

Japanese ODA Loan

Ex-Ante Evaluation (for Japanese ODA Loan)

Africa Division 2, Africa Department

Japan International Cooperation Agency

1. Name of the Project

(1) Country: United Republic of Tanzania

(2) Project: Agricultural and Rural Development Two Step Loan Project

(3) Project Site/Target Area: Throughout Tanzania

Loan Agreement: January 14, 2025

2. Background and Necessity of the Project

1) Current state and issues of the agricultural and rural development finance sector and the Priority of the project in Tanzania.

Agriculture is the key industry in the United Republic of Tanzania (hereinafter referred to as "Tanzania"), accounting for about 65% of the total employed population (2019, World Bank), about 26% of GDP (2021, World Bank), and about 31% of the total exported products. Tanzania is one of the largest agricultural countries in Sub-Saharan Africa, exporting agricultural products such as rice and maize to East African Community countries, serving an important role in the food safety of the region. The government of Tanzania designates prioritized crops in the Five Year Development Plan III (2021-2026) (hereinafter referred to as "FYDPIII") and is working on the enhancement of the value chain to improve productivity and yield. As for rice and maize among them, production volume above domestic demand is already secured, so further improvement of productivity is aimed with the vision of export to neighboring countries. The price of wheat and sunflower oil, which are mostly imported, is rising due to the situation in Ukraine conflict. Therefore, the country is currently engaged in increasing their domestic production to promote import replacement.

On the other hand, in the agricultural sector of Tanzania, added value per agricultural worker (index showing labor productivity) is 870USD, which is lower than the world average (4,042USD) and neighboring Kenya (1,996USD) (2023, World Bank). In the background is the low agricultural productivity that is lower than the world average. Therefore, mechanization to realize efficient production less affected by the weather and the expansion of improved irrigation are required. Under such situation, the Ministry of Agriculture formulated an Agriculture Sector

Development Programme II (hereinafter referred to as "ASDP II") for ten years from FY2017/18, and is working on innovation for commercialization and improving agricultural productivity and farming household income. However, issues such as increasing households using agricultural machines and expanding the proportion of agricultural finance loans still remain. Because demand for agricultural loans is increasing, the amount of loans for the agricultural sector from financial institutions is showing a large increase. However, the ratio of agricultural loans in the total outstanding loans remains at around 10% (2019), and in reality is able to fulfill only about 10% of fund demand in the entire agricultural sector.

Reasons for above in the agricultural sector are: (i) high uncertainty due to unstable weather and sales price fluctuation, and (ii) difficulty of financial access by farmers due to highly set interests of agricultural loans because of inappropriate risk management on the lender side. Also, while many of the employed population in Tanzania are engaged in the agricultural sector, the young demographic (aged from 15 to 35) that does not have lands and buildings that can be put up as collateral has particular difficulty in accessing agricultural finance, which is one of the factors preventing the creation of employment opportunities for young people. As seen above, underdevelopment of relevant facilities and unutilized labor force due to poor accessibility to agricultural finance is an obstructive factor for reinforcing the value chain. In order to resolve such issues, the government of Tanzania reinforced agricultural finance in 2012, and established Tanzania Agricultural Development Bank (hereinafter referred to as "TADB") as a financial policy institution under the Ministry of Finance in order to promote loans for farming households. TADB has eight branches throughout Tanzania. The amount of the outstanding loans of the bank has increased greatly from 116,000 million Tanzanian shillings (approx. 6.6 billion yen) in January 2022 to 359,000 million Tanzanian shillings (approx. 20.6 billion yen) in August 2023. In order to respond to the agricultural finance demand increasing every year, TADB must further implement capital reinforcement and provide loans for financial intermediaries to fulfill a further wide range of agricultural finance demands.

