meet their proposed financing disbursement targets to the opportunities prioritized by CATALYZE Peru (to be further defined by the Opportunity Assessment underway now). Palladium currently uses this incentive structure to compensate FIs under USAID’s Kenya Investment Mechanism (KIM) program. The 20 FIs under KIM have facilitated \$113.4 M in financing over two years.
- As an amount priced by each FI or business entity that represents the truest cost to their operation to reduce risks, quickly innovate, and execute on new investments. Palladium can conduct an auction of sorts among entities submitting their proposals for investment and the amount of subsidy they need to effectively mitigate their risk. Similar to the example above, subsidy payments will be invoiced by FIs/firms upon achieving financing targets to approved geographies and target populations. Palladium successfully used this incentive structure in Ghana in the USAID Financing Ghanaian Agriculture Project (USAID-FinGap), unlocking \$90M in financing among two dozen FIs over four years.

Regardless of the pricing for the incentives selected, CATALYZE Peru recommends that FIs and other financial entities have maximum flexibility to use incentive resources as they deem necessary on a fit-for-purpose basis. This enables the FI to make the internal shifts required to reallocate resources, design products, mitigate risks, orient staff, and/or compensate staff to innovate in new and expanded lending they would otherwise not engage in without these incentives. Structuring these incentives in the form of grants (vs. subcontracts, as has been done in other countries) is recommended.

Finally, Palladium’s experience in other markets suggests that FI incentives alone are insufficient to fully address FI risk and investment barriers without complementary support provided for TA, training, and deal identification/support/closure. The assessment team believes the unique context of the Amazon underscores the importance of a full suite of incentives and services required to ensure responsible Peruvian Amazon investment at scale. These types of recommendations are described in the next section.

RECOMMENDATIONS FOR THE ROLE OF CATALYZE PERU TO PROVIDE TA AND OTHER SERVICES TO ADDRESS INVESTMENT BARRIERS

CATALYZE Peru’s incentives and TA grants offered in the Amazon context include: support for robust community engagement and communications; financial institutions training; TA specific to financial institutions; anchor financing opportunities with buyers; transaction identification, structuring, and closure assistance; syndicated TA to support policy shifts favorable to responsible Amazon investing for FIs; impact measurement and management to the private sector; promoting technology-enabled approaches; and creating a facility to continue essential services past the life of CATALYZE Peru.

Support robust community engagement and communications. There are few places on earth more politically charged than Peru’s Amazon when it comes to mobilizing investment at scale. The GoP, FIs, and firms of all sizes will need support in communicating that their intentions to mobilize new

investments at scale are fully aligned with environmental sustainability, biodiversity protection, and community interests. Many an investor has been forced to leave the Amazon for not sufficiently involving communities in their plans. For this reason, communications demonstrating good intentions and positive impact of new investments is critical. Palladium's experience is that programs like CATALYZE Peru have an important demonstration effect using effective and positive communications. When one FI sees it can make money through responsible investing in the Amazon, others will seek to emulate this success. To support this dynamic, CATALYZE Peru will offer communications expertise to support FI partners in robust message development, information campaigns, and entrees with Amazon communities in ways that respect their motivations, values, land, culture, and language.

Provide financial institutions training. FIs interested in expanding their portfolios in the Amazon will require training and orientation about the region. Palladium has dozens of examples of similar training programs for FIs used in other markets that can be adapted for the Amazon products, sectors, and context.

Palladium's experience to date in Peru's Amazon is that MFIs, cooperatives, and *cajas* active in the Amazon have responded well to receiving value chain finance training on how to lend to the cacao and banana sectors. FIs have also responded positively to training on product development to tailor their lending products to the seasonality of these sectors and have rolled out financial products at scale. Training can be delivered by CATALYZE Peru staff, external trainers subcontracted by Palladium, or a combination of both.

Deliver financial institution-specific TA. In addition to training delivered in groups to many FI staff members, CATALYZE Peru recommends offering institution-specific, "bespoke" TA to FIs on a demand-driven basis for loan product design, digital finance/payments system improvements aligned with buyer requirements, guarantees, or other risk-sharing methods. Institution-specific TA may also be provided for other services that FIs might not want to disclose with competitors. These services can also be provided in-house by CATALYZE Peru or subcontracted out to local or international providers.

Broker anchor buyer opportunities to unlock financing. CATALYZE Peru can play an important convening and brokering role to bring together large offtakers (buyers) of agricultural products to purchase bulk orders from groups of smallholder farmers. This aggregation function can unlock financing, as the bulk orders assure a financial institution of farmers' future cash flows from offtaker payments enabling the farmers to repay their loans.

Assist with transaction identification, structuring, and closure. In other countries and markets, FIs have responded positively to receiving pipelines of previously identified and packaged financing deals for consideration. Some commercial banks and impact investors operating in Peru consider deals presented to them by transaction advisors, mostly when these services are demanded (and paid for) by companies that will receive the financing. To expand the number of firms with the capability to pay for these services, transaction assistance can be cost-shared by recipient firms and CATALYZE Peru. Such services can be provided by transaction advisors that are housed within CATALYZE Peru or can be subcontracted locally or internationally. Initial findings from another CATALYZE Peru assessment suggest that Peru's market of qualified transaction advisors with experience in the Amazon is underdeveloped, so CATALYZE Peru will need to develop and roll out a plan to identify interested transaction advisors; quickly train them (similar to FIs) about Amazon financing opportunities, risks, and appropriate products and services; and compensate them on a performance basis. Identifying and compensating these transaction advisors is the subject of a separate assessment that is being conducted concurrently with this FI assessment.

Transaction assistance services for FIs has also been successfully tested by Palladium in Peru's Amazon for the smallest recipients of credit.⁴⁰ Under the CATALYZE Peru program, opportunities for financing

will have multiple entry points for a range of FIs targeting actors upstream, at the aggregation/cooperative level, for processors, and exporters. Transaction assistance will similarly need to be tailored for different segments of relevant sectors and supply chains to provide desired services for each segment. In Palladium's experience, transaction advisors hired by the program eventually self-select and specialize to meet the TA demands of the clients seeking investment.

Leverage syndicated TA to support policy shifts favorable to responsible Amazon investing for FIs. COFIDE's program to expand environmentally sustainable investment into the Amazon by Peru's FIs presents an opportunity for CATALYZE Peru to leverage this program for broader impact. There may be opportunities to co-finance TA with COFIDE for FIs and with other GoP entities to support regulatory shifts that can unlock financing at greater scale in the regions and opportunities of interest to both programs. This TA incentive can be structured and deployed on a case-by case basis.

Expand impact measurement and management beyond CATALYZE Peru. CATALYZE Peru intends to mobilize significant financing toward the Amazon that is inclusive in terms of benefits provided to different actors, and that is both environmentally and socially responsible. The best way to prove the additional impact of expanded financing at scale is to accurately measure it among the many different actors and entities that will benefit from CATALYZE Peru's offering. The CATALYZE Peru team will assist private sector companies and FIs that are interested to expand transparency in product sourcing and digital finance, among other impact metrics. The team will use Lean Data⁴¹ and potentially other innovative impact measurement systems collecting data by digital means that similarly reduce measurement costs. CATALYZE Peru will offer its monitoring and evaluation (M&E) officer to ensure stakeholders benefit from the impact measurement services offered in ways that tangibly support impact reporting to investors.

Promote digital technology-enabled approaches across all investments. Another trend to capitalize on is the high interest among private companies in relying on digital channels to pay for products sourced from the Amazon, facilitate financing for sourcing entities, provide information to sourcing firms, and improve and reduce upstream data collection to prove sourcing transparency in supply chains. Every private investor interviewed for this study expressed high interest in expanding use of digital services for improved supply chain management, and to improve transparency in their supply chains. Almost all the private companies are actively pursuing designs of management information systems that collect better and more data from upstream actors, platforms that can be further built on to support FI data collection for faster and more accurate credit scoring and credit management. CATALYZE Peru will seek ways to promote and support digital technology-enabled approaches throughout the program.

Create a facility to continue essential services past the life of CATALYZE Peru. To ensure that the optimal type of opportunities are sourced and structured in ways that attract FIs, protect the environment, and promote inclusive growth, CATALYZE Peru hopes to develop and launch a private sector-led, complementary structure to the COFIDE program, with a structuring component that builds a market of deal makers that can close transactions. Services provided can include explicit deal identification and deal structuring; and direct involvement of anchor firms to channel their resources into the Amazon to drive inclusive growth, resulting in both financing and innovative finance product uptake. Key to operation of this ongoing and/or permanent vehicle will be the involvement of anchor firms that are willing to enable investment at scale by committing to large purchase orders at set prices (a ceiling and a floor) that can then be used to structure financing up and down the value chain for the various entities involved.

This CATALYZE Peru vehicle will operate differently than a typical trust or impact fund, in that it would bring together many different actors and entities in the private and financial sectors to identify and structure these complex deals, blend financing that can be used for larger and more flexible guarantee

⁴¹ Lean Data is a fast and reliable customer-centric approach to impact measurement.

instruments to de-risk financing and assist in investment at scale through formal FI channels up and down supply chains more efficiently and at more affordable rates.

Most, if not all, of the above services/actions are contemplated under the existing CATALYZE Peru design. The CATALYZE Peru team will further prioritize the potential solutions listed above, together with USAID Peru, factoring in the 3-year timeline available for CATALYZE Peru, and the resources available to mitigate investment barriers to achieve expanded investment.

CATALYZE Peru will also endeavor to embed financial sustainability in as many aspects of its activities as possible.

RECOMMENDATIONS FOR THE ROLE OF THE PRIVATE SECTOR TO EXPAND INVESTMENT IN THE PERUVIAN AMAZON

Ideal Role of Private Sector and Opportunities to Expand Investment. Peru's dynamic private sector is largely responsible for the growth of the country's agriculture sector, and for turning Peru into a global powerhouse in exports of asparagus, blueberries, coffee, cacao, quinoa, and other products. The innovation, know-how, and energy already unleashed in other parts of Peru can now be brought to bear to expand responsible agricultural investment aligned with community interests and inclusive growth in Peru's Amazon. The future of the Amazon is inextricably linked to the future of private companies and their ability to continue to export to the world. The private sector can view an expansion into the Amazon as an opportunity for long-term growth based on a more inclusive business model, a shift that is already taking place across boardrooms in the largest agricultural firms globally.

CATALYZE Peru interviews pointed toward specific recommendations in which Peru's private sector can play an important role, as described below.

Expand internet coverage and connectivity. One of the most commonly noted barriers to investment and inclusive economic growth listed by all interviewees is limited internet connectivity and cell phone coverage in Peru's Amazon. These shortcomings severely limit the speed of digital innovation that can underpin market growth, as well as expanded transparencies required in supply chains by consumers. Connectivity problems also further limit reduction in transaction costs among FIs that are financing firms in the Amazon and make interest rate reduction less likely. If CATALYZE Peru wants to scale financing while reducing costs for the most upstream and dispersed entrepreneurs who pay the most for financing (and are least able to afford the costs), it must proactively address this digital divide.

Innovative private companies are emerging in Peru, such as Internet Para Todos, that are seeking to expand cell phone towers in specific regions across the Amazon. This firm, in particular, is interested in collaborating closely with CATALYZE Peru to program expanded internet coverage and connectivity in line with market demand for financing that also contributes to inclusive growth and environmental protection. While CATALYZE Peru is not a technology infrastructure expansion program, the technology required to underpin digital finance and traceability in product sourcing are crucial to expanding financing at scale, so should be addressed and solved.

Provide long-term purchase commitments that can unlock financing at scale.

Historically, much of the Amazon's licit economic development has been supported by donor or government funding and nonprofits to implement small income-generating activities. The explicit intent is for businesses to grow and become financially attractive as a preferred alternative to illegal exploitation of the Amazon's natural resources. With a few notable exceptions, very few of these programs or businesses have grown sufficiently to be able to attract commercial capital for expansion or deter illegal activity. Given the limited timeframe for CATALYZE Peru and the mandate to mobilize significant investment at scale, a different market-based approach is needed. The goal is to facilitate

responsible investment via linking product producers and domestic and international buyers willing to make up-front commitments and investments. This is anticipated to unlock responsible investment in the Amazon at a scale that supports inclusive growth for the entire supply chain. Private buyers of Amazon goods are coincidentally looking to strengthen their supply chains and push more inclusive growth into the region as a long-term business growth opportunity. Offering a purchase commitment at a set price is a powerful sector organizer and growth motivator. It has been used in industries such as palm oil and biofuels in Colombia to motivate large-scale sectoral financing, investment, and market development. Peru can replicate this market growth and add a sustainability element.

New, large-scale investments under CATALYZE Peru must be designed in every aspect to be fiercely protective of the environment and highly respectful of the communities that reside in the carbon and biodiversity sink of the Amazon.

Support design and delivery of sustainable TA models to agricultural sourcing communities. Particularly in agriculture, which plays a major role in the Amazon economy, widespread provision of TA to farmers remains extremely limited. Projects that do exist are not designed for commercial viability, so services end when the donor funds run out. New TA models have emerged in the Amazon for banana, cacao, and timber that share TA provision costs requiring more investment from private companies offering agricultural technology. This type of TA to farmers is linked more closely to buyers and to the financing required for financial and productive success. Agricultural companies offering technology, machinery, and markets for Peruvian Amazon producers can actively participate in solving the problem of providing sufficient TA to farmers sustainably, which is in turn vital to the future of the corporate supply chains.

Provide risk-sharing guarantees to help local affiliates access financing. Commercial banks with the largest share of investment into the Amazon often look to the private sector to provide risk-sharing guarantees to accompany financing. Guarantees available through COFIDE (up to 25%) are seen by some FIs as insufficient to provide the risk-sharing coverage sought by Peru's largest banks. In some cases, private companies in Peru or international entities could provide this risk-sharing to unlock financing at scale.

Enter partnerships with other companies to support responsible market development. With a few exceptions, Amazon agricultural supply chains require significant market development to responsibly grow and absorb financing at scale. The investments required to build these market systems and provide needed financing are often greater than any one private company or FI can provide. All firms interviewed for this assessment discussed the need to work with other entities, including FIs and in some cases other competitor firms, to leverage their collective investments to have more impact in market development for sectors such as reforestation, agroforestry, cacao, coffee, non-tree forest products, and sustainable palm. CATALYZE Peru can serve as a convener that actively identifies and unites these actors on one platform to build and structure partnerships responding to dynamic and inclusive growth. This will benefit all segments of the supply chains while protecting the Amazon's fragile environment.

Long-term facility development. The assessment team discussed new configurations of investment models and the appropriate structure of facilities to deliver them with interviewees. Interviewees all considered this a vital topic, given the barriers and success factors identified to invest in the Amazon, the size of USAID's investment in CATALYZE Peru (\$15M over three years), and the scale of investment (tens of millions of dollars) sought by USAID in the region, coupled with the aspiration to leave behind a structure that can continue to support Peru in its Journey to Self-Reliance.

At least six DFIs, commercial banks, and private sector investors expressed interest in a new type of investment accelerator model that helps build partnerships between actors to identify, structure, and close more complex financing deals along many segments of supply chains and sectors. The proposition, validated

by the findings of this assessment, is to design CATALYZE Peru as a platform that facilitates private sector partnership by mobilizing large corporation, MSMEs, TA providers, technology firms, smallholder farmers, and sources of finance to transform a set of dynamic and growing supply chains benefitting the Amazon.

An innovative facility should start by obtaining large-scale, long-term purchase or investment commitments from anchor companies and corporations interested in sustainable sourcing of products in the Amazon. Commitments can then be used to structure financing at scale for actors in different segments of the supply chain (i.e., export, processing, aggregation, production). A set price helps MSMEs and other firms in the Amazon plan new investments, and benefits FIs supporting different segments of the chain to design products accordingly. Large buyers can then set the stage for quality and traceability terms for products sourced from the Amazon, upon which can be based designs of digital platforms to gather data for farmers and commercial farms.

Agricultural technology entities and other service companies will be invited to join the facility as TA providers to design and deliver appropriate technology along different agricultural chains. They will benefit from economies of scale in sales and service provision. IT companies will be invited to join as designers of digital transparency platforms that can help reduce costs of financing for FIs and upstream actors. Farmers and other service providers intending to grow the size of their businesses and yields can join the facility as equal partners and co-investors, with the assurance of stable prices, secure markets, sustainable TA, access to their own production data, and a more sustainable pathway out of poverty.

In sum, the private sector is a key player and investor that can be leveraged for its own benefit and to ensure the success of the CATALYZE Peru model in promoting successful Amazon investment, in partnership with the local and international financial sector. The CATALYZE Peru team is being briefed on the design of a facility model currently piloted in Brazil by Palladium and supported with private sector investors to develop and protect that side of the Amazon. This model may be useful as one prototype approach for operationalizing CATALYZE Peru.

RECOMMENDATIONS FOR THE ROLE OF THE GOP TO EXPAND INVESTMENT IN THE PERUVIAN AMAZON

The GoP determines in what form it wishes to support responsible Amazon investment aligned with community interests. CATALYZE Peru will stay apprised of the ways in which GoP messages to the investment community, the private sector, and local Amazonian communities ways it chooses to promote responsible investment in the Amazon region in terms of being respectful of community wishes, inclusive growth, and environmental protection. The government can opt, should it so choose, to achieve this through positive reinforcement, common-sense prioritization in new infrastructure investments, and refining strategies to be more efficient in penalizing undesired behavior.⁴²

Interviews and secondary research shed additional light on potential for the GoP to support CATALYZE Peru and meet its expanded investment targets over the next three years, summarized below.

Expand use of COFIDE guarantees for businesses working in the Amazon. COFIDE's active guarantee programs in Amazon departments are currently disproportionately underutilized by Amazon businesses and can potentially be refined and gain market support to increase uptake. In addition, CATALYZE Peru can complete the paperwork for companies to access important collateral instruments by hiring BASPs and subsidizing their fees.

⁴² This is not a new strategy undertaken in Peru's Amazon; it is largely a replication of the "whole of government" approach, with a more equal distribution of carrot-and-stick measures and leveraging market forces that were effective in rooting out terrorism and cutting narcotics production in San Martín.

Increase use of green bonds. The Amazon region has developed a regional bloc (*Mancomunidad Regional Amazonia*⁴³) that is recognized and composed of six of the nine departments in this study. Some of the regional governments have taken the initiative to launch a unified brand called “The Amazon” that could provide a competitive advantage to investors. This brand could be a means to leverage access to the Peruvian green bond market that is under development on the Lima Stock Exchange. There are already three cases of successful bond issuances, including one for Tissue Products (a Chilean company) that launched the bond to improve energy efficiency and water treatment. COFIDE is also experimenting with a bond instrument for its *Cofigas*⁴⁴ program to convert gas vehicles and gas stations, and to support the Transmantaro Consortium,⁴⁵ an electricity efficiency initiative. Businesses that want to expand into or enter the region could raise capital to do so via issuing green bonds.

Clarify regulatory environment for forest investment. Private sector entities investing in reforestation or to preserve standing forests in the Peruvian Amazon complain about the constantly shifting regulatory environment. GoP policies to protect the environment could prioritize approvals for companies working responsibly and in close coordination with communities, and that are supportive of investment and market development opportunities.

Expedite land titling. Both private companies and impact investors emphasized the need for faster and more transparent land titling to support larger agroforestry farms or growth of existing farms in previously developed, deforested, or degraded areas. Because of the complications involved in these type of operations, private companies find it easier to invest in commercial farms outside Peru than within Peru’s Amazon, even on lands which by law could be developed due to the lack of speed with which land titling and approvals can be provided for commercial production.

Enable efficient business formalization at scale. Impact investors, commercial banks, and DFIs all point to informality as a barrier to investment at any level of scale. Informal businesses also suffered disproportionately during the pandemic and related closures. Formalization is the first step in a business being able to become bankable and grow substantially. Other countries (e.g., El Salvador) have set up digital platforms and campaigns to support business formalization at great scale and speed; Peru can consider replicating these successes.

Match Amazon infrastructure investments with responsible market growth and inclusive investment. Building roads on major corridors in the Peruvian Amazon has undoubtedly supported economic growth along them and in urban centers. The GoP could play a more proactive role to prioritize critical infrastructure investment in the Amazon aligned with CATALYZE Peru—identified market opportunities in dynamic sectors of the economy, in geographic clusters, and along trade and economic corridors that support responsible investment by private actors as well as inclusive economic growth.

Illegal investments in the Amazon in deforestation for agriculture, illegal gold mining, or illegal logging operations often support infrastructure development in support of illicit economic growth. The Monitoring in the Andean Amazon Project (MAAP)⁴⁶ provides excellent evidence of these illegal activities, using satellite photos demonstrating where and how they are accompanied by new roads and other infrastructure investments. An October 2020 study by the Center for Strategic and International Studies, “Sustainable Infrastructure in the Amazon,”⁴⁷ suggests that sometimes roads built to support illegal

⁴³ <https://busquedas.elperuano.pe/normaslegales/aprueban-constitucion-de-la-mancomunidad-regional-amazonica-ordenanza-n-001-2020-gracr-1852128-1/>

⁴⁴ <https://www.cofide.com.pe/COFIDE/detalles4.php?id=8>

⁴⁵ Consorcio Transmantaro S.A.

⁴⁶ <https://maaproject.org/en/>

⁴⁷ https://csis-website-prod.s3.amazonaws.com/s3fs-public/publication/201022_Bandura_Sustainable%20Infrastructure_Amazon.pdf

economic activity in the Amazon are later supported with government resources to become permanent transportation routes, further incentivizing illegal economic activity and environmental degradation.

Enable internet coverage and connectivity through approvals and needed regulatory framework. As described in the recommendations for the private sector, interviewees cited barriers to investment and inclusive economic growth due to limited internet connectivity and cell phone coverage in Peru's Amazon. The GoP could support expansion of this critical infrastructure by facilitating approvals for cell tower construction, or quickly supporting the regulatory frameworks to enable proliferation of innovations that expand internet access (e.g., balloons above geographic areas).

Leverage other regional resources to catalyze responsible Amazon investments. The regional governments of Amazonas, Loreto, Madre de Dios, San Martín, and Ucayali are ensuring a sustainable flow of resources for investment in publicly funded physical infrastructure and environmentally friendly services until 2050, through an agreement reached with the national government.⁴⁸ In addition, a low-emission investment plan is currently being developed. The idea is to create the trusts (for which COFIDE is a trustee) in four departments included in the plan and transfer them into FONDESAM. FONDESAM is an existing fund that helps manage resources, raise capital, and serves as a guarantee fund for small producers to access loans.

Support COFIDE to promote responsible Amazon investment. With COFIDE's Bioenterprise Program, the GoP is signaling to FIs that it wants to promote the right type of investment in the Amazon. In addition to its other investments via its agriculture and environment ministries, for instance, to support activities such as expedited land titling, forest investment in the Amazon, and forest conservation, as earlier described, the IDB has recently designed a program to support environmentally responsible and financially sustainable lending into Peru's Amazon by the private financial sector.

⁴⁸ The precedent is San Martín's Law 28757, supplemented by laws 30896 and 30897, which established a replacement to the tax exemptions for entities operating in the Amazon with investment resources that are deposited annually in trusts that will be managed by regional governments. The estimated budget that will be available is roughly 442M soles (\$123M), funds in addition to the regional governments' existing budgets, and if managed well, can provide a significant boost to economic growth in the Amazon.

