

## TC DOCUMENT

### I. Basic Information for TC

▪ Country/Region:	PERU/CAN - Andean Group
▪ TC Name:	Promote alternative financing to MSMEs through a “micro-investment crowdfunding” platform in Peru
▪ TC Number:	PE-T1527
▪ Team Leader/Members:	NARITA, TETSURO Team Leader; MINAYA FERNANDEZ, HILDA ELIZABETH Co-team Leader; VILLALOBOS QUINTANILLA, DAYANA; GUEVARA, XIOMARA PATRICIA (LAB/DIS); PALACIOS ALTAMIRANO, ENRIQUE (DSP/DVF); ARAYA ARAYA, YOSELIN; FRIEDMAN AROSEMENA, CAROL ESTEFANIA (GCL/FML); DIAZ ORDONEZ, CHRISTIAN (GCL/FML)
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract Authorization:	15 Aug 2022
▪ Beneficiary:	400+ Peruvian micro, small and medium enterprises (MSMEs) and their employees
▪ Executing Agency and Contact Name:	COOPERATIVA DE AHORRO Y CREDITO ABACO German Matzumura
▪ Donors Providing Funding:	Japan Special Fund (JSF)
▪ IDB funding requested:	US\$592,600
▪ Local counterpart funding:	US\$281,900 (Cash); US\$275,200 (In Kind)
▪ Disbursement period:	36 months
▪ Required Start Date:	February 2023
▪ Types of consultants:	Not applicable
▪ Prepared by Unit:	MIF - Multilateral Investment Fund
▪ Unit of Disbursement Responsibility:	CAN/CPE - Country Office Peru
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Second Update to the Institutional Strategy:	Productivity and innovation

### II. Objective and Justification

- 2.1. The specific goal of this project is that the new “micro-investment crowdfunding company” is up and running.
- 2.2. Micro, small and medium enterprises (MSMEs) take a major role worldwide and contribute to economic reactivation and job creation in developing countries in the with/post COVID-19 era. MSMEs account for 90% of businesses and more than 50% of employment worldwide. According to the World Bank’s estimation, 600 million jobs will be needed by 2030 to absorb the growing global workforce and, in emerging markets, most formal jobs are generated by MSMEs, which create 7 out of 10 jobs. However, access to finance is still a key constraint to MSME growth.
- 2.3. Peru is one of the most socially and economically affected countries by COVID-19. MSMEs in Peru count 99.5% of the total formal enterprises (95.2% is micro enterprises, 4.1% is small and 0.2% is medium), according to the Ministry of Production

of Peru, and share more than 90% of economically active population (PEA) in the Peruvian private sector. In response to devastating economic impacts caused by COVID-19, the Peruvian government has been supporting MSMEs through financial instruments, providing them with central government's guarantee. However, MSMEs have limited access to traditional financing such as bank loans, and equity financing is almost non-existent, compared to large enterprises; only 30.9% of micro, 64.0% of small and 74.8% of medium have credit operation with financial intermediaries, while large enterprises have 80.9%. In addition, financial conditions such as interest rate are not favorable for MSMEs to access to credit, and capital market is not sufficiently developed to provide seed and risk money to their businesses.

- 2.4. Thus, the financial system needs innovative and scalable solutions to realize greater financial inclusion in Peru so that Peruvian MSMEs can launch, continue and expand their businesses. Especially, it is expected to take the advantage of newly available digital tools and fintech solutions to develop innovative financing schemes/platforms to facilitate MSMEs' access to financial products and services.
- 2.5. The proposed solution aims to deploy a "micro-investment crowdfunding" platform, an alternative financing scheme in the Peruvian financial sector, for channeling a massive number of Peruvian individuals' micro-investments to finance Peruvian MSMEs, and thereby to contribute to financial inclusion. The proposed micro-investment crowdfunding platform to be deployed in Peru is called "Securite" in Japan which has been developed and operated by Music Securities, Inc.,<sup>1</sup> a Japanese FinTech venture which was selected through JICA-IDB Lab open innovation challenge TSUBASA (Transformational Start Ups' Business Acceleration for the SDGs). Securite is a digital platform to aggregate individuals' small amount contributions to business owners as an alternative financing (not as donation nor as traditional loan, since its financing scheme embeds revenue sharing-type of concept and the investment principal is not guaranteed), has more than 20-year experience of operation as an impact investment crowdfunding platform in Japan and has raised 936 funds of US\$105.7 million in total for providing financing to 604 businesses, most of which are Japanese MSMEs including the Japanese start-ups as well as those businesses that were seriously damaged by natural disasters like earthquakes, flood, etc. The micro-investment crowdfunding is recognized as an effective tool to support MSMEs in the context of regional vitalization by the Cabinet Office in Japan.<sup>2</sup> Each individual opens an account in Securite through website or mobile application and ties it to her/his banking account to transfer money. By navigating the platform and identifying MSME(s) that user wants to support, she/he clicks the corresponding "crowdfunding campaign(s)" to determine how much to contribute. Securite platform keeps users' contributions in an escrow until the accumulated contributions have reached the target amount defined between each MSME and Music Securities. When the target is met, the raised amount is released to the corresponding MSME. Securite platform not only allows each user to track her/his account and "portfolio" information, but also to receive business updates on MSMEs that she/he currently supports.
- 2.6. **Crowdfunding in Peru:** Through Title IV of the Emergency Decree No. 013-2020-JUS/DGTAIPD, which became effective on April 20, 2020, rules were established to promote and encourage crowdfunding as an instrument that promotes greater access to finance. Following the Decree, on May 20, 2021, the Superintendence of the Securities Market (*Superintendencia del Mercado de Valores* (SMV)) published the corresponding crowdfunding regulation, [Resolution No. 045-2021-SMV/02](#) "*Actividad de Financiamiento Participativo Financiero y sus Sociedades Administradoras*", to