Agricultural and Rural Development Two Step Loan Project (hereinafter referred to as the "Project") covers the four prioritized crops listed in the FYDPIII, namely rice, maize, wheat, and sunflower, as well as horticultural crops with a shorter period until harvest and high cashability, considering the creation of

employment opportunities for young people and women, and aims to promote agricultural loans through TADB under higher concessional conditions in order to respond to rapidly increasing demands for agricultural loans. Also, the project aims to reinforce the value chain of the above crops by introducing agricultural technology responding to weather risks, such as allowing the increase of work efficiency and timely work according to weather conditions through the promotion of agricultural mechanization and the promotion of the effective utilization of water resources through irrigation facilities such as drip irrigation. The government of Tanzania continuously prioritizes the agricultural sector, which has relatively higher potential, for social and economic recovery and stabilization through employment promotion, and requested cooperation from Japan to fulfill demands for agricultural loans including those for agriculture-related business operators.

2) Japan's and JICA's Cooperation Policy and Operations in the agricultural sector.

In "The Country Development Cooperation Policy for the United Republic of Tanzania" (September 2017), the agricultural sector is positioned as the prioritized area, and is also targeted to provide support for the establishment of a food value chain. "Nurturing driving forces of economic growth" is also considered as a prioritized area in the "JICA Country Analysis Paper for the United Republic of Tanzania" (March 2018), which gives supports for rice production, irrigation farming, and the establishment of a food value chain as a goal. The Project matches these policies. The Project is also conducive to the JICA Africa Food Security Initiative, especially to the Coalition for African Rice Development (CARD) Phase 2. The Project falls under the rice development of "Agriculture and Rural Development" under the JICA Global Agenda, and also corresponds to the "Nutrition" through agricultural support. Further, the Project also contributes to "Gender Equality and Women's Empowerment" by promoting the economic empowerment of women through agriculture, and to "Climate Change" by promoting agricultural technology adapting to climate risks.

3) Other Donor's Activities

Agence Française de Développement (hereinafter referred to as "AFD") is scheduling implementation of a project for sublease to financial intermediaries through the provision of credit guarantee and cofinancing and through TADB, for small-sized farmers and micro-businesses (approx. 81 million Euro). Bill & Melinda Gates Foundation is funding 7 million dollars to TADB for the technical support and loan project for livestock farming and dairy products value chain,

which do not overlap with the Project. African Development Bank (hereinafter referred to as "AfDB") established a 67 million-dollar credit-guarantee program for TADB and provided 1.3 million-dollar technical support to TADB staff and farmers (from 2016 to 2020). The government converted such loans to the capital of TADB in order to boost the capital of TADB in 2022. In December 2023, AfDB approved the loan of 66 million dollars in order to further reinforce the capital of TADB and enhance services provided to the agriculture-related value chain. They do not overlap with the Project.

3. Project Description

(1) Project Description

1) Project Objective

The objective of the Project is to facilitate financial intermediary functions related to agricultural and rural development finance in Tanzania and to improve farmers' productivity through provision of medium and long-term Sub-Loan(s) to a group of farmers and other beneficiaries in Tanzania by extending long-term financing to TADB and supporting capacity building of TADB, thereby contributing to the industrialization and commercialization of the agricultural and the rural sector, as well as to the Tanzania's domestic food security. .

2) Project Components

A) Two-step loan: Loans for small-sized farmers, farming household groups, and agriculture-related companies, as well as the provision of mid- to long-term loan funds for women and young people engaged in the cultivation of horticultural crops. The loan conditions of TADB in the Project are explained below. The most favorable conditions will be applied to loans for Climate Smart Agriculture (hereinafter referred to as "CSA") with less environmental impact and adapting to climate change. The project also operates a revolving fund, which repeatedly lends collected funds.

(a) Financing targets: Investment in facilities for the production and processing of targeted crops (rice, maize, wheat, sunflower and horticultural crops)

(b) Currency: Tanzanian shilling

(c) Maximum amount of loans: Cap is set at 200 million shillings (approx. 12 million yen) and 3,000 million shillings (approx. 181 million yen) according to the size of the project (cap is set at 100 million shillings)

[approx. 6 million yen] and 1,500 million shillings [approx. 90 million yen] for loans for women and young people engaged in the cultivation of horticultural crops).