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XI. ANNEXES

ASSESSMENT METHODOLOGY AND SCOPE

The CATALYZE Peru assessment team adapted an existing Palladium mapping assessment methodology used for USAID projects mobilizing financing at scale, for application in Peru. The team modified interview guides to be relevant for both Peruvian and international FIs to gather data and insights on their existing and future financing in Peru's Amazon. It also included questions to identify support they would potentially be interested in receiving from the project to expand financing. The 11-person assessment team was made up of Palladium staff based in Amsterdam, Lima, London, New York, Quito, and Washington, DC. The team also included a senior consultant from the MDA consulting firm. Team members utilized their experience and networks to develop an initial list of more than 50 actors inside and outside of Peru to interview for the assessment. The team completed a total of 37 interviews among FIs (26), private sector investors (5), trade associations (3), and implementing partners (3) with operational interests in Peru. Given that this assessment was conducted in the midst of a global pandemic and safety considerations did not allow for in-person interviews, all interviews were conducted remotely via digital platforms (Zoom, Google Meet, and Microsoft Teams), in Spanish and English. Our international team members focused on interviews on international companies, commercial banks, DFIs, and impact investors, while the Peru-based teams focused on Peruvian FIs serving all types and sizes of enterprises nationally and in the Amazon.

In addition to interviews, a literature review, secondary data collection, and quantitative analyses were conducted for this study.

Through the above methodology and activities, the assessment team collected the following information:

Policies / Enabling Environment

- Identification of enabling environment issues that are supporting (or impeding) expanded finance/investment into the Peruvian Amazon (e.g., infrastructure, connectivity, security, geographic dispersion, political/social disruption, impact from COVID-19).
- Analysis of relevant government policies supporting (or impeding) expanded finance/investment into the Amazon (e.g., national and/or regional guarantees, government subsidies/support provided to FIs to expand financing to underserved sectors/geographies) and assessment of whether or to what extent FIs and other actors are making use of these.
- Information gaps impeding expanded supply of financing to the Amazon.

Financing Supply⁴⁹

- Estimated value of financing/investment made in the Amazon vs. overall FI financing in Peru, as well as relevant trends.
- Estimated value or % of financing extended to women/youth in the Amazon vs. overall financing.
- Types of FIs currently involved in financing/investment in Peru's Amazon, as well as their sources of funding and levels and terms of capitalization (e.g., IFC, COFIDE, DFC, etc.).
- List of the types and sizes of financial products and services that are currently being directed toward the Amazon (e.g., working capital, capital expenditure, leasing, insurance).
- Types and amounts of financing used by FIs and enterprises (e.g., debt, equity, mezzanine), which are most common, and terms and costs.
- Economic sectors and sub-sectors most commonly supported with formal financing in the Amazon (e.g., forestry, agriculture, infrastructure).

⁴⁹ The assessment team will disaggregate data collected and findings by types of FIs.

- Value or % of financing in the Amazon directed toward micro, small, medium, and large actors, and relevant trends.
- Baseline data on the terms of current financing to the Amazon (e.g., interest rates, fees, length of loan terms), disaggregated by size of enterprise (smallholder farmer, micro, small, medium, large).
- Cost structures of commercial FIs operating in the Amazon (including, if possible, to collect, costs of funding, risk premiums, operating costs, discount rates) and comparisons with other FIs in Peru.
- Challenges (internal and external) identified by FIs impeding expanded finance to the Amazon.
- Common success factors among commercial FIs operating in the Amazon.
- Levels of interest/commitment among FI senior management in expanding lending into the Amazon and relevant economic sectors.
- Insights from international potential investors in individual deals identified by CATALYZE Peru or in potentially investing in a sustainable operating entity that spins off from the project.
- Analysis of the state of digital payment systems and digital finance for firms in the Amazon including alternative channels, who are the main players and profiles.
- Impact of COVID-19 that will have long-term effect on financing in the Amazon region.

Financing Demand (Among Enterprises)

- Analysis of the financing gap facing enterprises in Peru's Amazon, including the number of enterprises that exist and their financing needs.
- Level of understanding among FIs lending to other FIs and firms not yet operating in the Amazon of the opportunities for expanded financing there (e.g., potential value chain, sectors, and firms).
- Types and structures of fees paid by FIs to source deal flow from external actors (e.g., transaction advisors, consultants) and to support financing closure.
- Perceptions of FIs of the challenges faced by borrowers to access/manage finance.
- Repayment rates among different types of borrowers (e.g., smallholder, micro, small, medium, and large enterprises).

Recommendations

- List of 10 priority FIs (at minimum) based in Peru that CATALYZE Peru may partner with to provide training/TA and deal flow and incentive support. FIs will be ranked on whether they are best poised to rapidly expand financing in the target geography/sectors.⁵⁰ Factors to consider in this prioritization can include experience/knowledge of the region; management commitment to expand lending to target geographies, sectors, and populations; availability of capital; and scale of impact. The FIs initially selected for CATALYZE Peru must also represent the diversity of the FI sector and demand for financing.
- Recommendations on how CATALYZE Peru may mitigate policies or enabling environment issues identified as barriers to expanded financing.
- Identification of the appropriate role of government and private sector actors to support development of the FI ecosystem that supports expanded Amazon financing and investment.
- List of international FIs or actors potentially interested in co-investing in deals/enterprises in the Amazon supported by CATALYZE Peru, or in a spin-off operating entity that provides sustainable services to the Peru FI ecosystem over time.

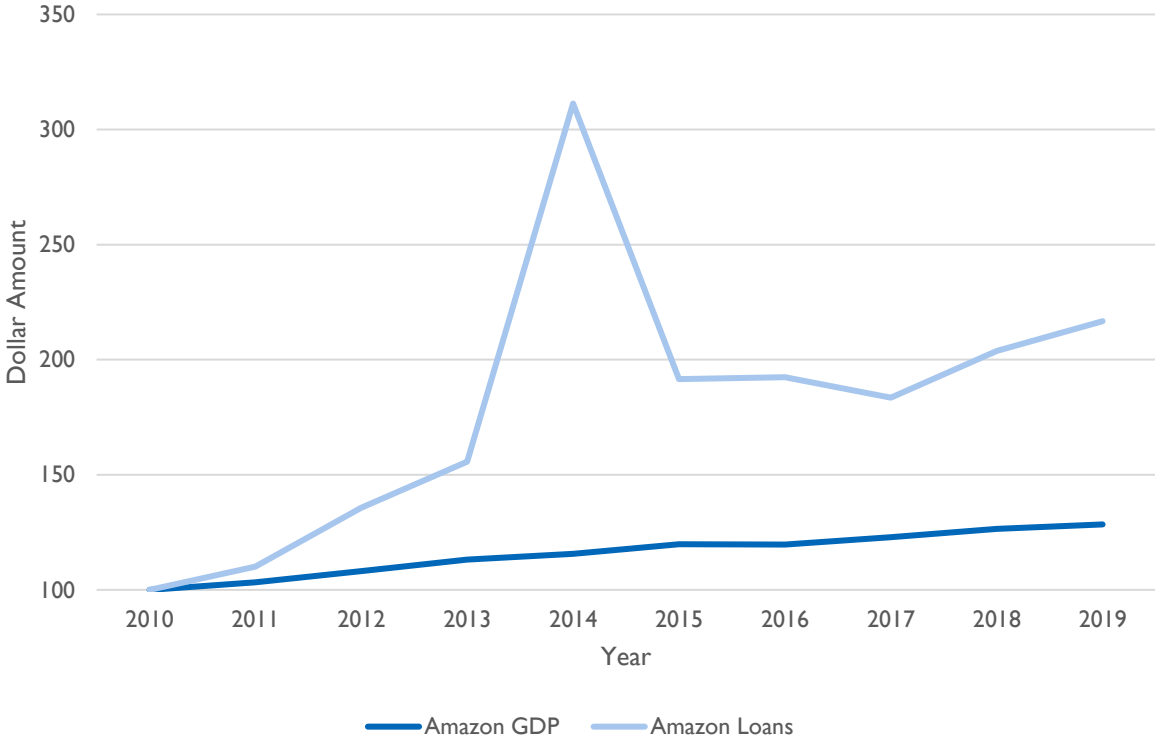
⁵⁰ The number of FIs that CATALYZE Peru will partner with during implementation can be much larger than this initial list. However, the project management team must also weigh the number of FIs it can realistically support with available resources to provide TA/training and deal flow and incentives under performance-based grants. The number of FIs that can be placed under the grants will be limited by the total value of resources dedicated to this activity. As per procurement requirements, the combined grant ceilings allocated to FIs cannot exceed the amount of resources dedicated for this purpose.

- List of key capacity building topics (e.g., risk mitigation, value chain financing, tailoring services to youth or women-led entrepreneurs, digital transformation) required to help FIs expand their financing portfolios in the Amazon.
- Incentive values and structures that will encourage FIs to enter underserved geographies and sectors sustainably.⁵¹

PERUVIAN AMAZON DEMOGRAPHIC AND ECONOMIC DATA

As seen in Chart 2 below, lending in the Peruvian Amazon grew in real terms (at 2010 prices) by 116.8%, 4.5-fold, while GDP growth lending remained fairly flat. In other words, despite financing increases into the Amazonian economy, economic growth has remained modest. CATALYZE Peru programs that incentivize lending should prioritize productive growth.

Chart 2: Variation Between Amazon GDP & Loans (2010–2019) (Base Index 2010=100)



Source: “Financial System Folder”, SBS data and INEI⁵²

Table 9 below shows that Peru’s GDP per capita is \$4,922. Only Pasco exceeds the national average. CATALYZE Peru’s weighted average GDP/capita is \$2,582, half that of Peru’s \$4,922. A simple average GDP per capita of the nine departments is \$3,156, however this figure is likely skewed higher due to inclusion of Cusco and Pasco’s Sierra with significant mining and extractive industries. CATALYZE Peru’s more precise definition of the Amazon region reveals these types of distinctions.

Table 9: GDP per Capita by Peruvian Amazon Department (2019)

Department	GDP per Capita (in US\$)
Pasco	\$5,127

⁵¹ Gathering data on incentive values and preferences is critical to sound design of the competitive process by which CATALYZE Peru can place FIs on performance-based incentive grants.
⁵² https://www.sbs.gob.pe/app/stats_net/stats/EstadisticaBoletinEstadistico.aspx?p=14#

Department	GDP per Capita (in US\$)
Peru	\$4,922
Cusco	\$4,866
Madre de Dios	\$4,140
Junín	\$3,181
Ucayali	\$2,565
Loreto	\$2,479
Amazonas	\$2,066
San Martín	\$2,016
Huánuco	\$1,964

Source: Open Data. Regional Competitive Index (INCORE 2020). Data is inclusive of all nine departments, as more disaggregated data is not available.

As seen in Table 10 below, using capital investment per worker as an indicator of economic productivity, only Pasco (an economy based largely on oil, gas, and minerals) exceeds the Peruvian national average and leads the Amazon with the highest levels of productivity. It is followed by Cusco (with an economy dominated by the oil, gas, and minerals as well as the tourism industries). However, San Martín, despite having the highest population density (and an economy dominated by agriculture, livestock and services) receives the least capital investment per worker, less than 40% of the national average and only 35% of the capital investment per worker of Pasco.

Table 10: Capital Investment per Worker by Peruvian Amazon Department (2019)

Department	Capital/Worker (in US\$)
Pasco	\$10,628
Peru	\$9,979
Cusco	\$9,038
Madre de Dios	\$7,805
Junín	\$6,354
Loreto	\$5,620
Ucayali	\$5,072
Huánuco	\$4,047
Amazonas	\$3,913
San Martín	\$3,762

Source: Open Data. Regional Competitive Index (INCORE 2020)

Department-wide public spending remains an important driver of economic activity in Peru's nine departments that make up the Amazon. As per Peru's Institute of Economy's INCORE competitiveness index,⁵³ shown in Table 11 below, three Amazon departments have a per-capita budget greater than or equal to the national average: Madre de Dios (with the largest budget) followed by Cusco (due to natural gas taxes), and Amazonas. Interestingly, this level of public investment is highest in the Amazon departments generating both the lowest gross regional product (Madre de Dios, Amazonas) and the highest gross regional product (Cusco). Junín, Ucayali, San Martín, Huánuco, and Loreto have the lowest public budgets per capita of all of the Amazon region (US\$94, \$104, \$106, \$107, and \$108 per person respectively), well below the national average of US \$148/person.

Table 11: Monthly Public Budget per Capita by Peruvian Amazon Department (2020)

⁵³ https://incoreperu.pe/portal/images/financepress/ediciones/INCORE_2020_FINAL.pdf

Departments	Per-Capita Budget (in US\$)
Madre de Dios	\$200
Cusco	\$159
Amazonas	\$148
Peru	\$148
Pasco	\$140
Loreto	\$108
Huánuco	\$107
San Martín	\$106
Ucayali	\$104
Junín	\$94

Source: Open Data. Regional Competitive Index (INCORE 2020)

Per INCORE's competitiveness index, an estimated 35% of Peruvians reported having access to credit, as shown in Table 12 below. In Peru's Amazon, only two departments (Junín and Cusco) demonstrate credit access penetration above the national average, while the remaining departments have lower than national average rates of credit access. On the bottom end are Loreto and Amazonas, where fewer than one in five adults access credit from the financial system.

Table 12: Access to Credit by Peruvian Amazon Department (2020)

Departments	Access to Credit (%)
Junín	37.5%
Cusco	36.4%
Peru	35.0%
Madre de Dios	34.5%
Ucayali	26.5%
San Martín	24.6%
Huánuco	22.7%
Pasco	22.6%
Amazonas	19.8%
Loreto	17.7%

Source: Regional Competitive Index (INCORE 2020)

PERU MACROECONOMIC ENVIRONMENT AND SOVEREIGN RATING

Latin America has made great strides over the last 20 years toward shifting from low-income to middle-income status. The percentage of the Andean population considered middle class has increased from 40% at the turn of the century, to more than 70%⁵⁴ today, at higher rates compared to the rest of the continent, due to improved health and accelerated economic growth. Within the Andean sub-region, Peru has undoubtedly been an example of accelerated economic growth; the country more than tripled its gross domestic product (GDP) from \$2,000 per capita in 2000 to \$7,000 in 2018. In the same two decades, poverty in Peru was reduced from 50% to 20.5% of the population, and the middle class surged in numbers, now representing three-fourths of the 33.2 million population.⁵⁵ But Peru's largely informal domestic labor market, the insecurity associated with it, and the country's lack of an efficient social security system means this hard-earned middle-class status is highly vulnerable. Economic and other shocks, such as the impact of the current COVID-19 pandemic, risk dragging many Peruvians back into poverty.

⁵⁴ De la Cruz, Rafael, et al. "Peru: How to Accelerate Economic Growth and Strengthen the Middle Class." Inter-American Development Bank, 2020.

⁵⁵ Ibid.

COVID-19 has had a profound impact on Peru, where a strict lockdown led to a GDP fall of 17.4% in the first 6 months of 2020.⁵⁶ According to the World Bank, Peru is one of the hardest-hit countries in Latin America and the Caribbean (LAC), with the most significant employment and income losses in the region. GoP data shows the unemployment rate in the Lima metropolitan area more than doubled in 2020, from 7.8% in Q1 to 16.5% in Q3.⁵⁷ Consumption will likely remain depressed through the end of the calendar year due to employment losses and COVID-19 associated risk aversion. Continued uncertainty is likely to hamper any recovery of private investment in the near term. In August 2020, Peru's Central Bank reported that tax revenues contracted by 11% in real terms mainly due to reductions in VAT (-17% real) and income tax (-15% real) collection.

The economic aftermath of COVID-19 could set Peru back almost a decade, with poverty rates projected to reach pre-2012 levels. However, if public investment continues, and the health of the population improves with approval and distribution of a vaccine, a strong rebound is expected in 2021,⁵⁸ with projected GDP growth of 11.0%, compared to 2020's projected -12.7%.⁵⁹

Peru has been more aggressive than most other emerging and middle-income economies in its quasi-fiscal stimuli, exceeding 5% of GDP in public sector equity in stimulus, loans, and guarantees in response to COVID-19. Its May 2020 launch of the Reactiva Peru program provided significant financial guarantees to FIs to facilitate expanded credit and working capital to companies at low interest rates. As a result, loans to the private sector grew 14.4% in August 2020, over July (14.2%) and June (13.3%) levels. The program has since gone through two rounds of stimulus, and as of October 1, 2020, 84% of available resources have been distributed (\$6.9B) at an average interest rate of 1.72%, benefitting more than 485,000 businesses, 98% of which are small and micro enterprises.

Despite these promising actions by the GoP and the resulting improvements so far, uncertainty around the trajectory of Peru's economic recovery remains high. The path forward will be determined by two factors: (1) the public health status of the country, namely whether Peru is able to keep the spread of the COVID-19 virus under control and how quickly a vaccine can be distributed; and (2) continuation of the fiscal assistance programs, which is not assured, especially given the high levels of debt required and the country's level of political stability.

The Peruvian Central Bank (PCB) recently presented its 2020 Inflation Report⁶⁰ (IR), highlighting the growth projections for 2020 and 2021, which are -12.7% and 11.0%, respectively. The PCB projects inflation to remain below the target range in 2020 (0.8%) and 1.0% in 2021. Net international reserves are projected to be 37.8% of GDP in 2020. The fiscal deficit is projected to reach 9.2% of GDP in 2020 and 5.1% in 2021. Public debt is projected to reach 34.3% of GDP in 2020 and 34.8% in 2021.

⁵⁶ "Peru Country Overview." World Bank, 2020, www.worldbank.org/en/country/peru/overview.

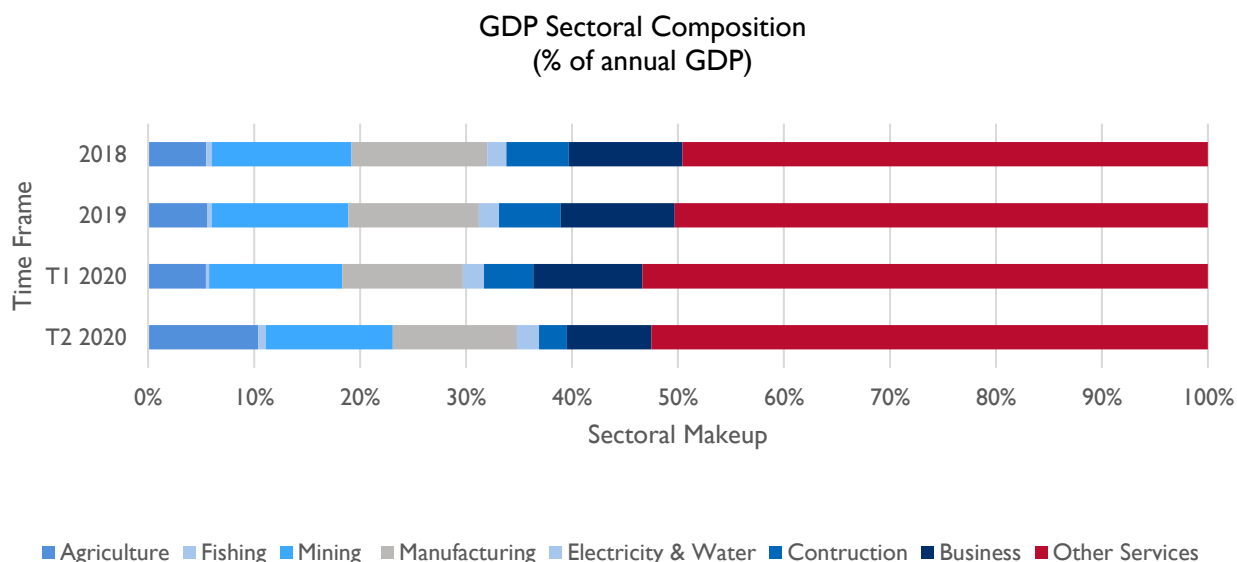
⁵⁷ "STATISTICS." Peru National Institute of Statistics and Information, Sept. 2020, www.inei.gob.pe/.

⁵⁸ "Peru Country Overview."

⁵⁹ "CAN Macroeconomic Reports." Inter-American Development Bank, Sept. 2020.

⁶⁰ Banco Central de Reserva Peruana, Informe septiembre 2020.

Graph 3: Peru GDP Sectoral Composition (2018–2020)



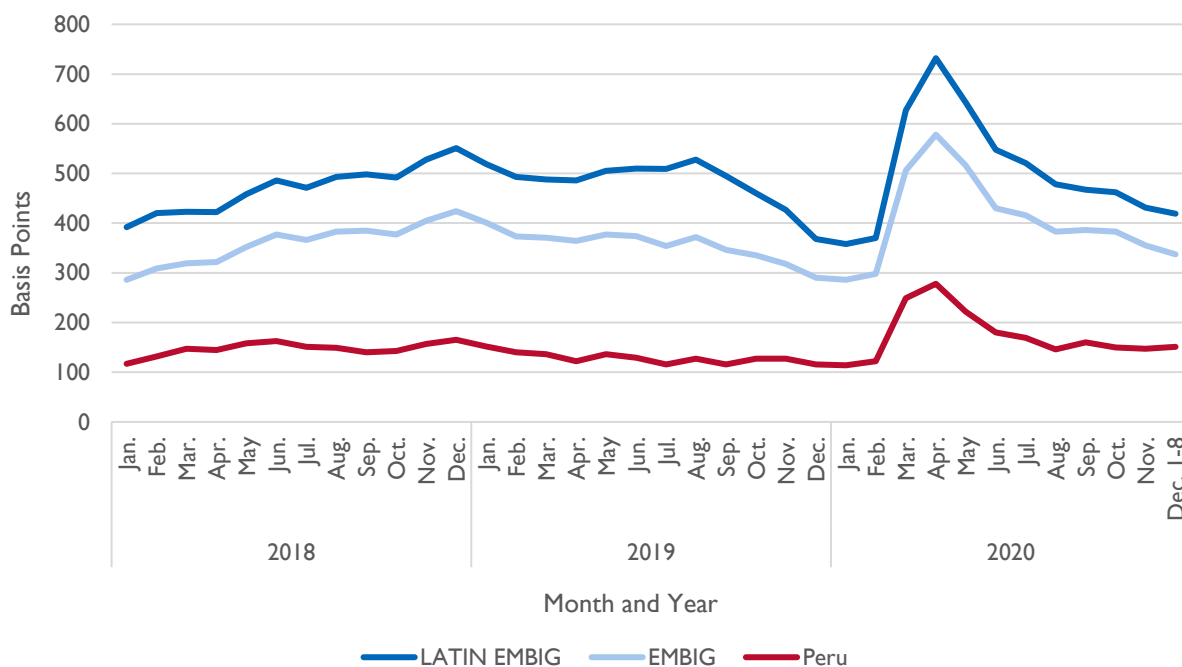
Source: “Economic Indicators, Second Quarter 2020.” BCRP, 2020.

Table 13: Changes in Peru’s GDP (2018–2020)

Gross Domestic Product (Annual % Change)				
	2018	2019	Q1 2020	Q2 2020
Agriculture	7.8	3.4	3.6	1.0
Crops	9.6	2.6	4.7	1.8
Livestock	5.8	4.1	2.2	-0.7
Fishing	47.7	-25.9	-15.3	-15.7
Mining & Hydrocarbons	-1.5	0	-5.3	-34.3
Metal Mining	-1.7	-8.0	-6.2	-37.9
Hydrocarbons	0	4.6	0.2	-18.9
Manufacturing	5.9	-1.7	-9.6	-34.9
Raw goods processing	12.9	-8.8	-0.5	-12.6
Other processing	3.4	1.2	-12.4	-43.5
Electricity & Water	4.4	1.2	-12.4	-43.5
Construction	5.3	3.9	-2.1	-19.4
Business/Trade	2.6	3.0	-6.1	-47.5
Business/Trade	4.4	3.8	-0.8	-25.5
Other Services	4.4	3.8	-0.8	-25.5

Source: “Economic Indicators, Second Quarter 2020.” BCRP, 2020.

