

Ex-Ante Evaluation (for Japanese ODA Loan)

Private Sector Investment Finance Division,

Private Sector Partnership and Finance Department, JICA

1. Name of the Project

Country: The Republic of Zambia (“Zambia”) and the Republic of Malawi (“Malawi”)

Project: Southern Africa Agriculture Value Chain Enhancement Project (the “Project”)

Loan Agreement: March 16, 2021

2. Background and Necessity of the Project

(1) Current State and Issues of the Agricultural Sector in Zambia and Malawi
Agriculture is a key industry in Sub-Saharan Africa, accounting for 55 percent of the working population. Yet it represents only 16 percent of GDP, suggesting that a high value-added agriculture will provide potential for further economic growth. In Zambia and Malawi, agriculture roughly makes up roughly 54 percent and 72 percent of their respective working populations and only three percent and 25 percent of their respective GDP. This indicates a vast potential for adding more value to the industry as a whole, including the distribution and processing sectors, by bolstering value chains along with boosting the productivity of production sectors. A case in point is soybeans, a key basic protein source for the region. Despite much demand for two of their processed products, soybean oil and feed, the region depends on imports for about three fourths of its consumption of soybean oil.

These circumstances indicate that increasing added value in the agriculture sector is a key element of the development policies of the Zambian and Malawian governments. The Zambian government, in the Seventh National Development Plan (7NDP) it developed in 2017, calls for the growth of a diversified and inclusive economy and sets out a strategy of improving farmers’ livelihoods and adding value to the agricultural sector. The Malawi Growth and Development Strategy (MGDS) III, formulated in 2017 by the Malawian government, identifies “Agriculture, Water Development and Climate Change Management” as one of its five key priority areas and calls for “increased agriculture market development, agro-processing and value addition” as a targeted development outcome. In addition, as the recent global COVID-19 pandemic affects the world, it is all the more important for Zambia, Malawi, and other African countries heavily

dependent on agriculture to maintain value chains that ensure the distribution, processing and sale of agricultural crops for sustained economic activity.

The Project is designed to assist the ETC Group, a major agricultural trading house operating mainly in Africa, and its affiliated companies (collectively referred to as the “ETC Group” hereinafter) in constructing soybean processing plants in Zambia and Malawi. These plants are expected to help bolster local value chains and thus contribute to high value-added agriculture. The ETC Group does not cultivate crops on its own; instead, it purchases them largely from local small farmers through its rural centers (farm gates). The new processing plants will mean an increased purchase of soybeans, making the ETC Group a more stable purchaser for local small farmers. The ETC Group also conducts soil diagnosis for its supplying farmers and provides them with farm management guidance, notably advising what fertilizers, seeds, and agrochemicals to use. The processing industry’s increased purchase of soybeans in the region, as well as the expected economic growth and job creation due to a high value-added industry, will help local soybean farmers increase their productivity and income.

(2) Japan's and JICA's Cooperation Policy and Operations in the Agricultural Sector in Zambia and Malawi

The TICAD VI Nairobi Declaration of 2016 identifies “promoting structural economic transformation through diversification and industrialization” as one of its three pillars. The Japanese government expressed its commitment to supporting this pillar, which also involves developing food value chains. Furthermore, The Yokohama Declaration 2019, adopted at TICAD VII, reconfirmed the importance of such support.

The Japanese government’s Country Development Cooperation Policy for the Republic of Zambia of 2018 calls for “promoting growth of a diversified and resilient economy freed from overdependence on mining” as the basic policy as well as “vitalisation of industries” as a priority area. The government’s Country Development Cooperation Policy for the Republic of Malawi of 2018, for its part, identifies “building a foundation for sustainable and self-reliant growth” as the basic policy and “promoting diversified and market oriented agriculture” as a priority area. Also, the Project will contribute to the fourth phase of Enhanced Private Sector Assistance for Africa (EPSA4) because it will provide long-term funds to a private sector. It will also contribute to the pursuit of economic prosperity as called for by the Japanese government’s vision for a Free and Open Indo-Pacific because it will promote cooperation and self-reliant development in

the region.

JICA assists the region in building up the foundations for local agricultural value chains and small farmers with its technical cooperation in the agriculture sector in Southern Africa, notably through Smallholder Horticulture Empowerment and Promotion (SHEP) and the Initiative for Food and Nutrition Security in Africa (IFNA).

In its statement at the IMF-World Bank Spring Meeting on April 20, 2020, the Japanese government noted that maintaining and revitalizing economic activity in the developing world will lead to an early recovery of the global economy. It then stressed the importance of continuing efforts aimed at helping developing countries with sustainable poverty reduction and growth promotion (post-COVID-19 strategies).

3. Project Description

(1) Project Objective

The objective of the Project is to enhance agricultural value chains by financing the construction and operation of crop processing plants to be run by the ETC Group in the Southern African countries of Zambia and Malawi as well as its purchase of locally-grown crops, thereby contributing to the promotion of agricultural development in the region.