(d) Interest: Interest rate on loans is 8% to 10%.

(e) Repayment period/grace period: 10 years at maximum (including 2 years of grace period at maximum)

B) Consulting service: Support for the operation and management of the entire project, capacity building of TADB and financial intermediaries, support for preparing guidelines on the operation of revolving funds, and the reinforcement of collaboration between other JICA activities and other aid organizations (short-list method).

3) Project Beneficiaries (Target Group)

Loans for small-sized farmers, farming household groups, and agriculture-related companies, as well as women and young people engaged in the cultivation of horticultural crops

(2) Estimated Project Cost

23,197 million yen (Japanese ODA loan: 22,742 million yen)

(3) Schedule

January 2025 to August 2029 (56 months in total).

August 2029 is considered as the completion of the Project.

(4) Project Implementation Structure

1) Borrower: The Government of the United Republic of Tanzania

2) Guarantor: None

3) Executing Agency: Tanzania Agricultural Development Bank

Financial intermediaries for the case where a three-step operation is implemented will be selected from among private-sector financial institutions and agricultural machine leasing companies after going through screening from the perspectives of financial soundness, ratio of agricultural loans, internal control capacity, etc., after the start of the project.

4) Operation and Maintenance System: Staff members exclusively in charge of the Project will be assigned in the project management unit established in TADB, and implement coordination with relevant departments within TADB. A management committee is scheduled to be held once every quarter, inviting the Ministry of Finance and Ministry of Agriculture, etc., to confirm the progress. The revolving fund will be managed by the project management unit until three years after the completion of the loan. Also, technical support

was provided by dispatching Advisor on Capacity Building to TADB (from 2022 to 2024), contributing to the operation/maintenance management of the Project, including the screening capacity building of TADB and the development of a customer database. Towards the implementation of the Project, it is already confirmed that there is no particular problem in operation and management capacity in terms of institution and technology. In addition, the database to store the information of borrowers that is necessary for monitoring is currently being prepared (scheduled to be implemented in 2025), and support for instructions related to the operation method of this database and the establishment of evaluation system thereof will be implemented through a consulting service.

(5) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity

Support for the reinforcement of the screening capacity and monitoring system of TADB is being provided through dispatching Advisor on Capacity Building to TADB (from 2022 to 2024). Also, following TICAD7 held in 2019, efforts for the establishment of AFICAT (Africa Field Innovation Center for Agricultural Technology), a networking platform, started. Among the five pilot project countries, the largest number of Japanese companies are participating in the efforts in Tanzania. From FY2024, an Agricultural Mechanization Advisor (from 2024 to 2027) is dispatched to the Ministry of Agriculture, planning to support the formulation and implementation of development strategy regarding agricultural mechanization. Also, the Project for Strengthening Capacities of Stakeholders of Rice Industry Development in the United Republic of Tanzania (from 2023 to 2028) is being implemented from FY2023, which gives advice on the cultivation of rice. Close cooperation with the Project is being considered as an exit strategy for the development of agricultural infrastructure and mechanization. Regarding horticultural crops, Empowerment and Promotion of Agriculture Through Use of SHEP Approach (TANSHEP) is being implemented from FY2018. It is possible that the Project will be utilized for the expansion of the business of horticulture crop groups reinforced through this support.

2) Other Donor's Activity

AFD is scheduling implementation of a sublease project for financial intermediaries through TADB. Upon the implementation of the Project, it is scheduled to use the operation guideline prepared for AFD aid as a reference.

Also, experiences and lessons learned in the AFD project will be utilized. With AfDB, collaboration will be sought in the form of targeting women engaged in the cultivation of horticultural crops, and we will consider this as a possible ACFA project.