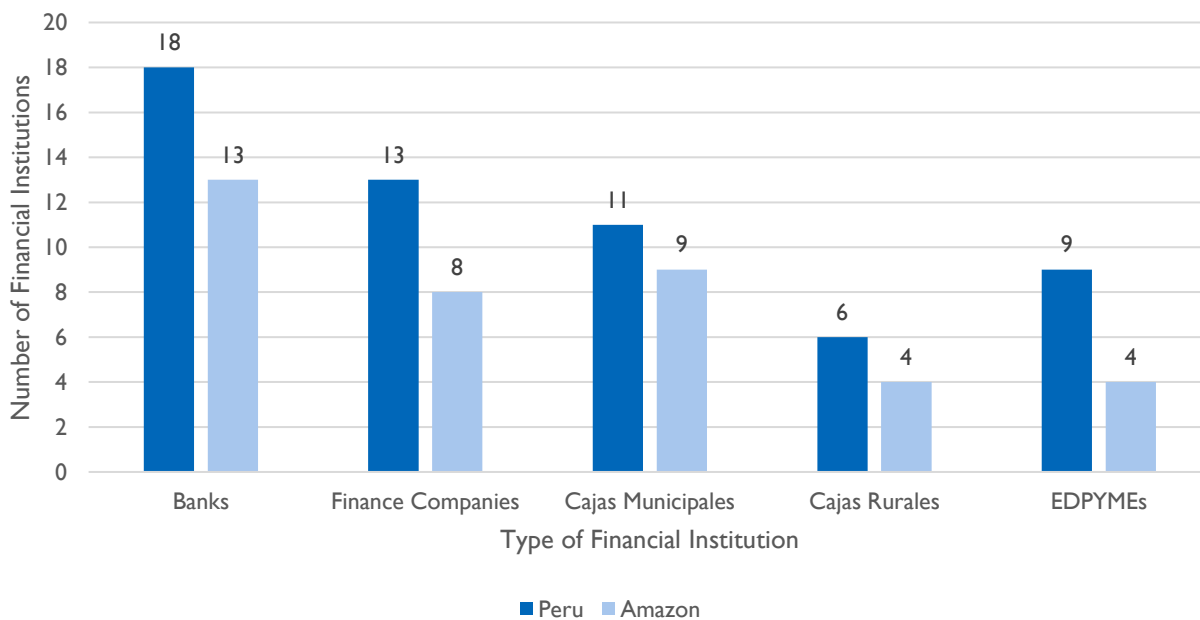
Chart 3: Emerging Markets Bond Index (EMBI): Peru, Latin America (Latin EMBIG), and Emerging Markets (EMBIG) – Stripped Spread in Basis Points (100 basis points = 1%)



Source: BCRP and Reuters. Average data for the period. Index prepared by J.P. Morgan reflecting debt portfolio returns.

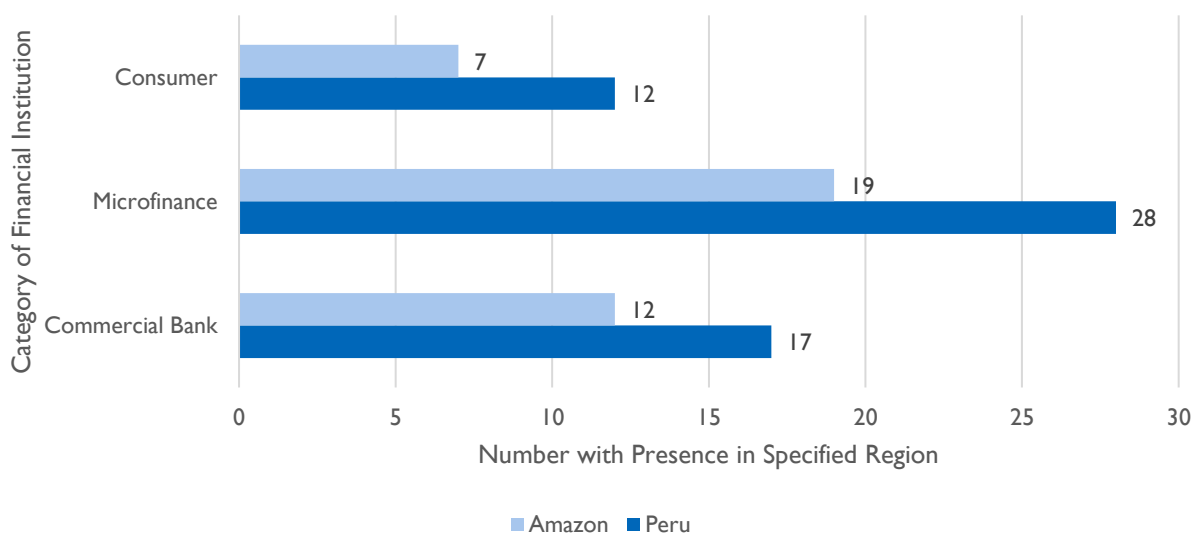
PERU FINANCIAL SYSTEM LANDSCAPE: LENDING AND SAVINGS

Graph 4: Peru and Peruvian Amazon Number of Direct Lending FIs (2020)



Source: "Financial System Folder," SBS and CATALYZE Peru analysis

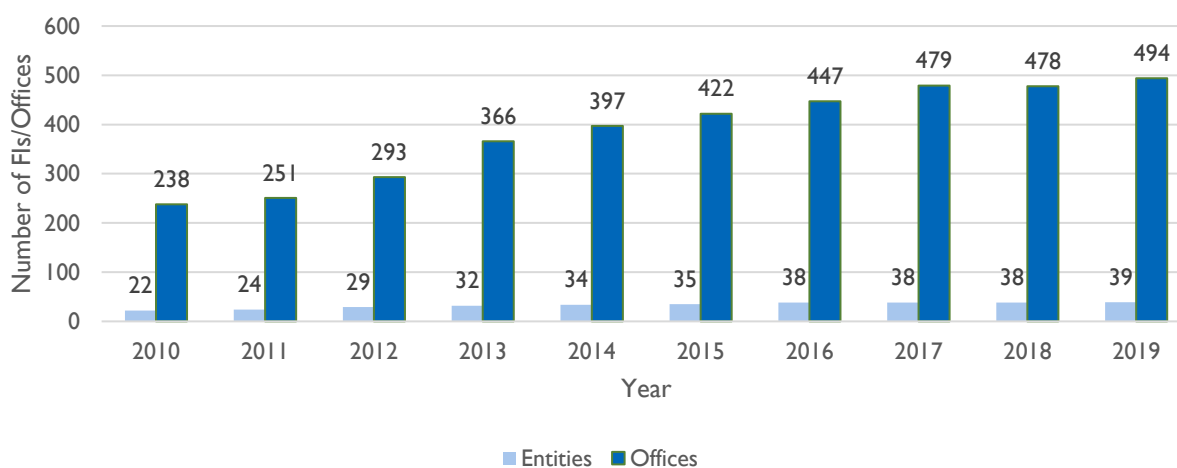
Graph 5: Peru and Peruvian Amazon FIs by Category (2020)



Source: “Financial System Folder”, SBS and CATALYZE Peru analysis

Graph 6 below shows the number of FIs and their offices in the Amazon. FI offices are authorized to carry out current transactions such as accepting deposits, issuing loans, receiving payments, and remittances. Offices may have different levels of authority and autonomy from their headquarters regarding loan transactions. In some cases, authorizations are required from a higher-ranking office in a provincial or departmental capital. Local FI offices may not have additional services available, such as trade finance and foreign trade operations. Larger companies, including agricultural producer cooperatives, typically work with FI offices or representatives in major departmental capitals outside of the CATALYZE Peru defined Peruvian Amazon (see Box 1), such as Arequipa, Chiclayo, Piura, Huancayo or directly in Lima. The need to go to larger cities in the region is not limited to financial institutions; many agencies and other public services are in those cities as well.

Graph 6: Peruvian Amazon Number of FIs and their Offices, excluding Cooperatives (2010–2019)



Source: “Financial System Folder,” SBS and CATALYZE Peru analysis

Table 14 below shows FI offices by Peruvian Amazon department. As earlier noted, the Peruvian Amazon as defined by CATALYZE Peru for this assessment covers 38 provinces and 278 districts; each of the 38 provinces have at least one FI. Yet less than half of the 278 districts in the Amazon region have any FIs. As can be seen, the regional average of districts with FI offices is only 30%. The average masks the fact that FI office presence greatly varies, from a high of 75% to a low of 20% of districts. The district with the most FI offices is San Martín, followed by Loreto and Amazonas. The financial entity with the highest number of offices is the GoP’s bank, Banco de la Nación, with 78 offices in the Amazon. This is in part due to the fact that under the Constitution, Banco de la Nación can provide financial services to non-government’s employees when it is the only provider in a particular geographic area. There are 12 remote districts in the Amazon where this is the case. In these instances, Banco de la Nación offers deposits, payments, and cash transfers, but is limited in its broader financial service offerings (such as trade finance, which requires liaising with its offices in Lima). Banco de la Nación also has an agreement in place with other financial entities to share its offices and services.

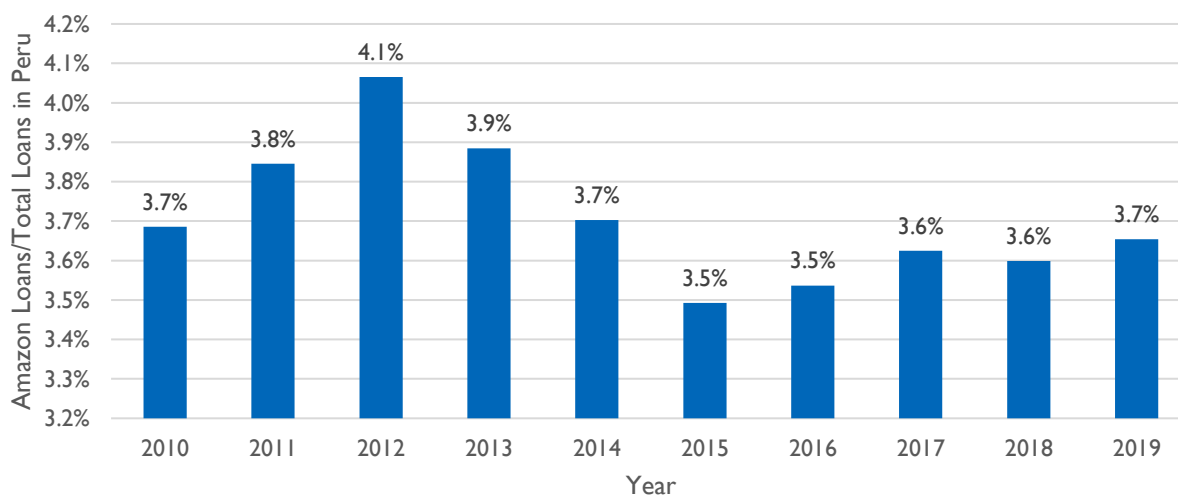
Table 14: Peruvian Amazon FI Offices by Department

Department	Total Districts (1)	Districts with Offices (2)	(2)/(1)	% of Total Offices in Department
San Martín	77	18	23.40%	21.70%
Loreto	53	13	24.50%	15.70%
Amazonas	40	10	25.00%	12.00%
Huánuco	40	8	20.00%	9.60%
Cusco	17	7	41.20%	8.40%
Ucayali	17	8	47.10%	9.60%
Junín	15	7	46.70%	8.40%
Madre de Dios	11	6	54.50%	7.20%
Pasco	8	6	75.00%	7.20%
Total	278	83	30%	100.0%

Source: “Financial System Folder,” SBS and CATALYZE Peru analysis

As seen in Graph 7 below, Amazon’s share of Peruvian lending has not exceeded much beyond 4% in the last ten years and has remained relatively flat as a percentage of total lending in Peru.

Graph 7: Percentage of Loans Made in Peruvian Amazon (2010–2019)



Source: “Financial System Folder,” SBS and CATALYZE Peru analysis

Table 15: Number of Businesses by Type in the CATALYZE Peruvian Amazon region (Informal Business Units are estimates)

Business Type	Number of Businesses	% of Formal Businesses	% of Formal and Informal Businesses
Micro Business	116,440	95%	N/A
Small Business	5,148	4.20%	N/A
Large Business	613	0.50%	N/A
Medium Business	368	0.30%	N/A
Subtotal	122,569	100%	18%
Informal	560,687	N/A	82%
TOTAL	683,256	N/A	100%

Note: Business size is determined in accordance with Law No. 30056, 6.4% of the national total.

Source: SUNAT, Annual Economic Survey 2018 (Fiscal Year 2017), Unique Taxpayer Registry 2007-2017, INEI-National Household Survey (ENAHO). Elaboration: PRODUCE – OGE/EE-OEE

Table 16: Number of Formal Businesses and Estimates of Informal Businesses in Peruvian Amazon

Departments	Formal Businesses	%	Informal Businesses	%
San Martín	32,103	26.20%	177,721	1.50%
Loreto	30,405	24.80%	148,448	26.50%
Ucayali	28,732	23.40%	89,022	31.70%
Junín	9,827	8.00%	45,381	8.10%
Huánuco	8,951	7.30%	58,350	10.40%
Madre de Dios	7,171	5.90%	120,554	2.10%
Cusco	3,705	3.00%	19,597	3.50%
Pasco	1,447	1.20%	8,672	1.50%
Amazonas	227	20.00%	1,442	30.00%
Total	122,568	100%	560,687	100%

Source: SUNAT, Single Taxpayer Registry 2007-2017, INEI-National Household Survey (ENAHO). Annual Economic Survey 2018 (Fiscal Year 2017)

Table 17: Peruvian Amazon Loans by Credit & Entity Type (2019) (in thousands of soles)

FI Type	Consumer	Mortgage	Micro and Small Business	Medium-Size Business	Corporate & Large Business	Total
Bank	S/. 3,090,733	S/. 686,557	S/. 1,573,657	S/. 2,124,596	S/. 743,116	S/. 8,218,659
Finance Company	S/. 666,354	S/. 28	S/. 507,303	S/. 6,196	N/A	S/. 1,179,881
Caja Municipal	S/. 562,042	S/. 180,271	S/. 1,742,723	S/. 273,546	S/. 43,511	S/. 2,802,094
EDPYME	S/. 35,032	N/A	S/. 8,839	S/. 13	N/A	S/. 43,884
Caja Rural	S/. 10,449	S/. 310	S/. 108,140	S/. 1,445	N/A	S/. 120,344
Total	S/. 4,364,611	S/. 867,166	S/. 3,940,662	S/. 2,405,795	S/. 786,627	S/. 12,364,861

Source: "Financial System Folder," SBS and CATALYZE Peru analysis

As seen in Table 18 below, Pasco and Cusco account for the most MSME lending, as measured by volume, while Loreto comprises the least. Loreto has the highest concentration of consumer credit, followed by Ucayali. Loreto and San Martín focus more lending on medium-size business, and Huánuco has more corporate and large company lending. Maynas, the capital province of Loreto, has lent 933.4M soles (\$282.8M) in consumer loans, followed by San Martín (Tarapoto) with 657.2M soles, Coronel Portillo (Pucallpa) with 650.1M soles, and Huánuco with 584.1M soles of consumer loans. This lending is

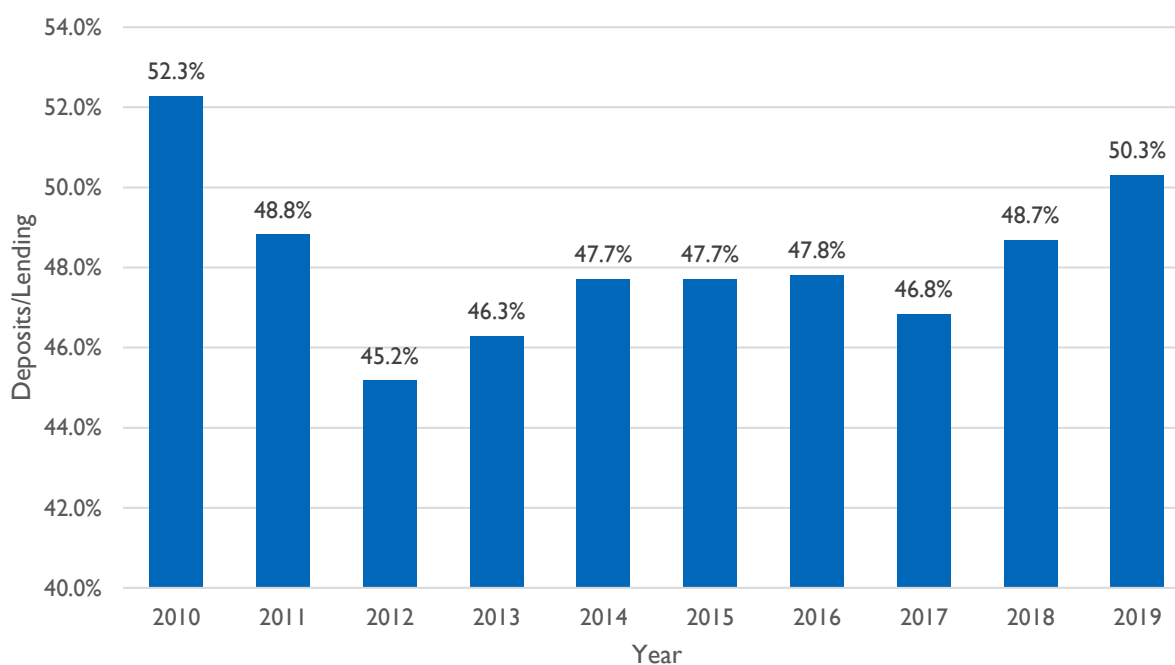
occurring in thriving urban areas with high population growth. The strongest MSME financing departments are San Martín (Tarapoto), with 424.6M soles in loans; Coronel Portillo (Pucallpa), with 387.7M soles; Huánuco, 357.6M; Tambopata (Puerto Maldonado), 333.5M; and Chanchamayo, 328.1M. There has been an abundance of financial sector liquidity, forcing FIs to seek new customers and regions in which to invest. This explains the increased lending in the Amazon, especially on the consumer side.

Table 18: Loans by Credit Type & Department (% of total in Peruvian Amazon) (2019)

Department	Consumer	Mortgage	Micro and Small Business	Medium-Size Businesses	Corporate & Large Businesses	Total
Amazonas	28.2%	6.8%	45.6%	18.8%	0.5%	100.0%
Cusco	22.1%	3.1%	57.9%	16.7%	0.3%	100.0%
Huánuco	31.9%	7.5%	28.6%	14.1%	18.0%	100.0%
Junín	28.1%	8.0%	46.0%	17.4%	0.4%	100.0%
Loreto	46.8%	8.5%	15.6%	22.6%	6.6%	100.0%
Madre de Dios	32.1%	2.6%	50.0%	15.3%	0.1%	100.0%
Pasco	19.7%	6.8%	61.4%	12.2%	0.0%	100.0%
San Martín	34.7%	6.8%	30.9%	23.6%	4.0%	100.0%
Ucayali	39.1%	7.0%	28.0%	20.6%	5.3%	100.0%
Total	35.3%	7.0%	31.9%	19.5%	6.4%	100.0%

Source: Credit Risk. Direct loans by type of credit, SBS

Graph 8: Peruvian Amazon Deposits / Lending (2010–2019)



Source: “Financial System Folder”, SBS and CATALYZE Peru

Table 19: Deposits Collected in Peruvian Amazon by FI Type (2010–2019)⁶¹

FI Type	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Average
Bank	82.1%	80.3%	80.8%	82.1%	82.3%	82.3%	80.4%	79.3%	79.1%	78.7%	81.0%
Caja Municipal	17.4%	18.8%	18.0%	16.9%	16.6%	16.2%	18.0%	18.9%	19.1%	19.3%	17.8%
Caja Rural	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%	0.1%	0.0%
Finance Companies	0.5%	0.9%	1.2%	1.0%	1.0%	1.6%	1.6%	1.7%	1.7%	1.9%	1.2%

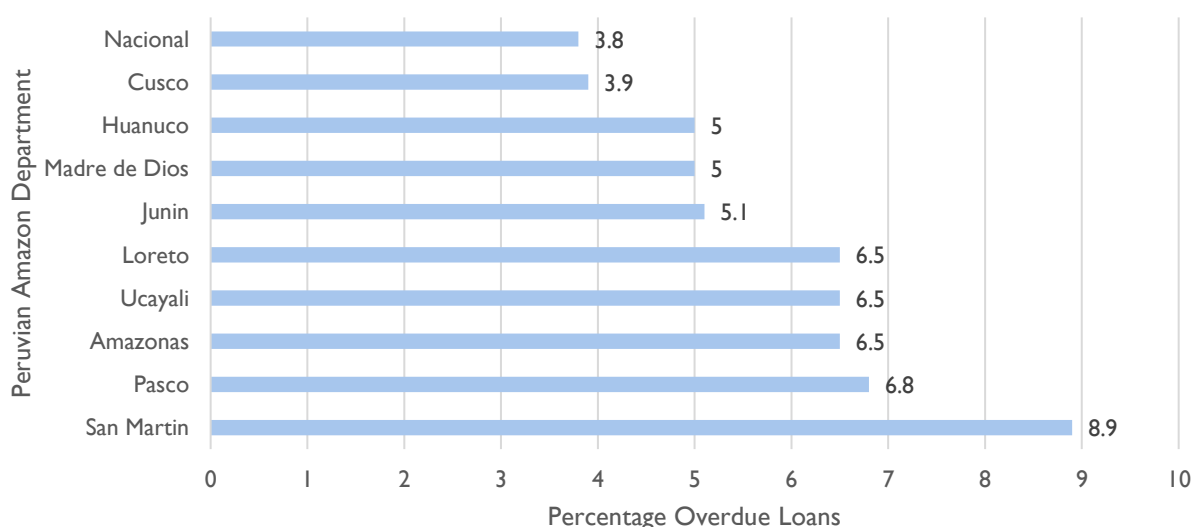
Source: “Financial System Folder”, SBS and CATALYZE Peru analysis

PERU FINANCIAL SYSTEM LANDSCAPE: PORTFOLIO QUALITY

This section provides data and insights about portfolio quality as an important component of the financial system landscape.

There is limited data on FI portfolio quality disaggregated by FIs serving the Amazon. Graph 9 below shows that portfolio quality in all of the Peruvian Amazon departments⁶² was worse than (exceeded) the national average. Proportionally, the Peruvian Amazon had more access to Reactiva Peru's credits in 2020 than it did as a percentage of loans made in Peru as of December 2019.

Graph 9: Comparison of Overdue Loans by Peruvian Amazon Department (August 2020)



Source: “Credit risk by type of Financial entity. Default by type of credit”, SBS.

The onset of the COVID-19 pandemic and the large stimulus programs of the GoP provided to the financial sector and firms distort portfolio quality findings. The most reliable data on FI portfolio quality is from 2019 and can only be used to describe the situation generally and nationally prior to the pandemic. There is no data to suggest that portfolio quality varies significantly between the Amazon or non-Amazon regions in Peru. Rather, the main drivers are concentration of enterprises and the size of enterprises. A few salient points: (1) at the national level, corporate businesses that are recipients of credit have the lowest losses and highest portfolio quality. In contrast, loan losses are concentrated in the micro, small, and medium-sized businesses, as classified by the SBS as seen in Table 20 below.

⁶¹ EDPYMEs do not capture deposits so are not included in this table.

⁶² Graph 9 compares the nine departments in the Peruvian Amazon region. It is not identical to CATALYZE Peru's definition of the region as disaggregated data per province and district was not available.

Understanding Peru’s overall financial system health and institutional portfolio quality is important context for CATALYZE Peru to target prospective financing partners in the Amazon region. Peru’s financial system was healthy prior to December 2019. The regulatory framework has been prudent and effective over the last two decades, deepening the financial system; incorporating new segments of the population, companies, and economic activities (including regional expansion); increasing overall operations and driving product growth.

The entire financial system is highly concentrated with four banks – Banco Bilbao Vizcaya Argentaria, S.A. (BBVA), Banco de Crédito de Perú (BCP), Interbank, and Scotiabank – owning more than 80% of the system’s assets. On the other hand, the number of FIs focused on consumer loans and serving MSMEs has multiplied, along with competition for these services. The GoP’s decentralization process and efforts by regional governments has contributed to the regional expansion of the country’s financial system, bringing FI presence to most cities in the Amazon, as earlier described.