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<sup>1</sup> <https://www.musicsecurities.com/en/company>.

<sup>2</sup> Securite's experience in Japan and its effectiveness in extending much needed access to finance to MSMEs are featured in the following publication: IDB-MIF-JICA (2017), "Empathy Driven Funding: New Frontier of Financing Small Businesses".

regulate crowdfunding (or “*financiamiento participativo financiero* (FPF)” under the context of the regulation), as well as to supervise the management companies through which crowdfunding is carried out. According to the regulation crowdfunding is defined as an activity where natural persons domiciled in Peru or legal entities incorporated in Peru seeking funds on their behalf to allocate such funds to personal and/or business projects, are connected, through a digital platform managed by a management company, to natural persons, legal entities or collective entities that are interested in obtaining financial returns.

- 2.7. Crowdfunding as a collective financing methodology has a relatively recent history in Peru. In the world, however, crowdfunding has been recognized as a valid alternative financing method with millions of users. In reality, it is just one of several types of alternative investments that have appeared on the market and that are increasingly attracting interests by thousands of small businesses and investors around the world. With the regulation crowdfunding in Peru is expected to steadily grow and that more and more people are aware of this type of financing and investment.
- 2.8. The regulation has been established following the international standards and best practices (investment limit per recipient, project and investor, etc.) as well as in line with certain principles such as flexibility, investor protection, financial stability, proportionality based on risks, prevention of money laundering and financing of terrorism, coordination and cooperation between regulators. The regulation only regulates the following types of crowdfunding: equity crowdfunding and crowdlending<sup>3</sup>.
- 2.9. The regulation also regulates the procedures and requirements (and SMV authorizes) to set up and operate management companies for crowdfunding platforms. For example, management companies have to be properly organized to comply with standards on minimum capital (S/300,000), risk management (financial, operational, technological), know-your-customer (KYC), corporate governance and information obligations, such as the minimum information that must be disclosed about projects subject to investment or report relevant facts that may affect the activity of the management companies.
- 2.10. **Alignment with the Institutional Strategy of the IDB Group.** This project is consistent with the IDB Group’s “Second Update to the Institutional Strategy” (AB-3190-2) as it will support productivity and innovation and promote sustainable, inclusive growth, with an emphasis on the e-economy and support for SME growth, reviving the productive sector through support for innovation and entrepreneurship, and support for SMEs and regional economies. The project is also aligned with IDB Lab’s vertical of “Financial Inclusion” which aims to expand access to finance by leveraging financial innovation, including new digital tools and fintech solutions.
- 2.11. **Alignment with the Country strategy.** The project is aligned with the strategic areas and objectives of the IDB Group country strategy with Peru for 2022-2026 (GN-3110-1), specifically with the strategic area of productive development contributing to one of its objectives of strengthening the business environment and business climate to expand access to financial market for microenterprises and small businesses. The country strategy also emphasizes the need to promote digitalization as a crosscutting priority.
- 2.12. The project is aligned to the following Sustainable Development Goals (SDGs):
  - SDG 8. Decent Work and Economic Growth, especially its (i) Target 8.3; Promote development-oriented policies that support productive activities, decent job

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<sup>3</sup> In equity crowdfunding recipients (legal persons) obtain resources from investors in exchange for securities representing capital or debt, while in crowdlending recipients obtain a loan to finance their project, being obliged to pay the principal and a financial return to each of the investors, which may materialize through the issuance of an instrument. finance or other security.

creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium-sized enterprises, including through access to financial services; and (ii) Target 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all.