(2) Project Sites / Target Areas

Zambia (Lusaka), Malawi (Lilongwe)

(3) Project Components

Building and operation of crop processing plants, procurement of vehicles and equipment, purchase of crops

(4) Estimated Project Cost (Loan Amount)

99.5 million USD

(5) Project Implementation Structure

1) Borrower: ETC Group

2) Executing Agency: Parrogate Gineries Limited, AVC Industries Pvt Ltd, Export Trading Company Limited (Malawi)

(6) Environmental and Social Consideration / Cross-Sectoral Issues / Gender Category

1) Environmental and Social Consideration

① Category: B

② Reason for Categorization: The Project does not fall into a category

that involves any sensitive sectors, characteristics, or areas under the JICA Guidelines for Environmental and Social Considerations (announced in April 2010) and is unlikely to have a significant negative impact on the environment.

③ Environmental Permit: A draft environmental impact assessment (EIA) report has been prepared for the planned soybean processing plant in Lusaka, Zambia, one of the plants to be constructed in the Project. An EIA report, required for phases 1 and 2 of the Lusaka plant, is subject to approval by the authorities concerned. The prepared EIA report was approved by the environmental authority in November 2020. A draft EIA report has also been prepared for the soybean oil processing plant to be built in Lilongwe, Malawi.

④ Anti-Pollution Measures: Measures to be taken when the plant in Zambia, which has already completed, is put to operation include ensuring proper maintenance of trucks, recycling used water, and limiting the operating hours of the plant in order to prevent air, water, and noise pollution. For the plant in Malawi, measures against air, water, and noise pollution during the construction and operation phases will include sprinkling water; introducing dust sheets, dust collectors, plastic pipes for leak prevention, and observation wells for monitoring; recycling used water; and limited working/operation hours, so that Malawi's domestic emission/discharge standards and environmental standards will be met.

⑤ Natural Environment: It has been confirmed that the adverse impact on the natural environment will be kept to a minimum because neither plant site is situated in a sensitive area such as a national park or nature reserve.

⑥ Social Environment: It has been confirmed that both plants will not involve involuntary land acquisition or resettlement.

⑦ Other / Monitoring: The project implementers under the umbrella of the ETC Group will monitor air, water, and soil quality and noise levels during the construction and operation phases of both plants.

2) Cross-Cutting Issues: None in particular

3) Category of Gender: ■GI (gender mainstreaming needs assessment and analysis project). <Reason for categorization> The Project confirmed gender mainstreaming needs but stopped short of including any specific activity that would contribute to gender equality.

(7) Other Important Issues

None in particular

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline (2019 actual)	Target (Seven years after agreement date)
Installed processing capacity (Zambia)	na	160,000 MT/year
Installed processing capacity (Malawi)	na	40,000 MT/year
Amount of soybeans domestically purchased in the Project (Zambia)	na	85,000 MT/year
Amount of soybeans domestically purchased in the Project (Malawi)	na	40,000 MT/year

2) Impact

(1) Qualitative Effects

The promotion of agricultural development, the spread of sustainable agriculture, the fostering of sustainable industries, increased income for small farmers, employment promotion

5. External Factors and Risk Control

None in particular

6. Lessons Learned from Past Projects

In the Sugar Mill Project for the Republic of the Union of Myanmar (evaluated in 2001), sugar cane farmers in the vicinity of the mill switched to crops that fetched higher prices. This caused an insufficient supply of the raw material, resulting in a lower operation rate of the mill. The lesson learned from the above is that three factors are key to sustained project outcomes: (i) accurate forecasts of agricultural product prices, (ii) an appropriate siting of the mill, and (iii) a careful assessment of farmers' attitudes. The ETC Group plans to utilize its rural centers (farm gates) to purchase raw materials from farmers at market prices. With

enough purchase centers and personnel on the ground, the ETC Group is well aware of how local farmers behave. The projected supply and demand of soybeans and the appropriate siting of the plants mean that a certain amount of raw materials will be secured from local farmers. There are therefore no significant concerns with the Project.

7. Evaluation Results

The Project is consistent with the region's development issues and policies as well as the cooperation policies of the Japanese government and JICA. It is also designed to bolster agricultural value chains in Zambia and Malawi, thereby contributing to the promotion of agricultural development in the region. In addition, the Project is expected to help achieve three of the SDGs: Goal 9 (sustainable industries), Goal 2 (food security and sustainable agriculture) and Goal 17 (partnership). It is also expected to support the agricultural value chains amid the COVID-19 pandemic. In light of all these aspects, it is highly necessary to support the implementation of the Project.

8. Plan for Future Evaluation

(1) Indicators to be Used

As shown in Section 4 above.

(2) Timing

Ex-post evaluation seven years after loan agreement date

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