An important measure of measure of portfolio quality is timeliness of payments with Peru overall performing well until December 2019, as shown in Table 20 below. In Peru as of that date, in aggregate, 91.8% of loans were being repaid on time. Loans 30–60 days overdue accounted for 2.5% of all loans, loans 60–120 days overdue accounted for 1.5%, and loans over 120 days overdue accounted for 1.7%. Defaults (more than a year overdue) represented 2.5% of all loans.

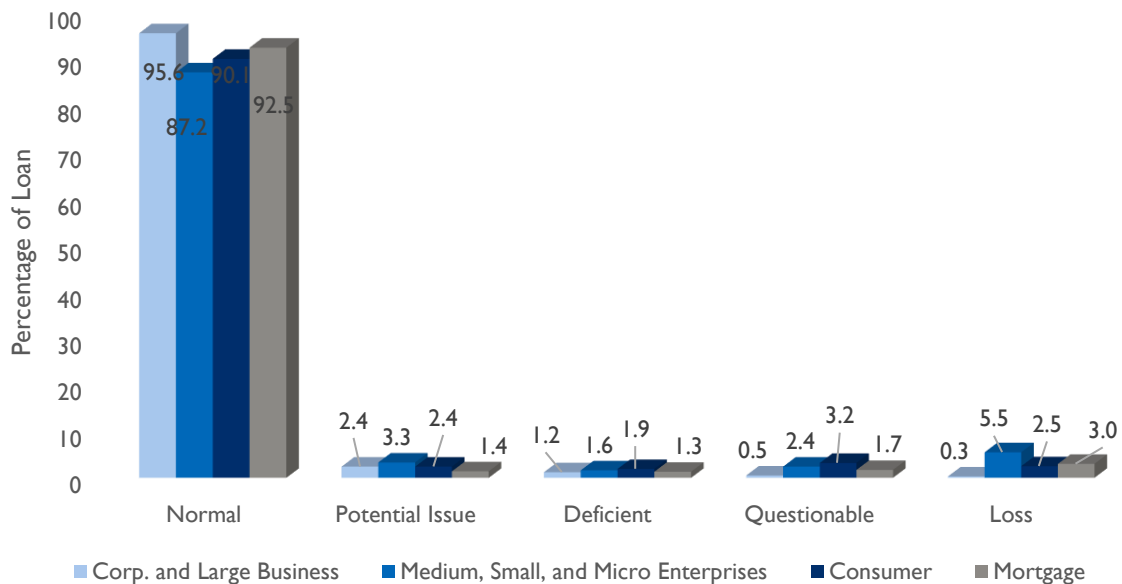
Table 20: Peru Portfolio Classification by Business Type Loan & Repayment Category (2019)

Type of Credit	Normal (%)	Potential Problem (15 days overdue) (%)	Deficient (%)	Doubtful (%)	Loss (%)
Corporate	97.2	1.9	0.7	0.1	0.1
Large Business	93.2	3.3	1.8	1.1	0.7
Medium-Size Business	85.9	4.0	1.9	2.6	5.6
Small Business	87.4	2.7	1.5	2.4	6.0
Micro Enterprise	92.2	1.7	0.9	1.4	3.7
Consumer	90.1	2.4	1.9	3.2	2.5
Home Mortgage	92.5	1.4	1.3	1.7	3.0
Total	91.8	2.5	1.5	1.7	2.5

Source: “Credit risk by type of Financial entity” SBS data and CATALYZE Peru analysis.

Medium, small, and micro enterprises had the greatest percentage of overdue loans, but overall losses were greater among small businesses. Corporate and large businesses had the fewest amount of overdue payments. It should be clarified that the loans for these and medium-size companies are classified as “potential problems” with overdue payments starting at 15 days.

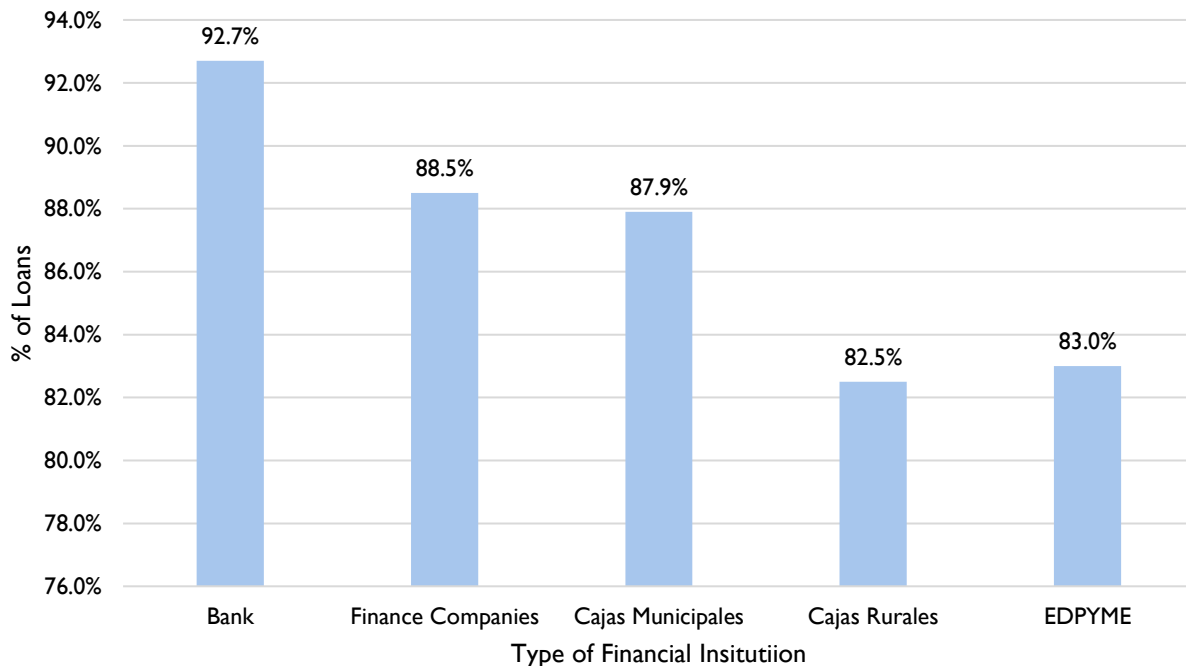
Graph 10: Peru Portfolio Classification by Business Type Loan & Repayment Category (%) (2019)



Source: “Credit risk by type of Financial entity” SBS data and CATALYZE Peru analysis.

Most of the loans that emanate from banks are made to corporations and large enterprises. As seen in Graph 11 below, banks account for the largest portfolio with on-time loans (92.7%), followed by finance companies (88.5%), *cajas municipales* (87.9%), EDPYMEs (83.0%), and *cajas rurales* (82.5%).

Graph 11: Peru Percentage of Loans Classified as Normal by FI Type (2019)



Source: “Credit risk by type of Financial entity”, SBS data and CATALYZE Peru analysis

Another measure of portfolio quality is the difference between the current loan portfolios and refinanced or restructured portfolios. This difference is added to the overdue portfolio percentage to establish a “high-risk portfolio.” For the entire Peruvian financial system, as of December 2019, the refinanced and restructured portfolio was 1.5% of total financing. With 3.4% of the portfolio overdue, the percentage of it considered high risk was 4.9%. The high-risk portfolio rates for medium, small, and micro enterprises were 11.7%, 10%, and 5.4% respectively. In contrast, financing to corporations and large businesses had a much lower high-risk portfolio rate of only 1.3%. As many of the businesses and farms in the Peruvian Amazon are MSMEs, these portfolio quality findings have implications for CATALYZE Peru’s understanding of the credit market.

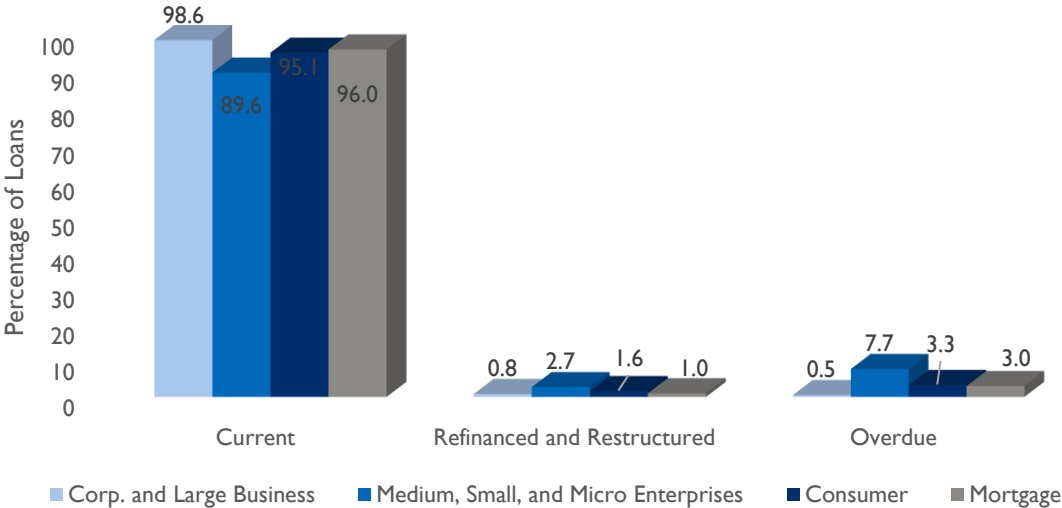
There is little difference in portfolio quality based on regions; the main driver is concentration of enterprises, such as in Lima.

Table 21: Peru Portfolio Quality by Type of Credit (%) (2019)

Type of Credit	Current	Refinanced / Restructured	Overdue
Corporate	99.9%	0.1%	0.0%
Large Business	96.7%	2.0%	1.4%
Medium-Size Business	88.3%	3.4%	8.3%
Small Business	89.9%	2.3%	7.7%
Micro Enterprise	93.9%	0.8%	5.3%
Consumer	95.1%	1.6%	3.3%
Home Mortgage	96.0%	1.0%	3.0%
Total	95.1%	1.5%	3.4%

Source: “Credit risk by type of Financial entity” SBS data and CATALYZE Peru analysis.

Graph 12: Peru Portfolio Quality by FI Type (%) (2019)



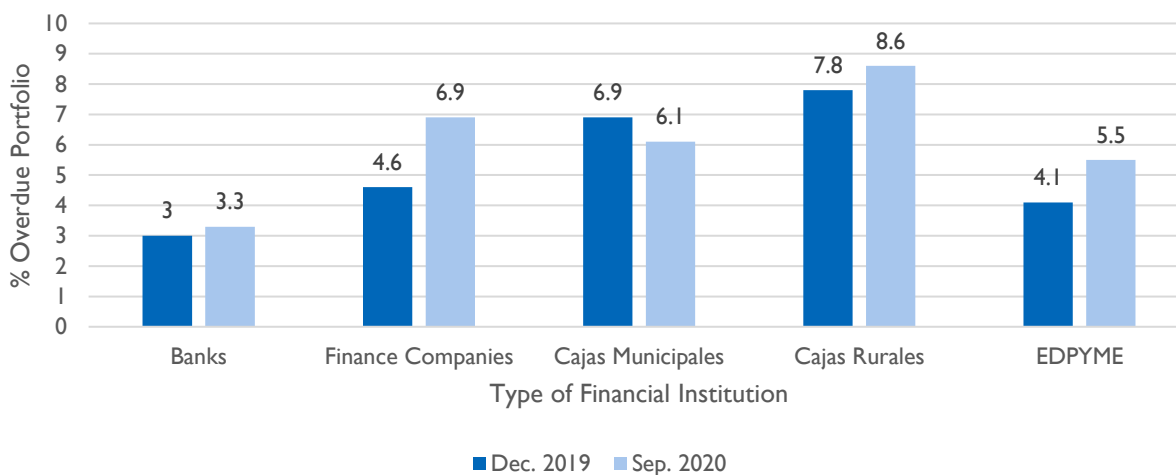
Source: “Credit risk by type of Financial entity” SBS data and CATALYZE Peru analysis.

The 2020 COVID-19 health crisis and deep recession induced by a national quarantine greatly affected Peru’s FIs; however, the extent of this impact is not yet fully reflected in financial indicators. In March 2020, the Banking Superintendency established risk management directives to help FIs manage risk and adapt to the emergency. Massive liquidity injections to FIs were made with resources from Peru’s Central Bank, as well as funds and guarantees from the Treasury to maintain FI payments. The most notable program was Reactiva Peru (DL No. 1455) and its subsequent expansion (DL No. 1485), and Business Support Funds (FAE) including FAE MSME (DU Nos. 029 and 049), Business-Tourism (DU No.

076), and Business-Agricultural (DU No. 082). A guarantee program was also established for FI loan portfolios (DL No. 1508) and a law was passed by Peru’s Congress (31050) that allowed rescheduling and freezing debt repayments to provide relief to individuals and MSMEs (including consumer loans).

Despite these intense relief efforts, data from September 2020 demonstrate how portfolio quality among most FIs deteriorated. This deterioration is more serious among financial companies and MSMEs. Interestingly, *cajas municipales* have seen recent portfolio quality improvements.

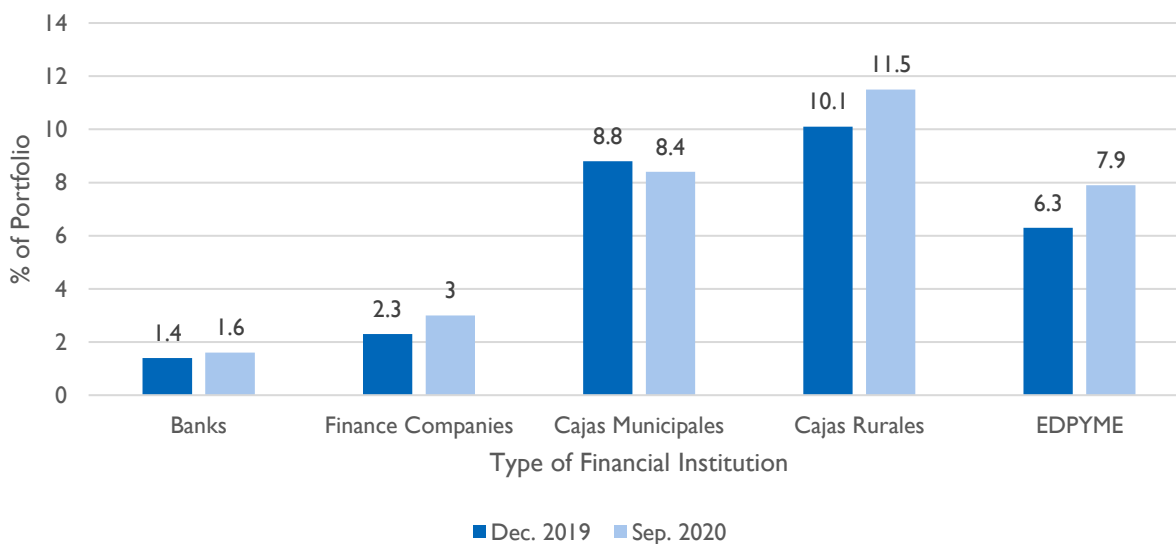
Graph 13: Peru Comparison of Overdue Portfolio by FI Type (%) (2019 & 2020)



Source: “Credit risk by type of Financial entity”, SBS data and CATALYZE Peru analysis

Cajas municipales’ portfolio quality performance was the only category of financial institution whose portfolio share of refinanced and restructured loans decreased as seen in Graph 14 below. They have the highest rates of national coverage and are prevalent in the Amazon. All other entities saw an increase in the amount of portfolio restructuring required, especially *cajas rurales* and EDPYMEs.

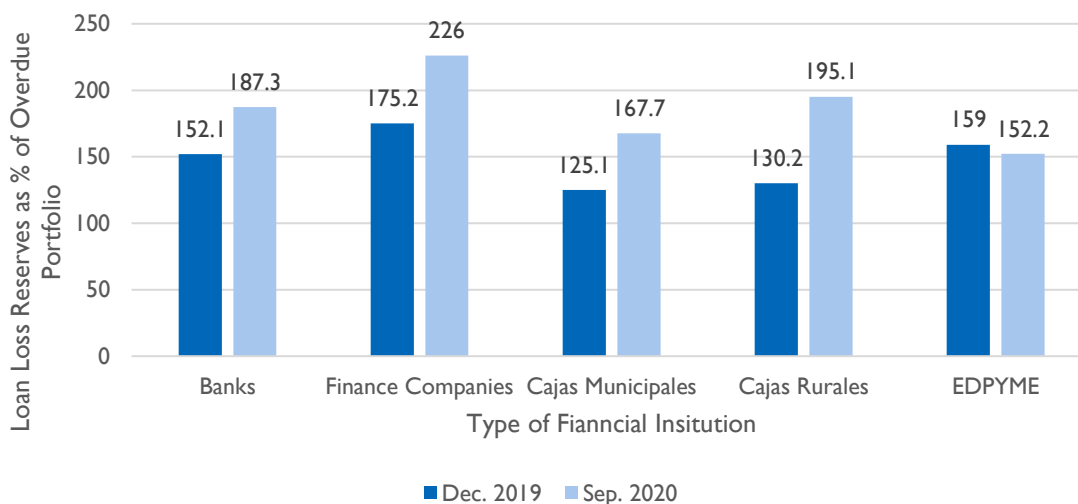
Graph 14: Peru Comparison of Refinanced and Restructured Portfolio by FI Type (%) (2019 & 2020)



Source: “Credit risk by type of Financial entity” SBS data and CATALYZE Peru analysis.

Most FIs have managed risk by increasing loan loss reserves as compared to the period prior to the pandemic. While this means lower short-term profits, it also provides a greater financial cushion to prevent overdue payments from turning into losses. Even before the crisis, reserve levels were high. Before, *cajas municipales* and *cajas rurales* had the lowest reserves; they are now showing increases of more than 25%. By September 2020, EDPYMEs had the lowest reserve rates (152.2%) and financial companies had the highest (226%).

Graph 15: Peru Comparison of Loan Loss Reserves as % of Overdue Portfolio by FI Type (2019 & 2020)



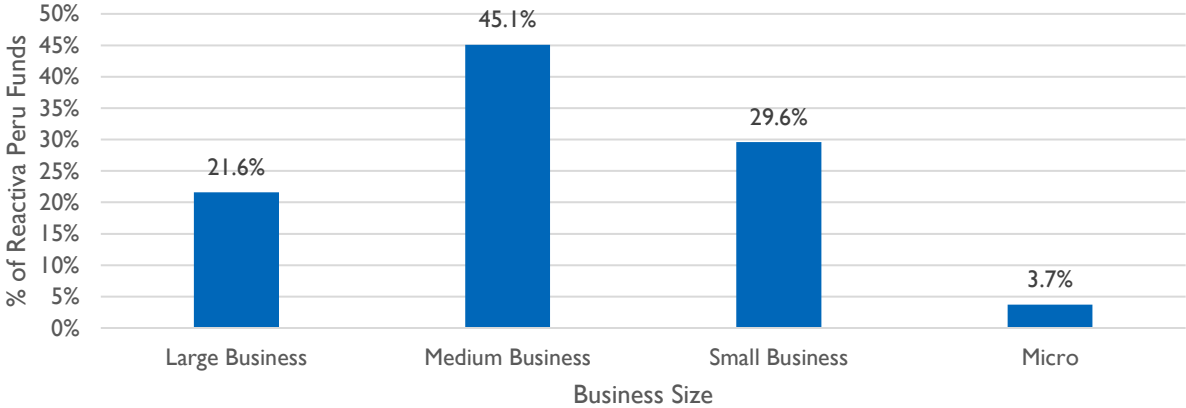
Source: “Credit risk by type of Financial entity”, SBS data and CATALYZE Peru analysis.

All FIs interviewed discussed portfolio quality in terms of pre- and post-COVID-19. Pre-COVID-19, few FIs reported significant challenges; however, in the current era, the pandemic’s impact on portfolio quality varies greatly based on the type of institution, its exposure in Peru and the Amazon, and the sectors and target populations to which it lends. International impact investors and DFIs mostly reported minimal impact to their portfolios in Peru, with a few exceptions, such as investments in tourism or transportation services. International FIs reported that due to COVID-19, parts of their portfolio have required some portfolio restructuring, but total restructuring and defaults were very rare. Domestic FIs, in particular MFIs with high numbers of urban or informal customers with high default rates have had to restructure significant portions of their portfolios due to COVID-19 and the rapidly changing circumstances of their current clients. Government injections of capital to mitigate COVID-19’s impact on the financial sector are also complicating portfolio quality measurement in the short term in masking possible forthcoming portfolio deterioration. Financial cooperatives that lend significant portions of their portfolios into the Amazon report continued healthy loan portfolios in the agriculture sector, as agriculture was deemed an essential service by the GoP. During the pandemic, agricultural lending to sectors such as coffee and cacao have continued in rural areas, with minimal disruption.

PERU FINANCIAL SYSTEM LANDSCAPE: REACTIVA PROGRAM

Reactiva Peru was a large \$1.2B stimulus program in the Peruvian Amazon launched in Jun 2020; its loans represent 60% of overall FI system loan balances as compared to December 2019 levels. As measured by loan volume, nearly half of Reactiva Peru funds (45%) went to medium-size enterprises, followed by 30% of small enterprises, shown in Graph 16 below. Many MSMEs benefitting from the program were one-person businesses.

Graph 16: Distribution of Reactiva Peru Funds by Business Type in Peruvian Amazon (2020)



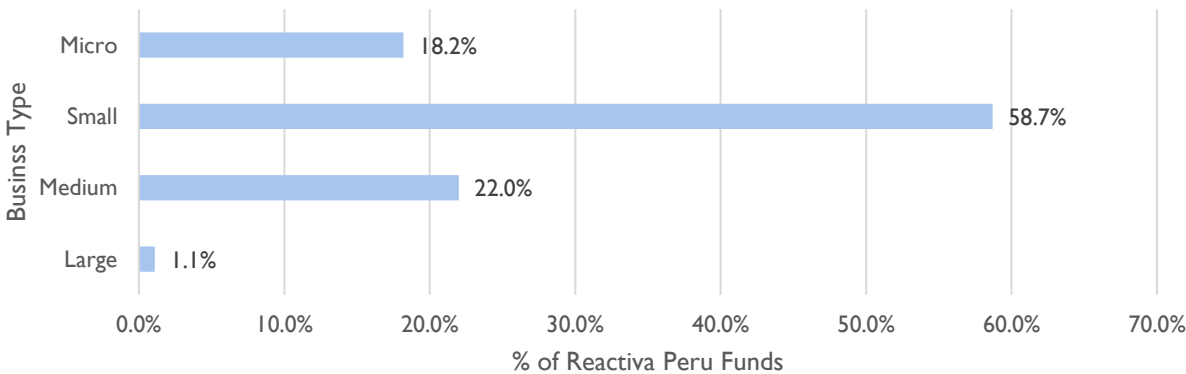
Source: BCRP data and CATALYZE Peru analysis

In total, Reactiva Peru has supported 22,480 companies that have their main offices in the Amazon. As measured by number of offices, 58.7% were small companies and 22% were medium-size companies. In terms of distribution of program funds in the Amazon, 16.3% of the placements were made in Loreto, followed by Cusco and Junín, corresponding to their respective economic importance in the region.

Despite the intense relief efforts from the GoP to support enterprises and FIs, portfolio quality among most FIs deteriorated in the wake of the pandemic.

The data indicates that when the GoP’s FI stimulus resources are depleted, and depending on economic recovery levels across regions, some FIs could face solvency problems, especially the smaller ones concentrated in the Amazon that must increase both capital and reserves.

Graph 17: Peruvian Amazon Distribution of Reactiva Peru Funds by Business Type (2020)



Source: BCRP data. CATALYZE Peru analysis.