- SDG 9. Industry, Innovation and Infrastructure, especially its Target 9.3: Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chain and markets.
- SDG 17. Partnerships for the Goals, especially its Target 17.3: Mobilize additional financial resources for developing countries from multiple sources.

### III. Description of Components/Activities and Outputs

- 3.1. The project is organized around four components: (i) Definition of the project implementation in detail; (ii) Project implementation; (iii) Project evaluation and knowledge dissemination; and (iv) Project management and coordination.
- 3.2. **Component I: Definition of the project implementation in detail (IDB Lab: US\$278,800, Counterpart: US\$305,000).** The objective of this component is to define the legal, organizational and operational structure of the joint venture between ABACO and Music Securities, and launch it through establishment of a new company in accordance with the relevant regulations under SMV, as mentioned in the previous section. This component includes activities related to legal services, capital contribution to the new company, and a set-up of technical team (platform development manager, platform development engineer, platform user interface engineer, platform technical advisor). The expected results of this component are to have established the new company in Peru which complies the SMV's regulations, to have hired necessary staff of the company such as manager, sales, marketing, due diligence, accounting and finance and internal audit so that the company is up and running, and to have developed and deployed the micro-investment crowdfunding platform based on the Japanese platform Securite.
- 3.3. At this moment, it is considered that funding to be raised through the platform will be extended to MSMEs under the modality of revenue sharing-type of loans, therefore will be conceptually categorized as a loan type crowdfunding (performance-based crowdlending). Thus, such funding will be recorded as liabilities in MSMEs' balance sheet, and correspondingly individual investors will not hold any equity stakes in supported MSMEs. These points should be confirmed at this definition stage, although according to the preliminary legal analysis conducted by a local consulting firm and commissioned by Music Securities, the concept of Securite can be operative under the SMV's regulations.
- 3.4. **Component II: Project implementation (IDB Lab: US\$277,500, Counterpart: US\$249,900).** The objective of this component is to implement the joint venture in the field (implement micro-investment crowdfunding platform) and iterate the intervention model making any necessary adjustments to the business model, including the platform user experience, marketing and communication strategies, financing terms and conditions to MSMEs, and so on. The expected results of this component are implementation of the platform for business cycle/process of the new company (from origination through collection), and continuous/iterative improvements of such cycle/process to consolidate the business model.
- 3.5. At this implementation stage, the newly established company (the joint venture between ABACO and Music Securities) proceeds with the following activities as a cycle of identification/origination, operational and financial analysis/due diligence,

fundraising (also known as crowdfunding “campaign”), execution/disbursement, performance monitoring and supervision, and collection/recovery and payback to investors.

- (i) Conduct seminars and workshops about the platform to increment potential demands among Peruvian MSMEs and funding supplies from individual investors.
  - (ii) Conduct “roadshows” all over Peru to reach MSMEs in the provinces, which face challenges and constraints for their business development, such as limited access to traditional financial system, lack of digital/online platforms and tools not only to be connected to access financial products and services, but also to be connected with potential customers outside their existing business boundaries.
  - (iii) Have a series of deep-dive (customized) business meetings with Peruvian MSMEs to convert leads into platform customers.
  - (iv) Conduct due diligence of MSMEs, including integrity due diligence, based on their business plans to analyze its feasibility, growth path, sustainability and environmental and social impacts, to strategize their crowdfunding campaigns (with numbers and narratives) to be able to attract as much individual investors as possible.
  - (v) Once due diligence of each MSME has been successfully conducted, prepare a fundraising page for such MSME to be published on the platform, on which individual investors who become interested in contributing small amounts to support such MSME’s business can sign digital contracts to make commitments. Once the threshold amount has been raised from a group of individuals, the combined commitments are released to the MSME as cash disbursement. Otherwise (if the threshold is not achieved during the defined period of time), the commitments are cancelled<sup>4</sup>.
  - (vi) Promote/facilitate MSMEs’ investor relations, creating a communication environment between MSMEs and individual investors on the platform.
  - (vii) Monitor MSMEs’ business performance, receiving financial statements and management reports on their operational and financial status, and verifying appropriate use of resources contributed through the platform.
  - (viii) Perform debt collection activities and make payments/distributions to investors (MSMEs’ financial obligations are expected to be a type of revenue sharing modality).
- 3.6. It is also planned that during the implementation stage, various fundraising campaigns will be carried out through the platform, and based on the obtained experiences and know-how, the process itself, and the platform’s user interface (UI) and user experience (UX) will be continuously reviewed and improved.
- 3.7. **Component III: Project evaluation and knowledge dissemination (Counterpart: US\$2,200).** The objective of this component is to stimulate awareness of MSMEs, convey a result analysis and disseminate the results (workshops). The dissemination activities are expected to be linked, not only to the exploration of potential MSMEs users and individual investors of the platform, but also to a sustainability/scalability plan to be established and revised hand-in-hand with the project implementation.
- 3.8. **Component IV: Project management and coordination (IDB Lab: US\$36,300).** The objective of this component is for overall project management to facilitate an effective and timely project implementation. The executing agency of the project will be ABACO