Table 22 below shows that COFIDE supported 445,000 micro enterprises, nearly 50,000 of Peru’s MSMEs, and 6,519 large enterprises via its Reactiva stimulus program.

Table 22: Peru Businesses Utilizing Reactiva Peru Program by Business Type

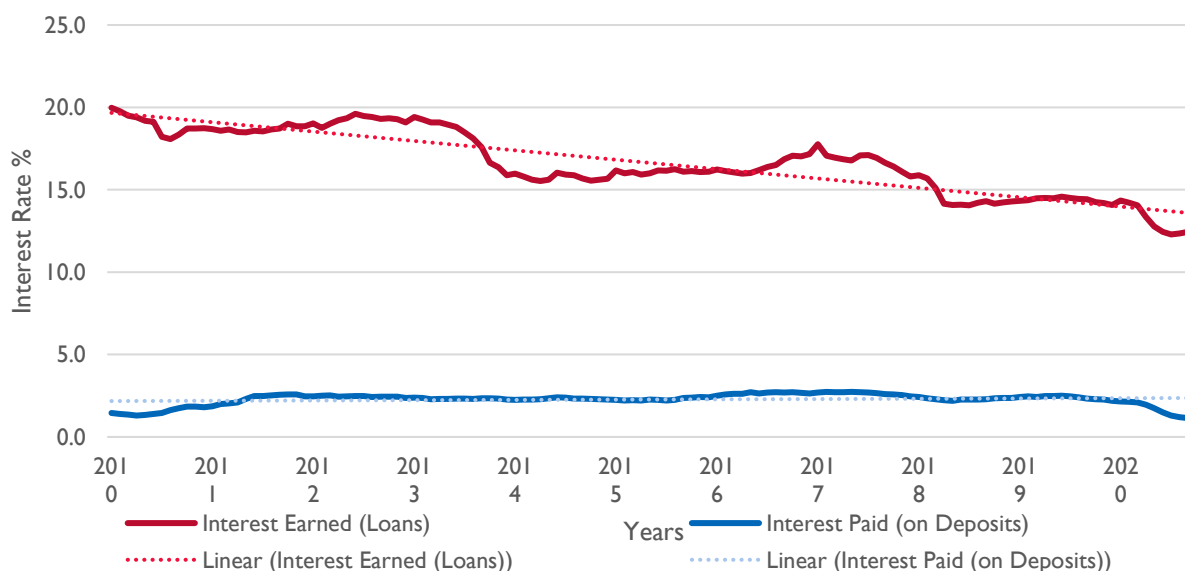
Company Type	No. of Companies	(%)	Amount placed (in millions of soles)	(%)
Micro	445,534	88.90%	S/. 8,220.7	14.20%
Small	47,234	9.40%	S/. 18,477.7	31.90%
Large	6,519	1.30%	S/. 28,327.2	49.00%
Medium	2,011	0.40%	S/. 2,838.2	4.90%
TOTAL	501,298	100%	S/. 57,863.8	100%

Source: MEF (Ministry of Economics and Finance).

PERU FINANCIAL SYSTEM LANDSCAPE: INTEREST RATES

Most banks use scale and standardization in products and services to reduce their intermediation costs. FIs can adjust spread between savings and borrowing rates to determine interest rates. The high spread present in Peru, shown in Chart 4 below, has been noted by the International Monetary Fund (IMF) as resulting from a high concentration of FIs and low levels of competition. The limited scale and client concentration of financial companies, especially Peruvian MFIs, means they are less able to compete with each other sufficiently to reduce lending rates, which would favor their borrowers, including the businesses in the Peruvian Amazon on which CATALYZE Peru is focused. The average lending rates, in national currency, are twice those of the rates FIs borrow at, and in foreign currency almost four times as much.

Chart 4: Peru Evolution of National Spread between Earned (Loans) and Interest Paid (on Deposits) on Interest Rates in Domestic Currency (%) (annual averages)



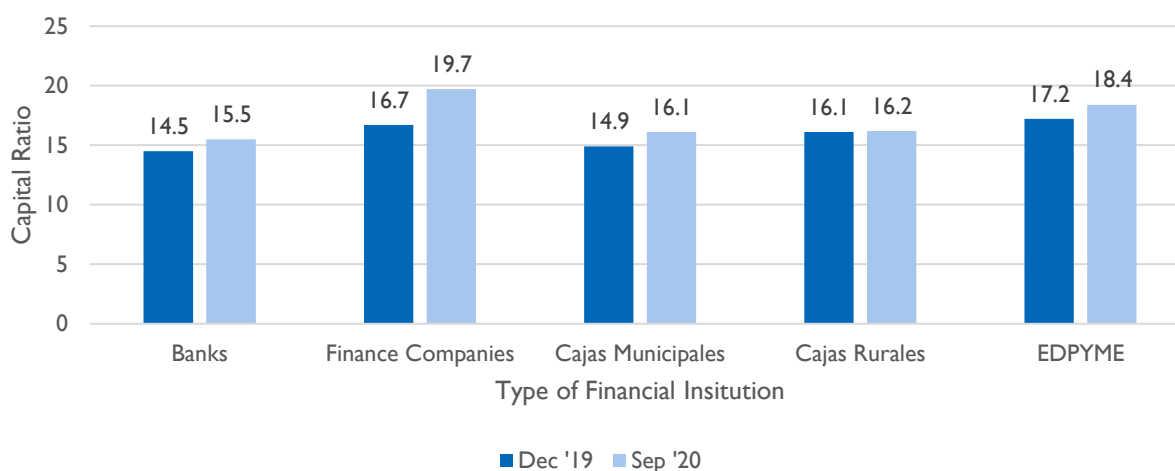
Source: SBS data and CATALYZE Peru analysis. <https://www.sbs.gob.pe/app/pp/seriesHistoricas2/paso1.aspx>

The spread between borrowing and lending gives FIs their strength and reduces their risk. As depicted in Graph 18 below, financial entities in Peru on average demonstrate high global solvency ratios, which measures the relationship of equity with risk-weighted assets (credit, market, operational). It measures what is commonly called “financial leverage,” i.e., how many times the equity capital is multiplied in lending. As of December 2019, Peru’s banks had a global capital ratio of 14.5%, placing banks’ capital ratio well above the

minimum requirement set by the Basel III standards and the financial law system itself. As of September 2020, these ratios have increased in all cases, so it is unlikely Peru’s FIs would require significant additional capital, especially if their situation has not been impacted by COVID-19. If FIs do require greater capital injections to expand their operations once the crisis is over, there will be insufficient reinvestment.

Among all of Peru’s FIs, those that face the greatest capital restrictions to future growth are the *cajas municipales* that must lend in line with the availability of local government resources, despite the fact their operations are distributed throughout the country. This has led Caja Arequipa, the largest in the *caja municipal* subsystem, to obtain a capital investment from Netherlands-based Rabobank. It will be interesting to see if other *cajas municipales* seek and obtain external equity investments to increase their respective capital bases.

Graph 18: Peru Global Capital Ratio by FI Type (%)



Source: “Indicators of Financial Entities” SBS and CATALYZE Peru analysis

Table 23: Peru Annual Effective Interest Rate⁶³ (2019–2020)

Annual Interest Rates in Peru		
Average of previous 30 days		
Domestic Currency		
Type of Organization	As of 10/20/2019	As of 10/30/2020
Micro Enterprises	32.83%	11.71%
Small Companies	18.28%	8.34%
Medium Companies	9.88%	5.93%
Large Companies	6.07%	5.33%
Corporations	3.58%	2.92%
Foreign Currency		
Type of Organization	As of 10/20/2019	As of 10/30/2020
Micro Enterprises	14.21%	19.64%
Small Companies	8.54%	7.85%
Medium Companies	6.82%	6.93%
Large Companies	5.38%	5.21%
Corporations	2.87%	2.63%

Source: “Average Interest Rate of the Banking System.” Home - Portal SBS, Oct 2020.

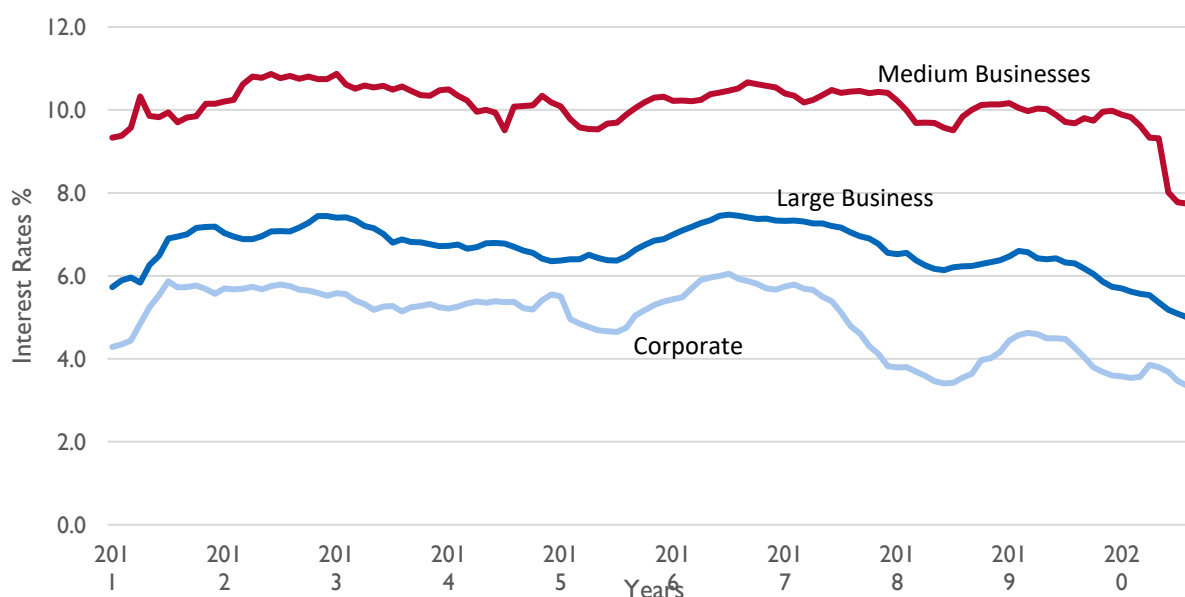
⁶³ Annual Effective National Currency Rates/ *Tasas Efectiva Anual Moneda Nacional* (TEAMN) And the Annual Effective Foreign Currency Rates/ *Tasa efectiva anual moneda extranjera* (TEAME)

During the 1990s, Peru suffered hyperinflation that triggered a major macroeconomic adjustment and stabilization program. Today, Peru has one of the lowest inflation rates in Latin America. Greater monetary stability led to de-dollarization of the economy. Peru went from being an economy that operated with two currencies, to one in which more than 80% of transactions are now carried out in soles. Several sales operations and loans that were previously completed in dollars have transitioned to soles, such as mortgage loans and acquisition of durable goods with long repayment terms.

Over the past three decades, the lending interest rate, or the rate charged to borrowers, has been steadily declining. However, interest rates on loans continue to be very high in real terms when adjusting for price variation. There are two reasons for this: (1) Most capital raising is concentrated in a few parts of the financial system, leading to higher interest rates, while capital markets are largely ignored as an alternative source of funds; and (2) MFIs are sometimes facing rising operating costs and increased risks.

Interest rates are largely determined by the size of the business seeking financing. Typically, the bigger the company seeking credit, the lower the interest rate it is charged, as evidenced in Chart 5 below. For corporate and large company loans, banks must compete with other sources of financing, leading to lower rates. This is not the same situation faced by smaller companies. Another determinant of interest rates is the length of the repayment term. Loans with terms under 360 days typically have lower interest rates than loans with longer terms, as they will be repaid more quickly and thus represent less risk on a relative basis.

Chart 5: Peru Banks' Average Annual Lending Interest Rates, for terms up to 360 days



Source: BCRP data and CATALYZE Peru analysis

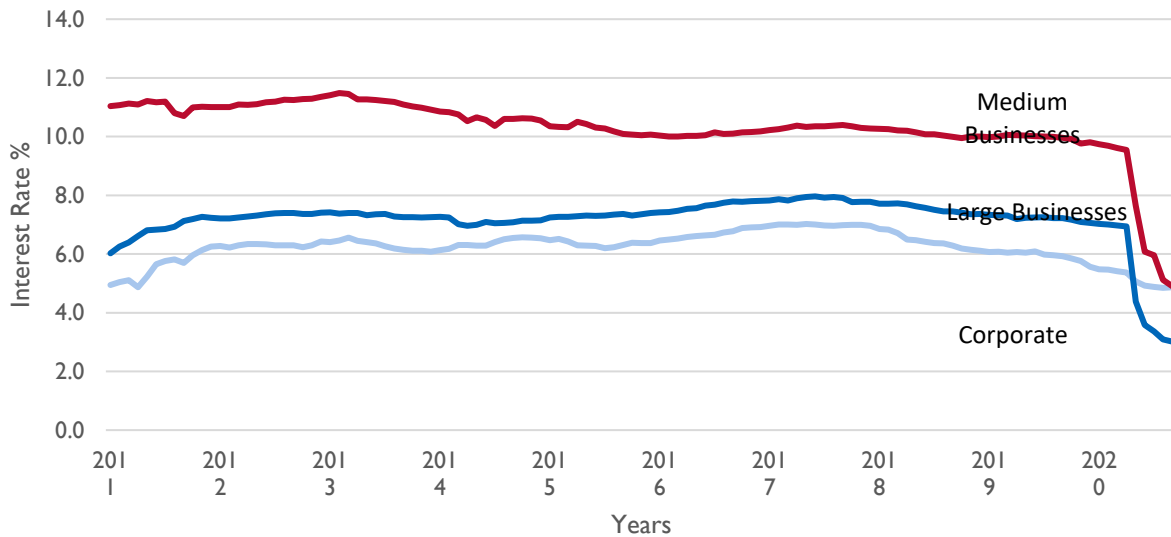
The most expensive type of short-term credit is current account overdrafts, offered by banks to permanent clients. The most common type of credit is loans, followed by foreign trade (pre- and post-shipment operations), financial leasing and lease-back, and factoring, which received a recent boost with new regulations (Law 29623 and DUs 013 and 040, passed in 2020). These financial products (with minor differences in terms between different FIs), can be obtained from banks and all other FIs, available for all economic sectors and geographic regions.

Most Amazon lending by FIs is export-oriented and in the agricultural supply chains of coffee and cocoa. These crops are mostly managed by small-scale producers, many of whom (but not all) belong to

cooperatives or associations. Some of these entities have trade financing loans with banks but must travel to Lima or other major cities on the coast to conduct these transactions because the FIs do not have offices or specialized personnel in the Amazon. Proximity to FIs benefits the large traders with main offices in Lima. Some cooperatives receive concessional financing from international impact investors.

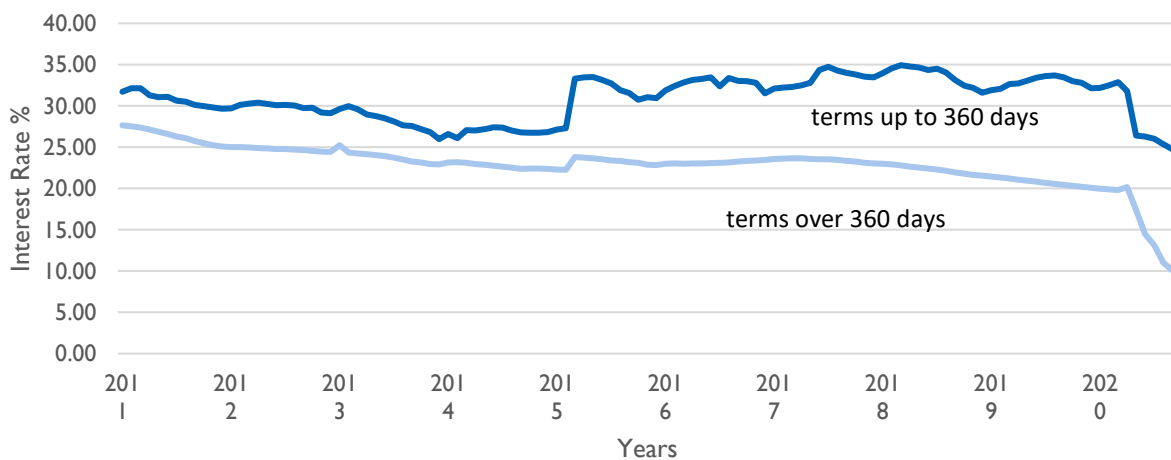
The liquidity injections of the Reactiva Peru program have led to reductions in average interest rates charged by FIs, depicted in Chart 6 below. These have had the strongest impact on loans with repayment terms over 360 days, the repayment period most smaller businesses and entities benefit from. The Reactiva program ended in October 2020, and companies will have to recover from the COVID-19 driven crisis following the end of the program; estimated projections is that the overall loss rate will be 13%.

Chart 6: Peru Banks' Average Annual Lending Interest Rates, for 360+ day terms



Source: BCRP data and CATALYZE Peru analysis.

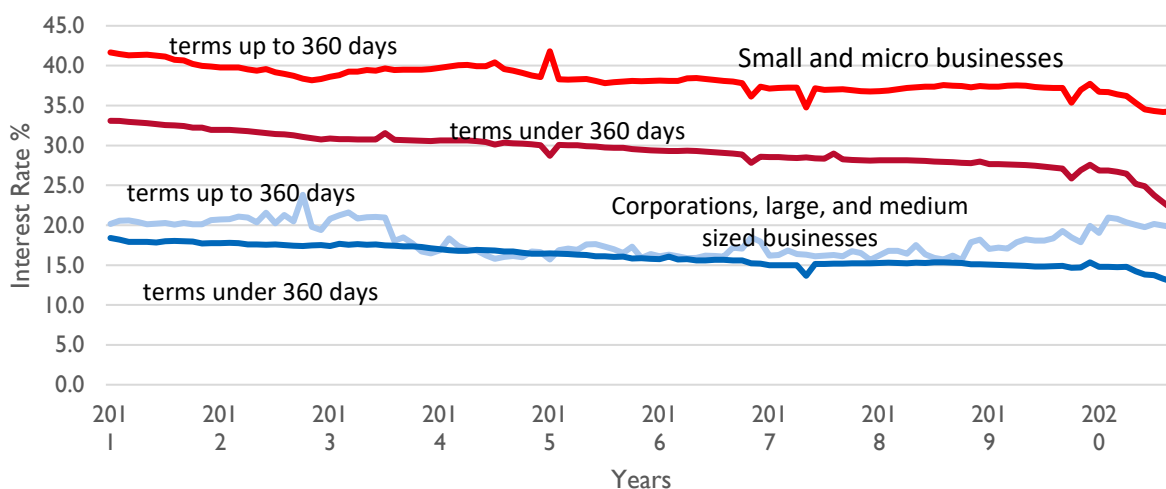
Chart 7: Peru Banks' Average Annual Lending Interest Rates to MSMEs



Source: BCRP data and CATALYZE Peru analysis.

As seen in Chart 8 below, interest rates charged to MSMEs by banks are three times higher than those charged to medium-size companies, and the number of large banks financing MSMEs is limited. Cajas municipales lend the most to MSMEs, at interest rates 10 points higher than rates charged by larger banks. Charging annual interest rates of 35% in an environment where inflation is 2.5% requires credit seekers with high-turnover business, such as commerce. Businesses in sectors such as agriculture, with longer productive cycles, receive limited financing from the formal system.

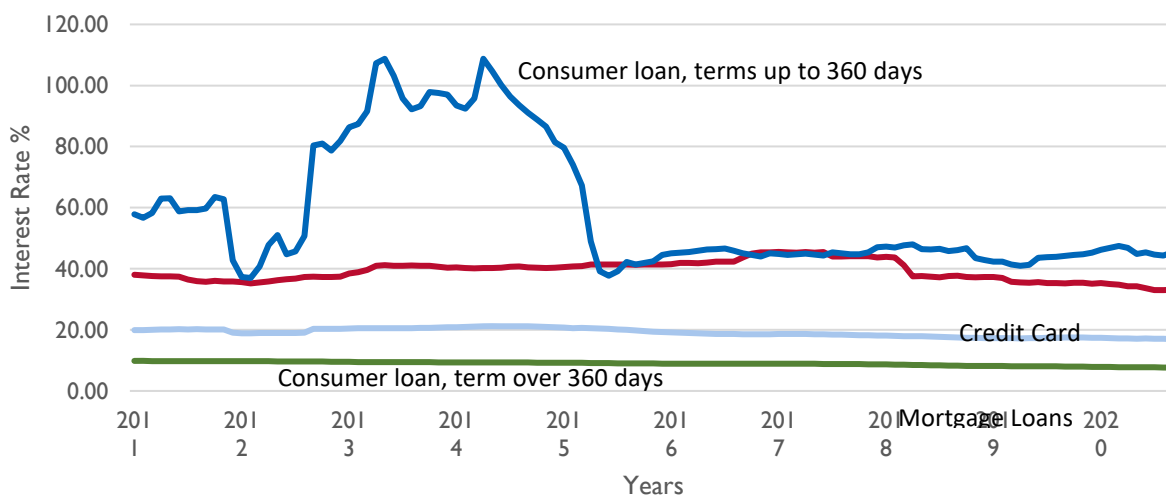
Chart 8: Peru Cajas Municipales' Average Annual Lending Interest Rates by Business Type & Term Length (2011-2020)



Source: BCRP data and CATALYZE Peru analysis.

Consumer credit is the most expensive as depicted in Chart 9, including credit card debt. Retail expansion in large cities throughout the country has increased the use of credit cards. In addition, many Peruvians finance their businesses with consumer credit (both for working capital and capital expenditures). Even when interest rates charged are high in real terms, they are lower than the rates charged by informal lenders (e.g., supplier credit, money lenders).

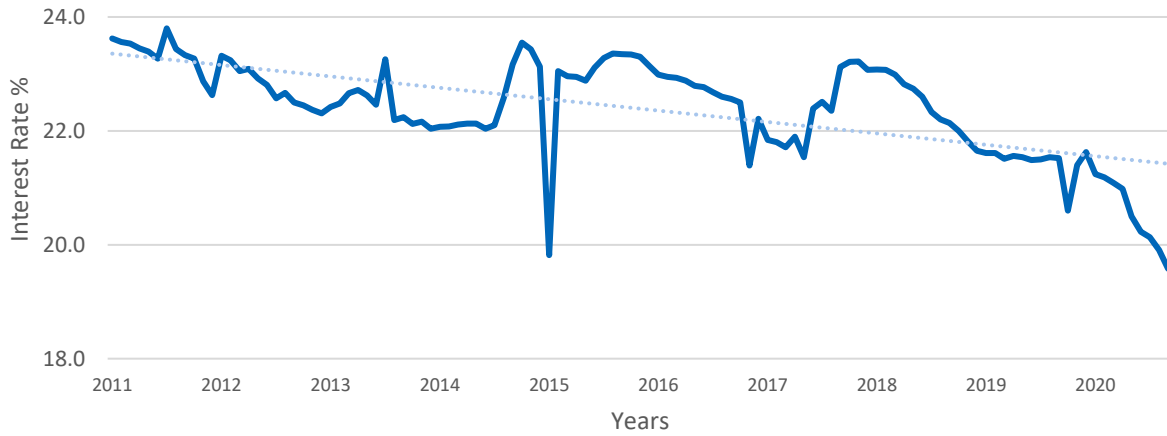
Chart 9: Peru Banks' Average Annual Lending Interest Rate for Consumer & Mortgage Loans



Source: BCRP data and CATALYZE Peru analysis.

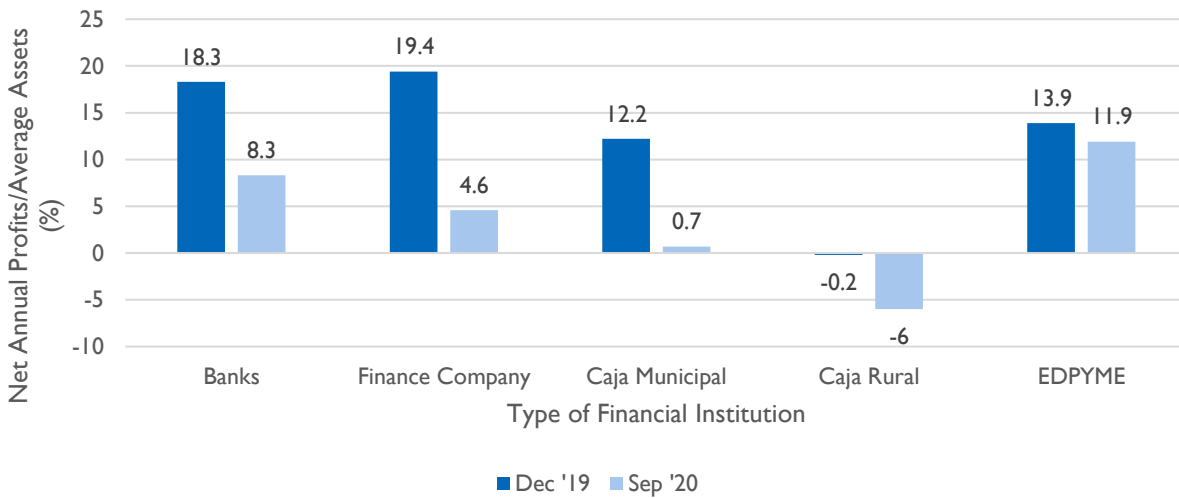
Notably, the interest rates of *caja municipales*' (MFIs') interest rates have decreased over the last decade, as shown in Chart 10 below, with some fluctuations resulting from increase in economic demand.

Chart 10: Peru Cajas Municipales' Average Annual Lending Interest Rate (2011-2020)



Source: BCRP data and CATALYZE Peru analysis

Graph 19: Peru Comparative Profitability by FI Type (%) (2019 & 2020)



Source: "Indicators of Financial Entities" SBS and CATALYZE Peru analysis.

PERU FINANCIAL SYSTEM LANDSCAPE: COST STRUCTURE, EFFICIENCY, AND PROFITABILITY

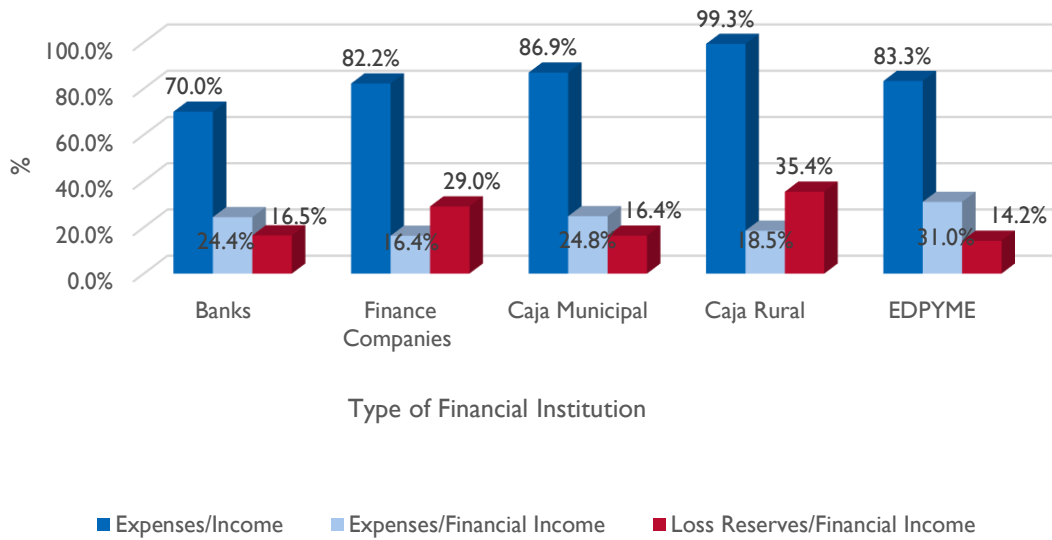
Table 24 below includes three important indicators related to Peruvian FI profitability. First, the ratio of expenses over total income (row 13) demonstrates that the lower ratio gives considerable advantage to banks over other finance companies as well as the more challenging economics that *cajas rurales* face comparatively. Second, the indicator that compares expenses with financial income, or margin (row 14) is the core of the FI business. Here, MFIs achieve better (lower) levels than banks, demonstrating that spread is relatively high among all FIs. But while banks can obtain income from other sources, including a wider set of services, MFIs do not have this flexibility, and end up paying more of their income to access capital. Third, the reserves stemming from overdue FI loans affect corporate profits, although the liquidity portion of profits is not immediately affected. These reserves tend to be written off from financial income and must be accounted for somehow (e.g., in net financial revenues after loan loss reserves, row 15). Graph 20 below is a visual depiction of the cost structure ratios found in rows 13-15 in Table 24 below.

Table 24: Peru Cost Structure by FI Type (2020)

Cost structure	Banks	Microfinance Institutions	Cajas Municipales	Cajas Rurales	EDPYMEs
1. Financial income	81.8%	89.4%	94.8%	90.3%	82.9%
2. Income from Financial Services	17.5%	10.8%	4.7%	9.5%	8.3%
3. Profit (Loss) from Portfolio Sale	0.4%	0.1%	0.3%	0.0%	10.3%
4. Other income and expenses	0.3%	-0.3%	0.1%	0.2%	-1.5%
5. Total income	100.0%	100.0%	100.0%	100.0%	100.0%
6. Financial expenses	28.5%	17.8%	27.1%	16.8%	30.9%
7. Loss Reserves for Direct Loans	19.3%	31.6%	17.9%	32.2%	14.1%
8. Expenses for Financial Services	7.5%	1.0%	1.7%	2.7%	4.0%
9. Administrative expenses	40.1%	47.7%	49.8%	45.4%	49.9%
10. Loss Reserves, Depreciation and 11. Amortization	4.5%	1.9%	3.5%	2.9%	1.1%
12. Total expenses	100.0%	100.0%	100.0%	100.0%	100.0%
13. Expenses/Income	70.0%	82.2%	86.9%	99.3%	83.3%
14. Expenses/Financial Income	24.4%	16.4%	24.8%	18.5%	31.0%
15. Loss Reserves/Financial income	16.5%	29.0%	16.4%	35.4%	14.2%

Source: "Indicators of Financial Entities" SBS.

Graph 20: Peru Financial Statement Ratios by FI Type (2020)

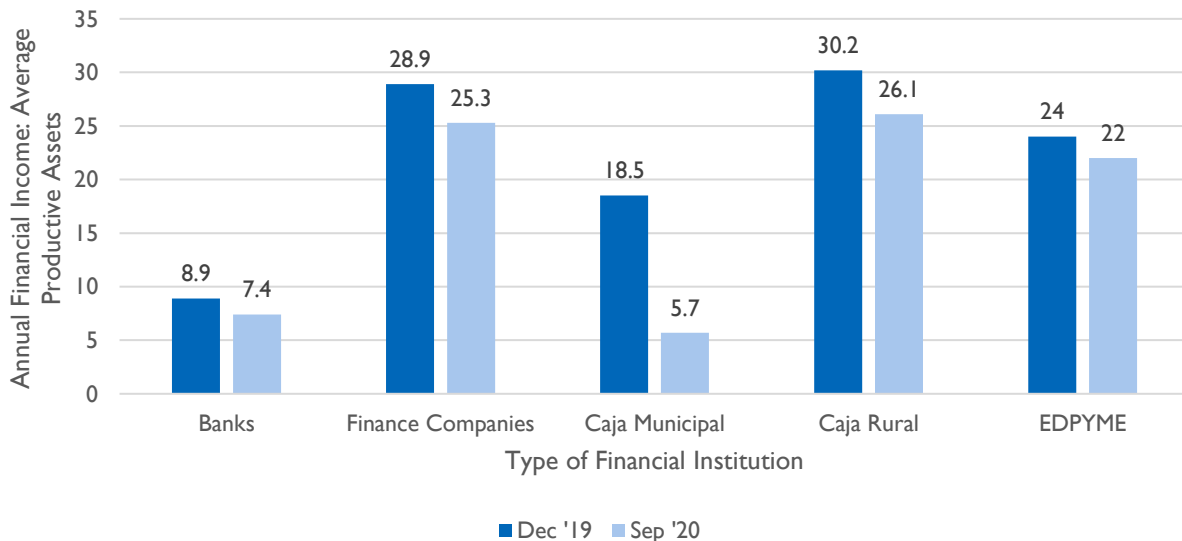


Source: Indicators of Financial Entities, SBS and CATALYZE Peru analysis.

An important indicator of the efficiency of FIs is the ratio of financial income in relation to productive assets; that is, the size of the current portfolio that generates financial income. This ratio is especially important for non-banking entities that, unlike banks, obtain little income from financial services, and at the same time, must pay higher interest rates on deposits to obtain capital.

As a consequence of the current global pandemic, all of Peru’s FIs have seen this ratio of income from productive assets deteriorate, as visible in Graph 21 below, either because they have had to utilize capital from government funds such as Reactiva Peru, which allow for limited spread, or because they have had to voluntarily lower their interest rates to avoid having important customers go into default. The most significant drop in this indicator has been experienced by caja municipales as shown in Graph 21 below.

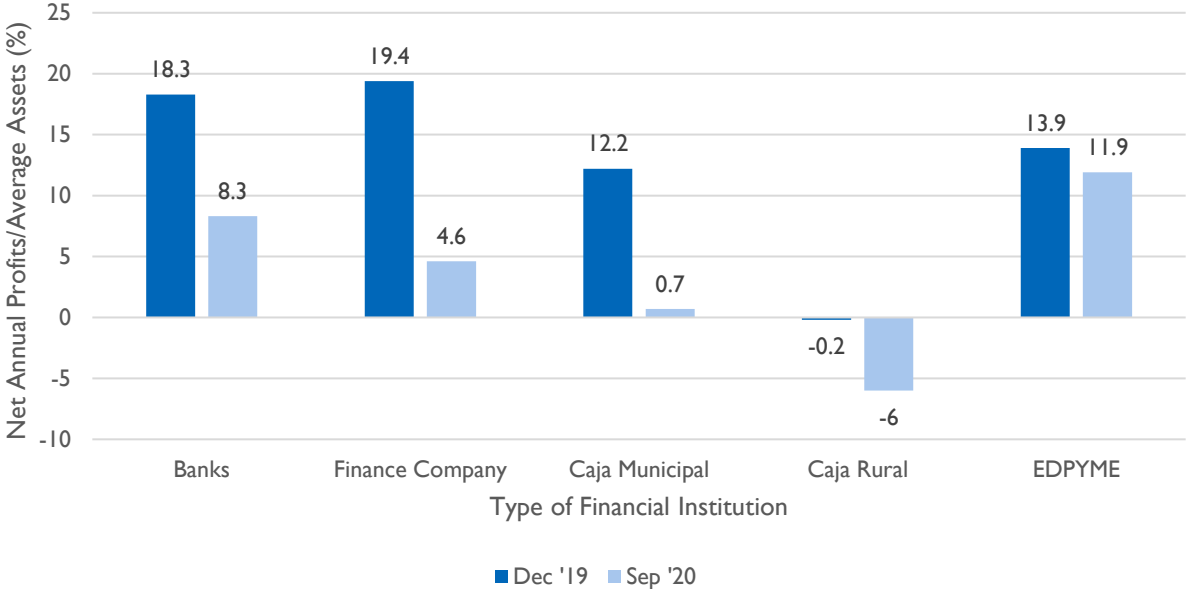
Graph 21: Peru Efficiency Comparisons by FI Type (%)



Source: “Indicators of Financial Entities” SBS and CATALYZE Peru analysis.

The result of the above-noted decline in the financial income to productive assets ratio is that 2020 is a challenging year for FIs in terms of profitability. As visualized below in Graph 22, *cajas rurales* have not been profitable since December 2019, and this trend has continued into 2020. *Cajas municipales* have also been severely affected, with a 17-fold contraction in profits as a result of the fall in financial income due to the pandemic. Financial company profits fell to about one-quarter of previous levels, and bank profit fell by little less than half of previous amounts.

Graph 22: Peru Comparative Profitability by FI Type (%) (2019 & 2020)



Source: “Indicators of Financial Entities” SBS and CATALYZE Peru analysis.

DIGITAL TECHNOLOGY: ENABLED FINANCING

INCORE reports in its Regional Competitiveness Index that 64.5% of Peru’s population has telephone and mobile internet coverage. As seen in Table 25 below, with the exception of Madre de Dios (78.2%), access for the Amazon population is far below the national average, with the lowest access rates in Huánuco (40.2%) and Loreto (32.6%).⁶⁴ Some Peruvian Amazon departments are investing more than others to improve connectivity and telephone coverage than others.

Table 25: Access to Phone & Internet Connectivity by Amazon Department (2018)⁶⁵

Amazon Departments	Telephone & Mobile Internet Access
Madre de Dios	78.2%
Peru	64.5%
Junín	54.8%
Cusco	48.9%
Ucayali	48.8%
San Martín	48.6%
Pasco	45.8%
Amazonas	41.8%
Huánuco	40.2%
Loreto	32.6

Source: Open Data. Regional Competitiveness Index (INCORE 2020)

The presence of fixed internet lines’ penetration rate is far lower in the Amazon than for the telephone and mobile internet penetration, with all Amazon departments below the Peruvian average. Not only is there less connectivity overall in the Amazon, the quality of internet service in the Amazon is far lower than in other parts of Peru and Lima. For example, internet reaches the department of Iquitos only by radio. Madre de Dios has the best rate of fixed internet connectivity, while Cusco and Pasco have the lowest, as seen in Table 26 below.

Table 26: Fixed Internet Lines by Amazon Department

Amazon Departments	% Household Access to Fixed Internet Lines ¹
Peru	35.9%
Madre de Dios	30.7%
San Martín	26.7%
Junín	25.2%
Amazonas	24.0%
Loreto	23.5%
Ucayali	20.2%
Huánuco	19.5%
Cusco	16.3%
Pasco	13.8%

Source: Open Data. Regional Competitiveness Index (INCORE 2020)

⁶⁴Regional Competitiveness Index (INCORE) 2020. <https://incoreperu.pe/portal/index.php/databank>

⁶⁵ Note: Table 25 reflects the percentage of homes with at least one mobile phone (2009–2013) and the percentage of the population with a mobile internet subscription (2014–2018).

Cusco has more schools connected to the internet than any other department, and even exceeds Peru’s national average as listed in Table 27 below. Its government’s recent efforts to bring fixed-line internet to educational facilities in the Amazon has been remarkable. It is evidence that a concerted effort to bring connectivity can be done when there is both mandate and motivation. It is also in contrast to Cusco’s low household access to fixed internet lines above. Other Amazon departments are falling short, however, with connectivity in most schools much lower than the national average.

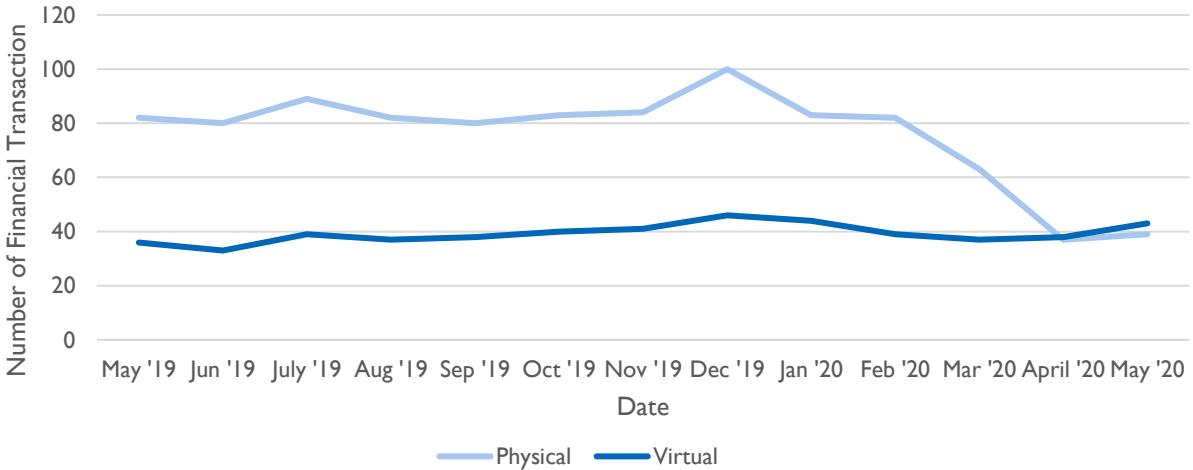
Table 27: Percentage of Schools with Internet Access by Amazon Department

Amazon Departments	% of Schools with Internet Access
Cusco	57.1%
Peru	56.3%
Junín	48.7%
Huánuco	44.7%
San Martín	44.3%
Madre de Dios	42.5%
Pasco	40.7%
Amazonas	28.7%
Ucayali	25.5%
Loreto	22.8%

Source: Open Data. Regional Competitiveness Index (INCORE 2020)

The global health pandemic has unwittingly forced Peru’s banked population to transact virtually. While Amazon-specific data is not available, the Association of Banks in Peru (ASBANC) reports that nationally, in-person financial transactions dropped in December 2019 for normal seasonal reasons, and then plummeted with the onset of COVID-19. In contrast, virtual transactions started steadily increasing in April 2020, as seen in Chart 11 below.

Chart 11: Peru Number of Virtual vs. In-Person Financial Transactions (2019-2020)



Source: ASBANC

The pandemic has spurred major changes to digital finance usage. The channels that grew the most in Peru over the past few months were debit cards, transfers, and virtual banking, all with growth rates above 25%. Recent passage of new GoP regulations means e-money systems are already operating, and banks are putting in place “digital wallets” that can be accessed by cell phones. This revolution in transactions is centered in large cities with better technological infrastructure, and young people are leading it; its outcomes remain to be seen.

While the proportion of banked adults has been increasing, the rate of adoption of digital finance and digital payments in Peru remains low. The FI assessment interviews uncovered a general feeling that Peru’s financial system is lagging behind the rest of the world in adapting financial products and services to the digital realm. Five Peruvian FIs (one bank, two cooperatives, and two MFIs) mentioned having digital finance products either operational or in development, and all cited the need to quickly expand their service offerings in this arena.

Digital financing as a cost-saving measure is especially important in the Amazon, where financial transaction costs are driven higher by low population density, high travel costs, and greater distances between urban centers. The pandemic has created both opportunities and a renewed sense of urgency among interviewees to establish digital payment and finance systems that can reduce the costs of transaction financing by the FI, and servicing loans and facilitating savings by FI customers.

Prior to the GoP’s decision to declare a national state of emergency due to the pandemic, the use of bank agents (*corresponsales*) was the fastest growing channel for customers to conduct financial transactions. Subsequently, it was the channel least slowed by the state of emergency. Assessment team members hypothesize that this is due to the high number of bank agents, and the fact they operate in essential businesses such as grocery and drug stores, which remained open even during quarantine.

On the other end of the spectrum, as seen in Graph 23 below, point-of-sale channels recorded the biggest drop, a 59% decrease in usage by May 2019, closely followed by ATMs (57% decrease) and bank tellers (53% decrease). These statistics do not account for the significant digital transfers conducted by a series of three government bond issuances to address the COVID-19 emergency.

Graph 23: Peru Percentage Change in Financial Transactions by Physical Channel (2020)



Source: ASBANC

The assessment team speculates that the upward trend of digital finance adoption will continue and accelerate among both consumers and businesses to conduct all types of transactions, driven by health and cost concerns. The trend will be reinforced as FIs continue to develop more digital products and platforms for consumers and improve the functionality of existing ones. CATALYZE Peru can capitalize on this wave to improve this aspect of the financing enabling environment.

Another trend to capitalize on is the high interest among private companies to rely on digital channels to pay for products sourced from the Amazon, facilitate financing through digital channels for sourcing entities, provide information to sourcing firms, and improve and reduce upstream data collection to improve sourcing transparency and efficiency in supply chains. Every private investor interviewed for this study expressed high interest in expanding use of digital services for improved supply chain management, and to improve transparency in their supply chains. Almost all the private companies are actively pursuing designs of management information systems that collect better and more data from upstream actors, platforms that can be further built on to support FI data collection for faster and more accurate credit scoring and credit management.

ESTIMATED PERUVIAN AMAZON FINANCING SUPPLY METHODOLOGY

For purposes of this assessment, an estimated annual domestic debt financing supply for the Peruvian Amazon agriculture and manufacturing⁶⁶ sectors were calculated. The estimates do not include cross-border debt, or domestic or cross-border equity investments. The estimated annual Peruvian Amazon debt financing supply for agriculture is \$156M, and for manufacturing (small and light manufacturing) is \$415M. The assumptions and methodology are described below. Table 28 below shows the calculations. (Note that Table 28 is a repeat of Table 7 in the main body of this assessment.)

ASSUMPTIONS AND METHODOLOGY

BASELINE LOAN PORTFOLIO DATA

- The base used for calculations are loan balances as reported to SBS as of December 31, 2019. This date precedes the COVID-19 pandemic and therefore assumes normal annual loan book growth.
- SBS government does not publish this same type of information broken out to capture the Peruvian Amazon region.
- Original loan information is disaggregated by sector at the national level, but not available by department or region.
- CATALYZE Peru disaggregated information from the nine departments to segment out the Amazon region, as was done for other analyses in this Assessment.
- Consumer and mortgage loans were subtracted from the Peruvian Amazon total loan figures.
- It is possible that there will be a contraction in all credit in the following year 2021 until pre-pandemic level of economic activity recovers, net of the effects of Reactiva Peru.

AGRICULTURAL LENDING

- At the national level, the agricultural sector received 5.6% of all loans. It is therefore a reasonable assumption think that in a region of Peru such as the Amazon in which agricultural activity has a greater share of economic activity, loan placements will also be greater. Compared with the Sierras, the Amazon has more organization of producers and larger agricultural units.
- As a proxy to determine what percentage of total Peruvian agricultural lending can be estimated to be attributed to the Amazon, Reactiva Peru 2020 total credit placements were used.
 - Agriculture accounted for 7.8% of national Reactiva Peru portfolio.
 - There, it is assumed that Peruvian Amazon agriculture accounted for 7.8% of Reactiva Peru loans volume issued.
- Multiplying the 2019 Peruvian Amazon portfolio and converting from Peruvian soles to USD dollars yields \$156M per annum in Peruvian Amazon agricultural lending.

MANUFACTURING LENDING

- The same methodology is applied to the manufacturing sector.
- That sector accounts for 20.7% of national lending, so this figure was applied to the 2019 Peruvian Amazon loan volume, and converting to US dollars, results in \$415M.

CROSS-BORDER AGRICULTURAL AND MANUFACTURING LENDING

- Not included

DOMESTIC AND CROSS-BORDER EQUITY INVESTMENTS

- Although this estimation exercise does not include equity investments, there is anecdotal evidence of emerging interest in equity investments in the Peruvian Amazon region. In addition to impact investors interviewed during the assessment, including funds managers, local examples include:

⁶⁶ Some of the manufacturing is related to agriculture value chain such as food processing.

- Pro Ucayali group headed by businessman Samuel Dyer, owner of the largest Peruvian agro-exporter Camposol.
- AJE Group, is investing in drinks with exotic natural fruits from the jungle, starting in Amazonas with aguaje. The Amazonian superfruit line of beverages is called Bio.