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<sup>4</sup> Like Securite in Japan, depending on market conditions and investors’ appetite, and if deemed appropriate, financial institutions and/or corporate/institutional investors can be also invited to participate to complement individual investors’ commitments.

which will be responsible for the correct use of the funds and execution of all the activities of each component within the established deadlines.

- 3.9. During the project execution, ABACO will constantly monitor the activities according to the proposed budget and the fulfillment of milestones. ABACO will perform the following functions as executing agency: (i) request advances of funds for the necessary resources for the execution of the project, (ii) carry out the justifications of expenses of the activities, (iii) monitor the intermediate and final results as well as the indicators for each component, (iv) elaborate the Project Status Report (PSR) semi-annually to update the results of the project implementation and its impact, and so on.
- 3.10. The direct beneficiaries will be 400+ Peruvian MSMEs and their employees many of whom live in vulnerable conditions. According to the Instituto Nacional de Estadística e Informática (INEI), MSMEs' employees belong to the population segment where vulnerable living conditions make them fall back into poverty due to any negative socioeconomic events<sup>5</sup>.
- 3.11. Access to finance is a key element for the survival and growth of MSMEs, without it, their businesses could not invest in or take advantage of new technological developments (which have been becoming more accessible and ubiquitous even for MSMEs) nor increase their performance to grow. This project provides MSMEs with access to the digital platform to newly raise funds for launching/continuing/expanding their product and service offerings. Many of these MSMEs have been negatively affected by the COVID-19 pandemic, and alternative financing scheme like micro-investment crowdfunding is expected to play an important role for steady recovery of their economic activities and secure the employment of poor and vulnerable populations<sup>6</sup>.
- 3.12. In the later stages of the project implementation the business model will be analyzed to evaluate the feasibility to apply blockchain technologies to make the platform more accessible and safer, benefiting both MSMEs and individual investors in going through the process of financing contracts, KYC, fund transfers, and so on.
- 3.13. When the project has been executed, the company is expected to be financially ready to apply for early-stage investors' financing, including applying IDB Lab's reimbursable instrument. If the platform is proven to be feasible in Peru, it will be replicated to the other Latin American countries, taking into account their relevant laws and regulations, and thus will scale up to provide alternative financing scheme to MSMEs which currently face limited access to traditional financial products. It will contribute to financial inclusion with cutting edge technologies to solve economic and social challenges in the region as a whole.

#### **IV. Budget**

- 4.1. The project will have a total budget of US\$1,149,700. The IDB will provide up to US\$592,600 with the resources of Japan Special Fund (JSF). The remaining US\$557,100 will be provided by the executing agency and its partner(s) as counterpart funding. A summarized project budget is shown in the table below.

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<sup>5</sup> MSMEs have always played an important role in the Peruvian economy where MSMEs make up 99.5% of the business structure and generate 62.6% of employment, of which 85.2% of them are dedicated to the activity of trade and services, and the remaining 14.8% to productive activity (manufacturing, construction, agriculture, mining and fishing). MSMEs absorb more than 90% of the economically active population (EAP) employed in the private sector.

<sup>6</sup> Securite played a significant role in responding to the Great East Japan Earthquake in March 2011, supplying quickly much needed funding to the damaged local MSMEs.