Table 28: Peruvian Amazon Debt Financing Supply Calculation Methodology

Item	Amount in Soles	Step
Total 2019 loan issued in the CATALYZE Peru region (in soles).	S/. 12,450,511,884	A
Minus Consumer and Mortgage Loans	- (S/. 5,231,777,007)	B
Remaining Credit to Companies	S/. 7,218,734,878	A-B
Exchange Rate (Peruvian soled per US dollar)	3.6	C
Total in USD	\$ 2,005,204,133	(A-B)/C
Reactiva Peru lending to sectors in the Amazon	Percentage	
Agriculture Sector	7.8%	D
Manufacturing Sector	20.7%	E
Estimated Annual Lending to these Sectors	Amount in USD	
Agriculture Sector	\$ 156,405,922	[(A-B)/C] * D
Manufacturing Sector	\$ 415,077,255	[(A-B)/C] * E

Source: SBS (As of December 31, 2019), Reactiva Peru data, and CATALYZE Peru analysis

OPPORTUNITIES: GUARANTEE FUNDS

COFIDE is Peru's development bank and is committed to the social, sustainable, and inclusive development of the country and all Peruvians. It supports sustainable financial sector growth in five ways as shown in Chart 12: (1) support to micro, small, and medium enterprises (MSME); (2) financial inclusion; (3) support to business investment; (4) trust; (5) and business support programs.

Information on Amazon regional government incentives and guarantee funds may be found below.

Chart 12: COFIDE Financial Sector Sustainability Strategies



COFIDE's 2019 portfolio included loans to first and second tier FIs, detailed in Table 29. Table 30 provides COFIDE's interest rates charged and Table 31 provides by economic sector.

Table 29: COFIDE Loan Portfolio by FI Type (2018 & 2019)

In thousands of soles	2019		2018	
	Soles	%	Soles	%
Second-Level Portfolio				
Banks (c.l)	S/. 2,478,585	48.9%	S/. 3,073,172	53.3%
Caja Municipal (c.l)	S/. 423,888	8.4%	S/. 310,237	5.4%
Finance Company	S/. 482,531	9.5%	S/. 219,620	3.8%
Financial Leasing	S/. 61,558	1.2%	S/. 58,879	1.0%
EPDYMEs	S/. 72,815	1.4%	S/. 51,084	0.9%
Caja Rural	S/. 47,173	0.9%	S/. 21,363	0.4%

In thousands of soles	2019		2018	
	Soles	%	Soles	%
Factoring	8,443	0.25%	S/. 16,648	0.3%
	S/. 3,574,993	70.5%	S/. 3,751,003	65.1%
Participation Agreements (c.2)	S/. 678,079	13.5%	S/. 1,163,031	20.2%
First-Level Portfolio				
Financial Leasing & Promissory Notes (h)	S/. 797,736	15.7%	S/. 833,933	14.5%
Other Credits	S/. 15,034	0.3%	S/. 15,735	0.2%
	S/. 812,770	16.0%	S/. 849,668	14.7%
	S/. 5,065,842	100.0%	S/. 5,763,702	100.0%
Accrued Returns	S/. 18,305		S/. 41,256	
	S/. 5,084,147		S/. 5,804,958	

Source: COFIDE.

Table 30: COFIDE Average Annual Effective Interest Rate per Loan Product (2018 & 2019)

Product	2019		2018	
	Placements in		Placements in	
	S/	US\$	S/	US\$
COFIDE's Own Resources	4.79%	5.08%	7.13%	6.23%
Short-Term Capital	4.14%	2.98%	5.46%	2.37%
Programa Multisectorial de Credito Probid II	-	6.07%	-	5.96%

Source: COFIDE.

Table 31: COFIDE Credit Portfolio by Economic Sector (2018 & 2019)

In thousands of soles	2019		2018	
	Soles	%	Soles	%
Financial intermediation	S/. 3,566,551	70.40%	S/. 3,734,355	64.79%
Real estate & rental activities	S/. 562,088	11.10%	S/. 454,112	7.88%
Transportation, storage, communications	S/. 534,394	10.55%	S/. 553,754	9.61%
Mining	S/. 231,980	4.58%	S/. 236,110	4.10%
Electricity, gas, water	S/. 82,850	1.63%	S/. 537,395	9.32%
Agriculture, livestock, hunting, silvopasture	S/. 33,347	0.66%	S/. 59,421	1.03%
Manufacturing	S/. 33,140	0.65%	S/. 20,235	0.35%
Other community service activities	S/. 8,442	0.17%	S/. 16,648	0.29%
Home mortgage loans	S/. 7,239	0.14%	S/. 7,993	0.14%
Commerce	S/. 2,808	0.06%	S/. 2,858	0.05%
Hotels & restaurants	S/. 2,200	0.04%	S/. 6,091	0.10%
Consumer loans	S/. 803	0.02%	S/. 656	0.01%
Construction	-	-	S/. 134,074	2.33%
TOTAL	S/. 5,065,842	100%	S/. 5,763,702	100%

Source: COFIDE.

COFIDE also supports foreign currency operations of Specialized Structured Business Financing (EFSF) carried out under resource pipeline contracts, primarily with local and domiciled banks in country, listed in Table 32.

Table 32: COFIDE EFSF (\$US M) (2018 & 2019)

Intermediary	Name	2019	2018
Banco de Crédito del Perú	Empresa de Generación Eléctrica Santa Ana	\$42,543	\$43,947
	Pesquera Hayduk S.A.	\$15,193	\$16,544
	COSAPI Minería S.A.C.	\$12,182	\$14,993
	Sociedad Agrícola Yolanda Patricia S.A.	\$462	-

Intermediary	Name	2019	2018
	Empresa Eléctrica Agua Azul S.A.	-	\$14,902
	IMPALA S.A.C.	-	\$10,584
	Subtotal	\$70,380	\$100,970
Banco Internacional del Perú - INTERBANK	Generadora de Energía del Perú S.A.	\$42,458	\$42,458
	Agrojibito S.A.	\$29,347	\$29,233
	Empresa Eléctrica Agua Azul S.A.	\$14,902	-
	Empresa de Generación Eléctrica de Junín S.A.C.	-	\$19,585
	Colegios Peruanos S.A.	-	\$7,412
	Subtotal	\$86,707	\$98,688
Scotiabank Peru S.A.A.	Trastiendas Integradas S.A.C.	\$58,025	\$57,010
	Termochica S.A.	\$18,034	\$18,854
	Oncosalud S.A.C.	\$17,270	\$18,346
	Subtotal	\$93,329	\$94,210
BNP PARIBAS - New York	Concesionaria Vial del Sur S.A.	\$35,000	\$35,000
Deutsche Bank AG - London	Survial S.A.	\$23,543	\$26,998
Deutsche Bank Branch Office	Concesión Canchaque S.A.	\$20,839	\$23,895
Banco Agropecuario S.A.	Agrícola Sol de Villacuri S.A.C.	\$7,980	\$5,638
	Peru Grapes S.A.C.	-	\$3,325
	Shared - X Peru S.A.C.	-	\$977
	Subtotal	\$7,980	\$9,940
Citibank del Perú S.A.	Agroauroria S.A.C.	\$11,346	\$11,147
	Jibiport S.A.C.	\$2,386	\$2,344
	Arojibito S.A.	\$905	\$889
	Subtotal	\$14,637	\$14,380
Banco GNB Perú S.A.	DANPER Agrícola Olmos S.A.C.	\$9,227	\$9,500
Intermediary	Name	2019	2018
Banco Santander Perú S.A.	Inversiones Prisco S.A.C.	\$7,885	\$8,214
Banco Interamericano de Finanzas	Instituciones Toulouse Lautrec	\$6,035	0
Banco Continental	Maquiwood S.A.C.	\$1,537	\$1,511
	Gandules INC S.A.C.	\$1,018	\$1,474
	Subtotal	\$2,555	\$2,985
Banco BTG Pactual S.A. - Cayman	Fundo Sacramento S.A.C.	\$2,500	\$2,500
Banco Pichincha	Hermanos Tume S.A.C.	\$423	\$564
CMAC Sullana S.A.	Grupo Republica Digital S.A.	\$177	\$411
	Empresa de Generación Eléctrica de Junín S.A.C.	-	\$2,030
	Subtotal	\$600	\$975
Total		\$381,217	\$430,285

Source: COFIDE.

Since the global pandemic hit, COFIDE has shifted to actively promoting business recovery as a relief strategy for Peru, including guaranteed loan working capital programs such as Reactiva Peru to assist companies with working capital, and FAE-MYPE, FAE-Turismo, and FAE-Agro to assist micro- and small enterprises (MYPES in Spanish,) the tourism sector and agricultural sectors, respectively. Program details are in Table 33 below. COFIDE also manages a new guarantee fund called Fondo Crecer, which is directed at MSMEs. Its rollout was reportedly delayed, and when it launched, it unfortunately coincided with the global pandemic.

Table 33: COFIDE COVID-19 Relief Resources

BUSINESS SUPPORT PROGRAMS FOR COVID-19 RELIEF			
REACTIVA PERU	FAE-MYPE	FAE-TURISMO	FAE-Agro
<p>Reactiva Peru, created by the GoP through DL No. 1455, is aimed at companies affected by COVID-19, and promotes financing to replace working capital for companies that face short-term payments and obligations, and thus ensures continuity in the payment chain.</p> <p>Reactiva Peru is a fund of up to 60B soles to guarantee new credits, granted by the Entities of the Financial System (EFS), as known in Peru, and whose guarantees are administered by COFIDE. Eligible companies can request loans from EFSs that have signed the agreement with COFIDE, for a term of up to 36 months and a 12-month grace period.</p> <p>The program does not finance acquisition of fixed assets; stocks, bonds, or monetary assets; or capital contributions. Neither does it pay overdue obligations of the debtor company with the FI or pre-pay unexpired debt.</p> <p>The program was active until September 30, 2020. The program may or may not be continued.</p>	<p>The Business Support Fund for Micro and Small Enterprises (FAE-MYPE in Spanish/Peru), created according to Emergency Decree No. 029-2020, is allocated by the GoP to guarantee financing for working capital obtained by MSMEs to enable them to overcome economic problems generated by the COVID-19 pandemic.</p> <p>To qualify, businesses must meet these requirements:</p> <ul style="list-style-type: none"> - All MSMEs are eligible based on definition of “MYPE” in operating regulations, without exception to sectors. - Must be classified as “Normal” or “CPP” on 02/29/20 or at least “Normal” in last 12 months. - Not be linked to an EFS or COOPAC grantor or Law No. 30737. - Not be a Reactiva Peru beneficiary. - Not perform any activity on Exclusion List.” <p>The total credit that can be granted in the program cannot exceed 30 thousand soles for each MSME. Each MSME will be evaluated and assigned a corresponding credit line.</p> <p>These credits will be granted under preferential conditions, for terms of up to 36 months, with grace periods up to 12 months. The minimum term is 9 months and can include up to a 3-month grace period.</p>	<p>FAE-Turismo was created by Emergency Decree No. 076-2020 to promote financing of MSMEs in the Tourism sector, through loans for working capital that help accommodation establishments; interprovincial land passenger and tourist transport; travel and tourism agencies; restaurants; leisure activities; organization of congresses, conventions, and events; tourist guidance; and production and marketing of handicrafts.</p> <p>The program covers a maximum amount equivalent to 4 months of the average sales level for 2019, confirmed by SUNAT records. Alternatively, it can be considered three times the monthly average working capital debt registered by the MSME in 2019 by the EFS or COOPAC that granted the loan. Consumer loans or home mortgages are not considered.</p> <p>Terms are up to 60 months, including up to an 18-month grace period.</p>	<p>The FAE-Agro program was created by Emergency Decree No. 082-2020 to guarantee loans toward working capital for small agricultural producers, to guarantee the 2020–2021 agricultural season. This applies to temporary and permanent crops as well as promotion of livestock.</p> <p>Those considered are agricultural producers who carry out family farming as defined by Law No. 30355, Law for the Promotion and Development of Family Farming, to ensure the Agricultural Campaign of Transitory and Permanent Crops and the Promotion of Livestock Activity.</p> <p>The terms are up to 12 months, including one or more grace periods that together do not exceed the total term.</p> <p>*All FAE programs will be active until December 31, 2020.</p>

GUARANTEE FUND FOR LOANS TO SMALL INDUSTRIES (FOGAPI)

FOGAPI is dedicated to the growth of small industry. FOGAPI provides guarantees and other innovative products and services to support sustainable development of MSMEs and provides packaged guarantees for COFIDE. Principal products offered include trusts and letters of guarantee. FOGAPI currently has nine offices nationwide (Lima, Trujillo, Cajamarca, Chiclayo, Arequipa, Cusco, Huancayo, Piura, Tarapoto), only three of which are in the Amazon region.

AMAZON REGIONAL GOVERNMENT INCENTIVES AND GUARANTEE FUNDS

On December 28, 2018, the GoP enacted Law No. 30896 – Promotion of Investment and Development in the Amazon Region, which offers tax exemptions to firms importing goods intended for Amazon consumption. The intent is to improve the competitiveness of districts in the region.

COFIDE channels these resources to firms in the Amazon. Districts benefitting from the tax exemptions include, in descending order of benefit received have been: Ucayali, San Martin, Madre de Dios, and Amazonas. Details may be found in Table 34 below.

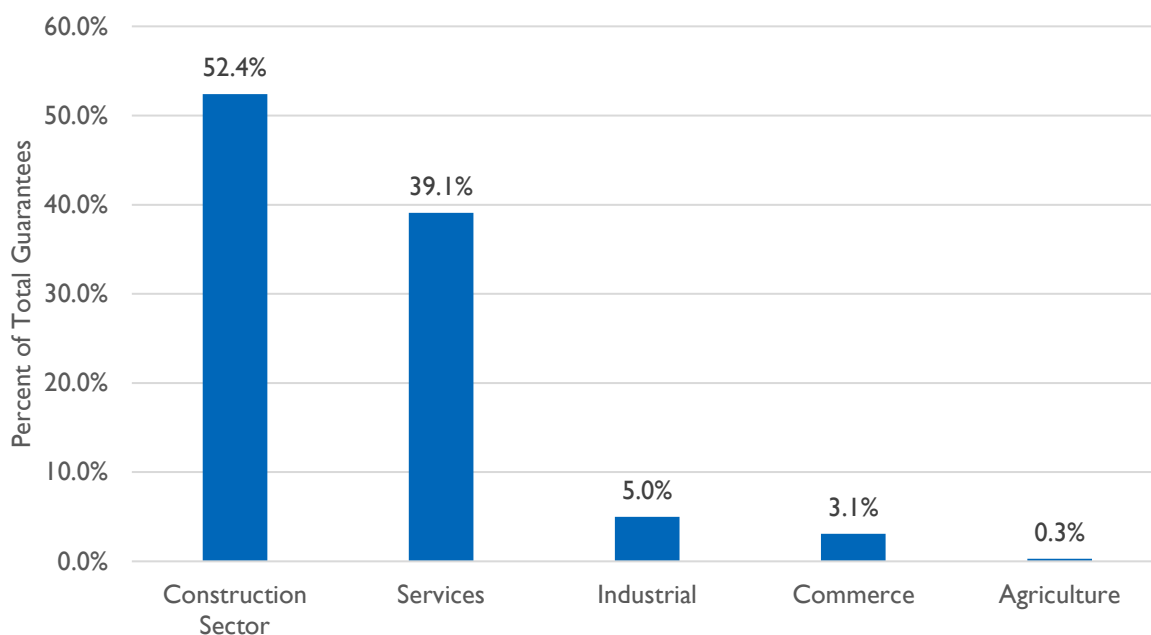
Table 34: Tax Exemption Amounts for Peruvian Amazon Firms

Region	Tax Exemption (in soles)
Ucayali	S/. 67M
San Martin	S/. 26M
Madre de Dios	S/. 14M
Amazonas	S/. 10M
Others (provinces and districts in Amazon)	S/. 10M
Total	S/. 127M

In addition, COFIDE is involved in a process to create a series of regional guarantees for the Amazon departments of Ucayali, Madre de Dios, San Martin, and Amazonas. These guarantees provide partial collateral coverage for businesses in all sectors of these departments to access formal financing. The guarantees have been active for more than two years but are not being accessed at the rates that were expected to boost competitiveness in these areas. A possible explanation for the low uptake is that businesses needing collateral require TA to understand exactly how to take advantage of these important risk mitigating instruments offered by the government. In addition, similar guarantees to cover collateral requirements are active in Loreto, Huánuco, Cusco, Junín, and Ayacucho, which are departments where USAID has been investing in alternative development programming together with Peru’s alternative development agency, DEVIDA. Law 30896 – Promoting Investment and Development in the Amazon Region provides 126M soles (\$35M) to be used for these guarantees.

In 2019, FOGAPI guarantees mostly benefitted the construction industry (52.4%), as seen in Graph 24 below, followed by the service industry (39.1%) and industrial companies (5.0%). In addition to FOGAPI, the regional government of Ucayali implemented guarantees for small producers through the Amazon Development Fund (Fondo de Desarrollo Amazónico, FONDESAM) with resources from the charges and surcharges levied on the oil and gas sector.

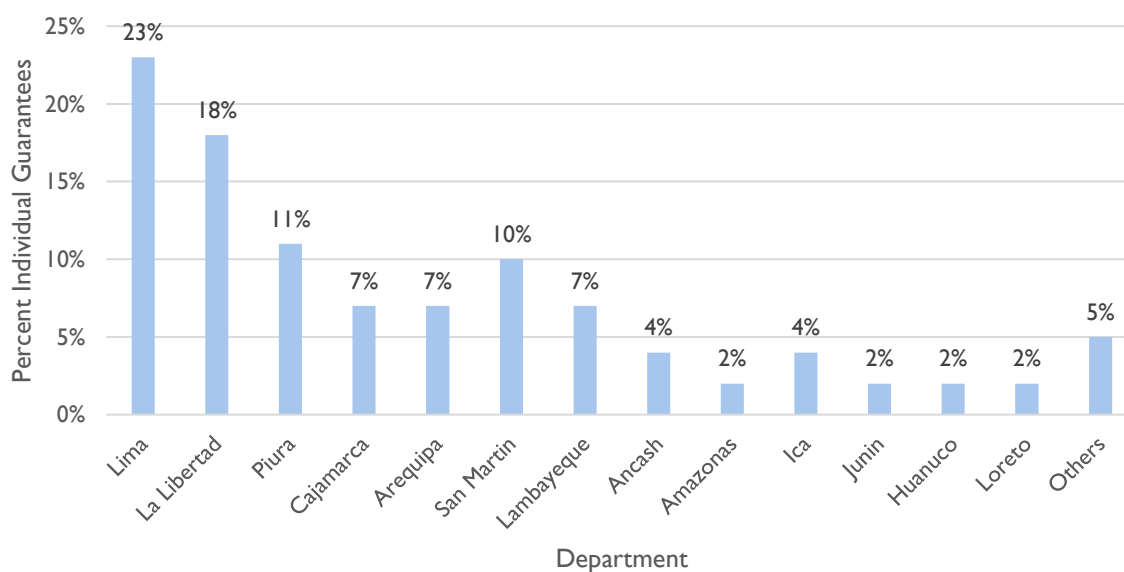
Graph 24: FOGAPI Percentage Guarantees by Economic Sector



Source: FOGAPI

The FOGAPE Contingent Portfolio for 2019 closed at 448M soles, or roughly \$124M. Liabilities amounted to 264M soles (\$73M)—29M soles higher than the balance recorded at the end of the previous year (cash guarantees). Net equity equals 88M soles, 20.7M soles higher than the previous year’s balance, a result of profit obtained during the same period.

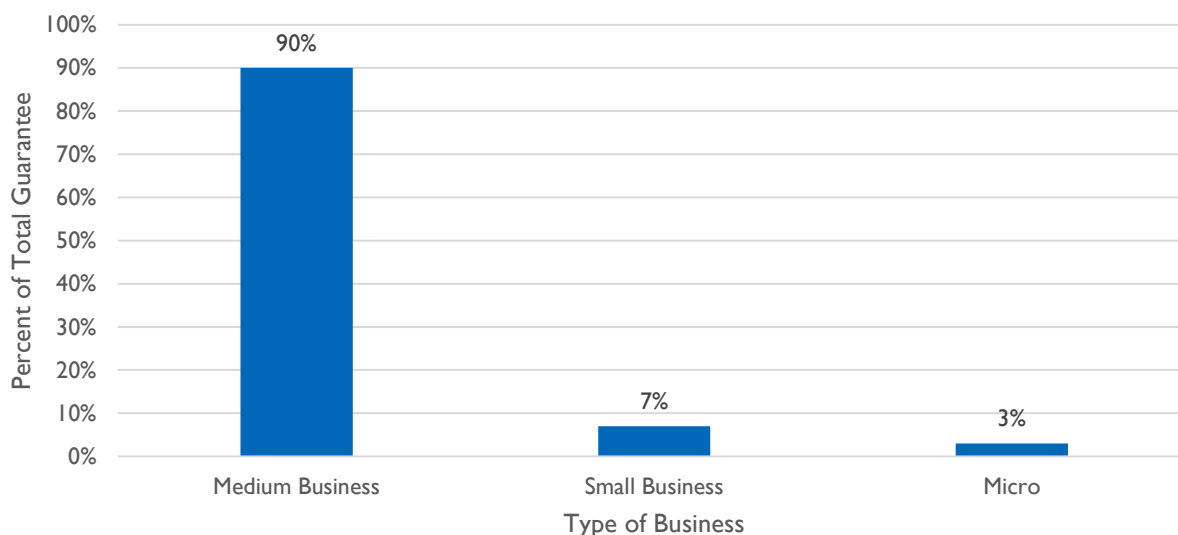
Graph 25: FOGAPI Guarantees Utilized by Peruvian Department



Source: FOGAPI

Peru's medium-size businesses received 90% of FOGAPI's guarantees, while micro and small businesses combined receive only 10%, shown in Graph 26 below.

Graph 26: FOGAPI Individual Guarantee by Type of Business



Source: FOGAPI

OPPORTUNITIES: DEVELOPMENT FINANCE INSTITUTIONS

USAID/DFC

USAID signed a Development Credit Authority (DCA) guarantee on September 30, 2014, with FIs working in agricultural financing in the Amazon including Financiera Edyficar, Financiera Confianza, Caja Municipal de Ahorro y Crédito de Maynas, and La Caja Rural de Ahorro y Crédito Señor de Luren. The guarantee agreement has provided first-loss coverage up to 50% for loans defaulted on by MSMEs working with agricultural value chains in Huánuco, Ucayali, and San Martín departments. The guarantees expired in 2020, and a few of the FIs have evolved in the meantime: Caja Rural de Ahorro y Crédito Señor de Luren was bought by the Caja Municipal of Ahorro y Crédito Arequipa, and Mibanco bought Edyficar. According to USAID, new guarantees of similar design are not currently envisioned for Peru. In Q4 of 2019, utilization rates of the guarantees by the FIs ranged from 10% to 50%. Some of the FIs contacted for this assessment suggested that they were able to find guarantee cover at more affordable rates than offered by the DCA, so they did not utilize the guarantee to its maximum potential.

INTERNATIONAL FINANCE CORPORATION (IFC)

The International Finance Corporation (IFC) is a member of the World Bank Group and is the principal development institution dedicated exclusively to supporting the private sector in developing countries. It applies its financial resources, technical knowledge, global experience, and capacity for innovation to help World Bank partners overcome financial, operational, and political challenges. The IFC offers multiple services and programs to promote financial market growth and expanded access to financial advisory services in Peru, including programs focused on financial markets, assessment/consulting services, MSME finance, microfinance, payment systems, MSME banking, and a gender-focused program entitled Banking for Women.

Financial markets. The IFC is an investment leader in promoting the microfinance sector. It helps Peruvian FIs create innovative products in insurance and value chain financing to reach Peru's poorest

customers. These services are focused principally on MSMEs, commerce, and climate change, among other sectors and themes.

Assessment/consulting services. IFC provides financial consulting services to support expanded access to finance among individuals and MSMEs. Its consulting services are provided by experts and often accompany financial investments provided to the IFC's FI clients. The IFC can also support clients with consultants knowledgeable in local conditions to design appropriate solutions for a particular country. These consulting services are principally offered to banks and FIs specializing in providing services to MSMEs.