Component	IDB/Fund Funding (JSF)	Counterpart Funding	Total Funding
Component I: Definition of the project implementation in detail	US\$278,800	US\$305,000	US\$583,800
Component II: Project implementation	US\$277,500	US\$249,900	US\$527,400
Component III: Project evaluation and knowledge dissemination	-	US\$2,200	US\$2,200
Component IV: Project management and coordination	US\$36,300	-	US\$36,300
<b>Total</b>	<b>US\$592,600</b>	<b>US\$557,100</b>	<b>US\$1,149,700</b>

## V. Executing Agency and Execution Structure

- 5.1. The executing agency is Cooperativa de Ahorro y Crédito ABACO<sup>7</sup> which was founded in 1981 by Peruvians of Japanese descent, initially providing financial products and services mainly to the Nikkei (Japanese descendants) populations. Today, ABACO is an open savings and credit cooperative and has more than 28,000 total members. Mr. Miguel Hatada Endo, President, is an entrepreneur with extensive experience in business administration, business planning, investment and finance. He holds a bachelor's degree in business administration from Universidad del Pacífico (Peru) and a postgraduate's degree in international business from Hiroshima University (Japan). Mr. Jose Claros Pachas, General Manager, is a chartered public accountant from Universidad Ricardo Palma (Peru). He held the positions of Chief Accountant of Cooperativa Soroban; Chief Accountant of ABACO Sociedad Agente de Bolsa; Head of Accounting, and Administrative Manager of ABACO, before assuming the current General Manager position in February 2014. Pursuant to Law 30822, since 2019, ABACO is supervised by *Superintendencia de Banca, Seguros y AFP* (SBS), the Peruvian banking authority.
- 5.2. Music Securities is a strategic partner of ABACO and they have nearly 10-year relation, having structured 2 crowdfunding campaigns with Securite to mobilize Japanese individual investors' contributions to channel to ABACO's clients (farmers associations in agricultural value chains) in Peru.
- 5.3. Currently IDB Lab has 2 outstanding loan operations with ABACO: (i) US\$5 million loan (PE-L1179, approved in 2014 and mature in 2024) mainly for supporting ABACO's launching and expanding second-tier agricultural value chain financing; and (ii) US\$1.5 million subordinated loan (PE-L1243, approved in 2018 and mature in 2029) with the purpose of further expanding value chain financing, with a particular focus on piloting AI/IoT-based digital aquaculture solution for trout farming value chain. The first operation included components to connect ABACO with Music Securities to test Securite platform to channel Japanese individual investors' contributions to Peruvian farmers associations. The second loan mobilized US\$10 million subordinated loan from JICA, its first ever subordinated loan operation for private sector.
- 5.4. In the project proposed herein the Securite platform will be adjusted and deployed under the local context of the recently promulgated/implemented law of crowdfunding in Peru, so Peruvian individual investors make small amount investments in Peruvian MSMEs.

<sup>7</sup> <https://www.abaco.com.pe>.

- 5.5. ABACO, facing rapidly evolving business environment especially with technology-enabled new players in the local banking industry, is interested in proactively testing alternative ideas and approaches to complement its traditional financial products and services. ABACO and Music Securities will jointly establish a new company as an operator of the Securite micro-investment crowdfunding platform in Peru. Based on its long-term presence in the Peruvian financial sector and its ample cooperative members network, ABACO will introduce its partners (the majority of which are MSMEs) to the to-be-launched new company, in accordance with the relevant Peruvian laws and regulations.
- 5.6. ABACO and Music Securities will be establishing a new company (a joint venture) – a management company of the micro-investment crowdfunding platform. The platform will connect natural persons domiciled in Peru or legal entities incorporated in Peru seeking funds on their behalf to allocate such funds to personal and/or business projects, to natural persons, legal entities or collective entities that are interested in obtaining financial returns. In this sense, no lending/investment will be registered in ABACO's book; however, it is worth summarizing the financial performance of ABACO as follows.
- 5.7. The project team, with the assistance of the Office of Institutional Integrity (OII), conducted integrity due diligence on the project and no high integrity or related reputational risks were identified for IDB Lab.

## **VI. Project Risks and Issues**

- 6.1. Company/Executing Agency - Operations; Legal and Business Ramifications of Operations. As a result of unexpected/unforeseen legal restrictions and legal framework changes, establishment/launching of a joint venture and implementation of operations may be delayed. Detailed legal analysis that has been done so far has not identified any impediments.
- 6.2. Country/Region - Market, Financial and Economic; Financial Markets. As a result of financial markets changes such as increase/decrease in interest rates, needs for revenue-sharing type of crowdfunding may be negatively affected, which would lead to unforeseeable reduction in the number of both demand (MSMEs willing to capture resources through crowdfunding campaign) and supply (individual investors willing to contribute).
- 6.3. Project Design and Execution - Scalability; Expansion. As a result of lower needs for revenue-share type of crowdfunding than estimated, the scope of business expansion may be considerably limited, which would lead to lower impacts of the project and less scalability of the business model. Sales and marketing activities are key, and it is essential to count on contact and network of ABACO.

## **VII. Exceptions to Bank policy**

- 7.1. None.

## **VIII. Environmental and Social Classification**

- 8.1. The ESG classification for this operation is "FI-3".