MSME finance. To promote expanded MSME financing, IFC offers FIs TA on leasing, as this can be an efficient strategy to address global challenges of reducing climate change and improving food security. Leasing can be an important strategy to support investments in clean energy generation, renewable energy, more efficient energy, and improved emission agribusiness equipment.

Microfinance. MSMEs represent the majority of the private sector and employment generation in most developing countries. Despite their size and importance to the economy, MSMEs rarely have access to services like savings, loans, and payment systems of formal FIs.

Payment systems. The global program supporting IFC payment systems works to increase access to banking services by establishing innovative payment systems that are also sustainable as an entry point for low-income populations to the financial sector. This program supports development of solutions for payment systems that are innovative and sustainable, and that use technology such as mobile phones, credit cards, and other types of payment to provide low-cost services to the bottom of the pyramid.

MSME banking. MSMEs are critical actors in both social and economic development in emerging markets. They play an important role in creating jobs and income, especially for low-income populations. In many developing markets, however, financial service access for MSMEs continues to be very limited. IFC programs support development of this critical segment of emerging market economies.

Banking for Women. In collaboration with its Financial Markets Department, the IFC's Banking for Women program helps FIs provide profitable and sustainable services to female-led businesses. The IFC provides financing for female entrepreneurs as well as consulting services to FIs to improve the capacity of FI clients to understand the particular needs of female business owners, and to design and provide the most appropriate products and services for this client base.

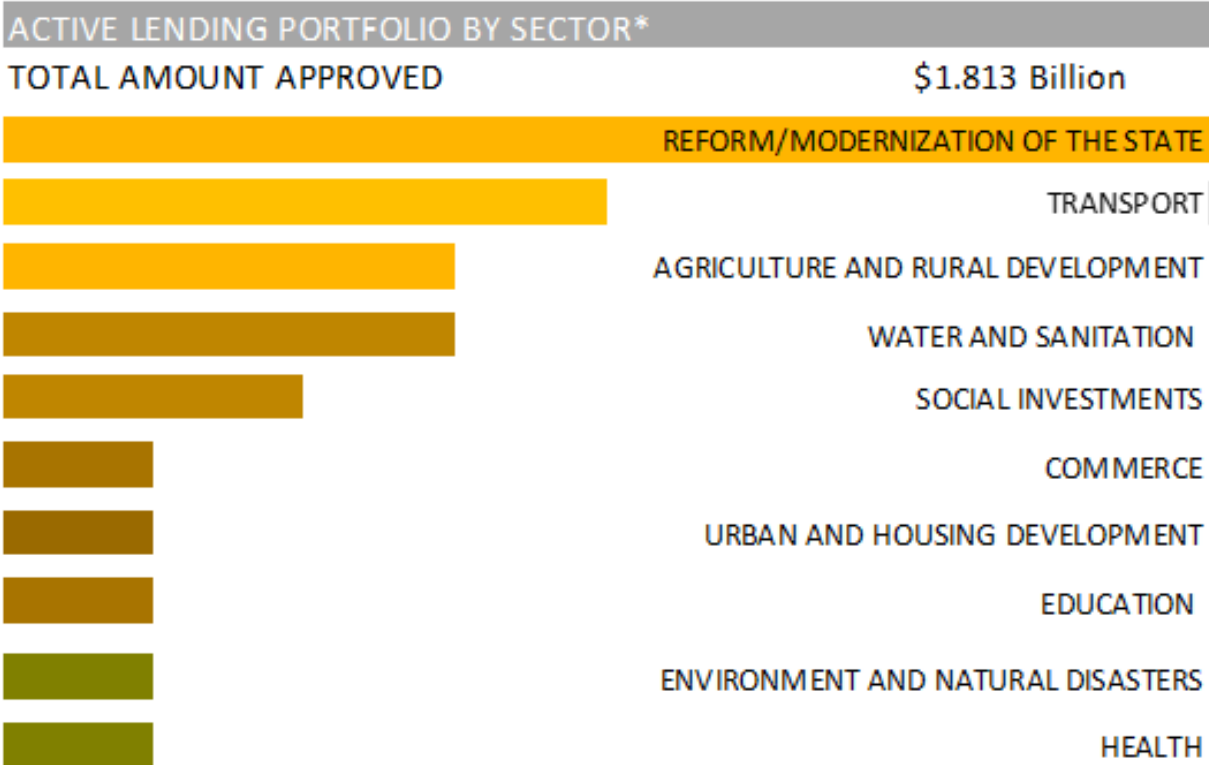
INTER-AMERICAN DEVELOPMENT BANK (IDB)

The IDB is the largest provider of multilateral financing in Peru and a key partner in promoting its development. IDB's Peru strategy is to close the economic and social gaps between urban and rural areas and support increased productivity in the economy as the basis for inclusive and sustainable growth. The priority areas of the strategy are social inclusion; agricultural and rural development; housing and urban development; climate change and natural disaster risk management; water, sanitation, and hygiene (WASH); solid waste; energy; transport; public management; and competitiveness and innovation. The IDB's total approved loan portfolio for Peru is \$1.8B, with largest allocation to modernize state agencies. The IDB is financing several projects with direct relevance to CATALYZE Peru, including:

- A \$30M land titling program managed by MINAGRI that targets the Amazonas, San Martin, Loreto, and Ucayali departments. The program helps regional governments collect data on 200,000 parcels in indigenous, environmentally sensitive (forest), and productive zones.

- Forest investment program in Amazon zones that offers a mix of loans and non-reimbursable funds, which has just begun.
- Two-year forest conservation project valued at \$6M and managed by Peru’s environment ministry.
- Leticia Pact Amazon Initiative. This is a broader, multi-country initiative currently under design to protect the Amazon funded mostly by European and Nordic countries. Finalization of this project has been delayed by political shifts and turnover in Bolivia, Brazil, Ecuador, and most recently Peru.
- Private sector forest investment program, which is still under discussion.
- The Innovation Laboratory of the IDB Group (BID LAB) investment valued at \$1M to produce chestnuts in the Amazon.

Graph 27: IDB Activities in Peru



*The portfolio includes all sovereign guaranteed projects financed by all funds of The Inter-American Development Bank, including the IDB Grant Facility, that are currently being implemented.

Source: IDB.

ASSESSMENT INTERVIEW GUIDE

INTERVIEW GUIDE

CURRENT FINANCING AND/OR INVESTMENT ACTIVITY

1.	What type of entities do you invest in?
2.	What, if any, has been your company's experience in investing in the Amazon?
3.	How has your experience been in motivating new financing/investment in the Amazon?
4.	How has the experience been for your FI members in motivating new financing/investment in the Peruvian Amazon?
5.	Is it easy to get funding for the Peruvian amazon? If not, why?
6.	What is the value of your portfolio aimed at the Peruvian Amazon?
7.	What is the value of your portfolio aimed at the Peruvian Amazon?
8.	What kind of commercial investments are you currently making in the Peruvian Amazon?
9.	What loan/investment value has your entity made in the Amazon last year? And in general, or cumulatively to date?
10.	What loan value has your program/project/institution motivated in the last year and in general?
11.	What loan value have your FI members motivated in the Amazon last year and in general?
12.	What is your target population? Your target geographic area?
13.	How many customers/producers/companies has your entity (or your members) supported in the Peruvian Amazon? In what time frame?
14.	How does the guarantee work?
15.	Which entity finances the guarantee?
16.	How has the guarantee been used? Have you reached the expected utilization rate? If not, why?
17.	How have your FI partner members used guarantees to motivate new financing/investment into the Amazon? Have these reached their expected utilization rates? If not, why?
18.	What percentage of your portfolio is in Peru?
19.	What percentage of your entity's global portfolio is represented in the portfolio invested in the Peruvian Amazon?
20.	What percentage of your portfolio (in the Amazon and in general) is targeted at women (business owners, producers, etc.)? Young people? (If young people, what is top age?)
21.	What kind of financial products do you offer to customers in the Peruvian Amazon? (e.g., line of credit, working capital, medium to long-term debt, convertible debt, quasi-equity, equity, guarantees capital, investment capital, leasing, insurance – if insurance, what kind)
22.	What percentage of your portfolio in the Peruvian Amazon is invested in the products mentioned above? (e.g., % working capital, % equity, investment, % leasing, % insurance)
23.	What are the economic sectors (and subsectors) of interest to finance investment opportunities in the Peruvian Amazon?
24.	What value or percentage of investment in the Amazon is aimed at micro / small / medium-sized or large enterprises?
25.	What is your definition of an SME?
26.	Do you have banking and business officials, representatives, branches, or offices in the Peruvian Amazon? How many? Where are they?
27.	What are the approval levels for offices to approve finance or investments in the business sector in the Peruvian Amazon?
28.	What third-party investment value have you motivated in the Peruvian Amazon?
29.	How much longer will the implementation of your project/entity last?
30.	Is there anything else you'd like to add regarding current financing or investment activity in the Peruvian Amazon?

INTEREST IN INVESTING IN THE PERUVIAN AMAZON

31.	What is the perception of investing in the Peruvian Amazon by your company's leadership? Is investment in the Amazon a strategic priority? Why or why not?
32.	What sectors and/or products are you thinking of investing in? What is its purpose?
33.	Which sectors / subsectors represent the most interesting opportunities for future investment in the Peruvian Amazon?

34.	Which financial products would be most interesting for your institution to offer in the Peruvian Amazon region, and why?
35.	What are the placement projections in the Peruvian Amazon for 2021?
36.	What are the projections for new investment projections in the Amazon? (the metrics will depend on the sector e.g., value, # HA, # buildings, kilometers, # plants). What time frame is associated with these projections?
37.	What kind of impact (e.g., economic, social, environmental) does your financial institution want from your future investment in the Peruvian Amazon?
38.	Is there anything else you'd like to add regarding interest in investing in the Peruvian Amazon region?

TYPES AND COSTS OF FINANCING

39.	What types and amounts of funding do you offer in the Amazon? Generally? (e.g., Debt, equity, mezzanine)
40.	What interest rates, other costs, loan terms offer for different types of financing?
41.	Can you tell us what your entity's sources of funding are? Deposits, bond issuances, wholesale funds, equity raises, other? Is this privileged information?
42.	Can you share funding levels, terms, and costs with us of your sources of funds with us?
43.	[For equity investments only] What is the desired return on for an investment in the Peruvian Amazon region, both IRR (net or gross), and multiple on invested capital? How were those target returns determined?

PORTFOLIO QUALITY

44.	What is the quality of your portfolio in general in terms of non-performing loans or repayment rates, and write-offs? In the Amazon?
45.	Does your institution they disaggregate portfolio quality by borrower type, type of company, and / or market segment?
46.	What is the repayment rate (or non-performing loans) for the following customer groups, Micro-enterprises, Producers, small Businesses, Medium businesses, and Large Businesses?

MARKET PERCEPTIONS FOR FINANCING IN THE PERUVIAN AMAZON

47.	What is your perception of the financing market in the Peruvian Amazon?
48.	What do you think your competitors / other financial players think about investing in the Amazon?
49.	What are the key factors for successfully investing in the Peruvian Amazon?
50.	Taking into account your experience, what are some of the investment trends in Peru?
51.	Has your entity estimated demand for financing in the Amazon? How do you measure the demand?

CHALLENGES OF EXPANDING INVESTMENT IN THE AMAZON

52.	What are the biggest impediments and challenges to making investments in the Amazon?
53.	What suggestions do you have for initiatives to mitigate or fully address these investment barriers?
54.	What do you perceive are the most important challenges facing potential credit clients and / or other forms of investment (equity, guarantees investees, etc.) in accessing and managing financing?
55.	What has been the impact of COVID-19 on its investments in the Amazon and in general?
56.	What is the impact of COVID-19 in the interest of investing in the future in the Amazon region? How long do you think the pandemic will affect decisions about investing in the region?
57.	What percentage of your portfolio is restructured in some way rescheduled due to the impact of COVID-19?
58.	What are the most affected sectors in your credit portfolio due to COVID-19?
59.	What actions has your institution or fund entity taken to mitigate COVID-19's impact?
60.	What do you think should be the priority actions to take to motivate investment at scale in the Peruvian Amazon given the COVID-19 crisis?
61.	What other considerations should we keep in mind regarding investing in the Peruvian Amazon?

USE AND NEED FOR TECHNICAL ASSISTANCE

62.	Does your entity have needs related to staff training or any form of technical assistance to expand its investments in the Peruvian Amazon?
63.	On which topics would you be interested in receiving training / technical assistance, and why?

USE OF CONSULTANTS/CONSULTING FIRMS

64. How has your entity's experience been in using consultants to find / close investment projects?
65. How is the compensation structure for these consultants (e.g., payment for success / fixed payment / payment linked to the portfolio amount placed, etc.)?
66. What is the profile of the most successful consultants, and why?
67. What is your level of interest in receiving this type of support (identification and packaging of investments projects)?

EXPERIENCE WITH DIGITAL FINANCING/DIGITAL PAYMENTS

68. Is your entity investing in digital products in Peru/Peruvian Amazon/in general?
69. Does your entity have a digital financial product in the Amazon and / or collaborate with any fintech?
70. What has been the level of success with digital products in Peru/Peruvian Amazon/in general?
71. What are your plans to expand the use of digital financing in the Amazon?
72. Would you be interested in investing in strengthening your digital channels generally and / or in the Amazon? Tell us your entity's thinking on that topic.
73. Has COVID-19 motivated a new pace of investment by its entity in the use of digital products? How?

ECOSYSTEM AND OPPORTUNITIES FOR EXPANDED INVESTMENT IN THE AMAZON

74. What are the policies or programs of the government (national or regional) that you are familiar with that facilitates investment in the Peruvian Amazon?
75. Does your entity use / take advantage of those opportunities? (e.g., Regional Guarantee Funds, COFIDE, FOGAPI, others). Why yes / no?
76. Does your entity participate with other multilateral institutions collateral (e.g., USAID DCA / DFC, IFC, IDB, etc.), and if so, in what way? How was the experience?
77. What is your perception of the level of development of the ecosystem / environment to facilitate investment in the Amazon (e.g., infrastructure, connectivity, geographical dispersion, social conflict, politics)?
78. Did you participate in the auction for the funds promoted by the Peruvian state? Did you agree / accept?
79. In your opinion, what are the necessary conditions to incentivize investment / financing at scale in the Peruvian Amazon?
80. Would you be interested in exploring new economic sectors if they had appropriate advice and other support (e.g., support for guarantee coverage, incentives)? What kind of support would interest you?

LEVEL OF INTEREST IN BEING A PARTNER/INVESTOR WITH THE PERU CATALYZE PROJECT

81. Would your entity/project like to cooperate with the Peru CATALYZE project? What do you envision for this engagement?
82. What is the level of interest of your entity potentially being a partner in this project?
83. Have you cooperated with a USAID project before making new investments? How was the experience?
84. How would you be interested in participating? As an investment project investor?
85. What results would you seek from your coordination/cooperation with Peru CATALYZE Project?
86. What types of incentives / supports would be most interesting for your entity to motivate your participation in a new USAID project (e.g., guarantees, lending incentives, technical assistance / training, access to projects already identified / prequalified)?
87. Would your organization be interested in participating as an investor in a new permanent structure in Peru that facilitates responsible investment in the Peruvian Amazon after the completion of this project?
88. In your opinion, what would be the ideal structure for a financially sustainable, commercial entity that continues to operate after the completion of this project?
89. What suggestions do you have for us in designing and implementing this project to motivate financing at scale in the Amazon? How could we motivate/facilitate entities like your company to make new investments in the Peruvian Amazon?

LAST QUESTIONS

90. How much investment do you estimate could be raised in the Peruvian Amazon in six years?
91. What did I not ask that is relevant to investing in the Peruvian Amazon, and scaling it?
92. What else do we need to do to attract and scale investment in the region?

LIST OF INTERVIEWEES

Table 35: List of FIs and Private Sector Entities Interviewed

List of Interviews & Associated Contact Information							
#	Name of Organization	Type of Organization	Headquarters Location	Contact	Title	Email Address	Interview Date
1	ABACO	Cooperative	Peru	German Matzumura	Corporate & Institutional Manager	german.matzumura@abaco.com.pe	10/9/2020
2	ADELA	Financing Project Implementer	USA	Alvaro Gaillour	Senior Environmental Governance Specialist	agaillour@usaid.gov	10/30/2020
3	Agricola Viru	Private Company	Peru	Yoselyn Malamud	General Manager	ymalamud@viru.com.pe	10/20/2020
4	ASBANC	Trade Association	Peru	Martin Naranjo Landerer	President	mnanranjo@asbanc.com.pe	9/29/2020
				Sergio Urday	Head of Economic Information & Systems Finance	surday@cefi.pe	
5	ASOMIF Peru	Trade Association	Peru	Jorge Antonio Delgado Aguirre	President	jorgedelgadoa@gmail.com	10/19/2020
6	Bamboo Capital	Impact Investor	Luxembourg	Jean Phillippe de Schrevel	Founder	Jean-Philippe@bamboocp.com	10/6/2020
				Jorge Farfán	Representative for Colombia	Jorge@bamboocp.com	
7	Banco Pichincha	Commercial Bank	Peru	Julio Malo	General Manager	julio.malo@pichincha.pe	9/30/2020
8	BBVA	Commercial Bank	Spain	Luis Eduardo Mossone Arias	Manager Business & Corporate Banking Lima West 2	lemossone@bbva.com	11/10/2020
9	BCP	Commercial Bank	Peru	Vanessa Lazarte	Regional Manager	vlazarte@bcp.com.pe	11/9/2020
11	Caja Huancayo	MFI	Peru	Julia Criollo	Head of Retail Credit	jcriollo@cajahuancayo.com.pe	10/30/2020
				William Paul Lauro Velazco	Retail Credit Management Analyst	wlauro@cajahuancayo.com.pe	
12	CitiBank	Commercial Bank	USA	Sergio Barrero	Citi Inclusive Finance Team	sergio.barrero@citi.com	10/14/2020
				Jorge Rubio	Citi Inclusive Finance Team	jorge.rubionava@citi.com	
				Eugene Amusin	Citi Inclusive Finance Team	eugene.amusin@citi.com	
13	Cooperativa Norandino	Cooperative	Peru	Clever Rojas Hernandez	General Manager	clever.rojas@coopacnorandino.com	10/20/2020
14	Cooperativa PRISMA	Cooperative	Peru	Luis Enrique García Bedregal	General Manager	lgarcia@mfp.pe	10/21/2020
15	Cooperativa Tocache	Cooperative	Peru	Raúl Paredes	Administrator	rparedes@coopactocache.com.pe	10/20/2020

List of Interviews & Associated Contact Information							
#	Name of Organization	Type of Organization	Headquarters Location	Contact	Title	Email Address	Interview Date
16	EcoEnterprises Fund	Impact Investor	Costa Rica	Julia Santander	Managing Director, Investments	jsantander@ecoenterprisesfund.com	10/14/2020
17	Financiera Confianza	MFI	Peru	Luis Germa Linares Pena	Director	luisgerman.linares@confianza.pe	10/7/2020
18	FinDev Canada	DFI	Canada	Rachad Mourtada	Associate	RMourtada@findevcanada.ca	11/2/2020
19	FinTech Peru	Trade Association	Peru	Maria Laura Cuya Manco	President	marialaura@innova-funding.com	10/6/2020
20	FMO	DFI	Netherlands	Deanne Arends	Investment Officer, Agribusiness Banking Trade & Finance	D.Arends@fmo.nl	10/22/2020
				Gabi Penner Heinsohn	Investment Officer, Fls LatAm	G.Penner@fmo.nl	
21	GAWA Capital	Impact Investor	Spain	Luca Torre	Co-Founder & Co-CEO	luca.torre@gawacapital.com	10/28/2020
22	Global Partnerships	Impact Investor	USA	Marcela Falquez	Portfolio Officer	mfalquez@globalpartnerships.org	10/19/2020
				Paola Centeneo Duque	Research & Impact Officer	pcenteno@globalpartnerships.org	
23	Grassroots Business Fund	Impact Investor	USA	Natasha Barantseva	LATAM Regional Director	nbarantseva@gbfund.org	10/8/2020
				Julio Ayaca	LATAM Portfolio Manager	jayaca@gbfund.org	
24	Imlak'esh Organics	Private Company	USA	Tucker Garrison	CEO & Co-founder, "Superfoods Captain"	tucker@imlakeshorganics.com	10/16/2020
25	Impact Finance	Impact Investor	Switzerland	Fabian Martinez	LatAm Regional Manager	fabian.martinez@impact-finance.com	10/19/2020
26	INCOFIN	Impact Investor	Belgium	Daniela Marin Fallon Casper	Investment Analyst Head of Debt Agro	Fallon.Casper@incofin.com	10/22/2020
	Inter-American Development Bank	DFI	USA	Francisco Javier Game	Head of Operations, Peru	javierga@iadb.org	10/22/2020
				Santiago Bucaram Vilacis	Sector Natural Resources Specialist	santiagobu@iadb.org	11/4/2020
				Maria Netto	Sector Natural Resources Specialist	mnetto@iadb.org	11/11/2020
				Linda Garcia	N/A	lyndag@iadb.org	
				Camilo Santa Pena	Advisor, Natural Capital LAB	csantapena@iadb.org	
27	Internet para Todos	Private Company	Peru	Stalin Rivera	Head of Business Strategy & Wholesale	stalin.rivera@ipt.pe	10/27/2020
28	Lush	Private Company	United Kingdom	Gavin Hollett	Manager of Supply Chain Investments	ghollett@lush.com	10/29/2020
29	MIBANCO	MFI	Peru	Eduardo Suescún Suárez	Financial Inclusion Specialist	eduardo.suescun.s@mibanco.com.pe	11/3/2020

List of Interviews & Associated Contact Information							
#	Name of Organization	Type of Organization	Headquarters Location	Contact	Title	Email Address	Interview Date
30	MINAM	Financing Project Implementers	Peru	Luis Marino	General Director of Economy & Environmental Financing	lmarino@minam.gob.pe	10/23/2020
31	NESST	Impact Investor	Chile	Chad Sachs	Fund Director	csachs@nesst.org	11/5/2020
				Isabel Castillo	Country Director, Peru	icastillo@nesst.org	
32	Netafim	Private Company	Israel	Jorge Quimper	Managing Director	jose.quimper@netafim.com	10/25/2020
				Himmel Rodriguez	Business Development Manager	hinmel.rodriguez@netafim.com	
33	Oikocredit	Impact Investor	Netherlands	Eduard Walkers	Regional Director LAC	ewalkers@oikocredit.org	10/21/2020
				Werner Thorne	Deputy Regional Director LAC, Portfolio Manager	wthorne@oikocredit.org	
34	PG Impact	Impact Investor	Switzerland	Clara Sanchez	Investment Manager, Direct Debt LATAM	clara.sanchez@pg-impact.com	10/20/2020
				Fernando Silva	Investment Associate, Direct Debt LATAM	fernando.silva@pg-impact.com	
35	Proinversion Peru	Financing Project Implementers	Peru	Denisse Miralles	Director of Portfolio Management	dmiralles@proinversion.gob.pe	10/29/2020
				Victor Castillo	Technical Advisor	vcastillo@proinversion.gob.pe	
				Oscar Rosales Chamorro	Technical Advisor	orosales@proinversion.gob.pe	
36	RaboBank	Commercial Bank	Netherlands	Mauricio Jibaja	Country Manager, Peru	mauricio.jibaja@rabobank.com	10/1/2020
37	Root Capital	Impact Investor	USA	Daniel Rivera	General Manger, South America	drivera@accder.pe	10/6/2020
				Martha Valera Wunder	Senior Investment Analyst, South America	mvalera@accder.pe	

Source: Peru CATALYZE FI Assessment Interviews.

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www.usaid.gov/catalyze

For more information contact:
us.catalyze.peru@thepalladiumgroup.com