(6) Environmental and Social Considerations

1) Category: FI

2) Reason for Categorization: Because the Project cannot identify a sub-project before the approval of loans by JICA according to the JICA Guidelines for Environmental and Social Considerations (promulgated in January 2022), and it is assumed that such sub-projects may have an impact on the environment.

3) Other: In the Project, financial intermediaries/implementing organization will categorize each sub-project based on the legal system in Tanzania and the JICA Guidelines for Environmental and Social Considerations, by obtaining support from the consultants employed by the Project, and take countermeasures necessary for each category. Category A projects are not included in the sub-projects.

(7) Cross-Sectional Issues

Because it is expected that climate risks will be reduced through the implementation of loans for CSA through the Project and by agriculture resilient to the impact of climate change (drought, heavy rain, flood, etc.) being promoted, the Project may contribute to measures adapting to climate change.

(8) Gender Category

[Gender project] [Not eligible] ■ GI (Gender mainstreaming needs survey/analysis project)

<Details of activities/Reasons for Categorization> Although it was confirmed that women engaged in agriculture have fewer financial access opportunities compared to men engaged in agriculture through the gender analysis in the Preparatory Survey and the preliminary screening, it did not result in setting efforts and indices contributing to gender equality and women's empowerment. Although quantitative goals for the number of loans for women will not be set in the Project, it is agreed with TADB that the number of such loans will be confirmed during the Project as a monitoring index.

(9) Other special particulars: None in particular.

4. Target Outcomes

(1) Quantitative Effects

1) Outcome (Operation and Effect Indicators)

Indicator	Baseline (Actual Value in 2024)	Targeted value (2031) [Two years after project completion]
Total number of subloans (number of loans)	0	400
Among them, for small-sized farmers (number of loans) (Note 2)	0	300
Average annual income of farmers covered by the Project	Actual figures in the previous fiscal year are confirmed at the time of subloan application	Increased from the reference value
Production amount/handling amount of crops produced by end users (ton/year)	Actual figures in the previous fiscal year are confirmed at the time of subloan application	Increased from the reference value

(Note 1) Beneficiaries (direct and indirect), loans for women and young people, and loans for CSA are counted as a monitoring index.

(Note 2) Loans with the maximum amount of 200 million shillings will be counted as loans for small-sized farmers.

(2) Qualitative Effects: Capacity building of TADB (screening capacity, risk management capacity, etc.), improvement of business skill in small farmers (bookkeeping, preparation of business plans, etc.)

(3) Internal Rate of Return: Not calculated because sub-projects cannot be identified.

5. External Factors and Risk Control

(1) Preconditions: Nothing in particular.

(2) External Factors: Nothing in particular.

6. Lessons Learned from Past Projects

It is confirmed that in the evaluation of similar projects in the horticulture sector in Republic of Uzbekistan, the beneficiaries were mainly large-sized businesses

due to reasons such as rigid screening for loans and strict collateral requirements. In the Project, screening capacity of TADB and financial intermediaries will be improved through a consulting service so that many small-sized farmers can benefit from loans.

7. Evaluation Results

The Project conforms to the development issues and policies of Tanzania and the cooperation policy and analysis of Japan and JICA, and is conducive to the commercialization of agriculture, reinforcement of the value chain, and food security within the region by promoting investment in agricultural infrastructure through mid- and long-term funding to farmers, and is believed to contribute to the SDGs 2 (Zero Hunger) and 8 (Decent Work and Economic Growth). Therefore, the necessity to support the implementation of the Project is high.

8. Plan for Future Evaluation

- (1) Indicators to be Used: As indicated in Section 4.
- (2) Future Evaluation Schedule: Ex-post Evaluation: Two years after the project completion

End

Attachment: Map of the Agricultural and Rural Development Two Step Loan Project

Map of the Agricultural and Rural Development Two Step Loan Project

Project area: Throughout Tanzania



Source: United Republic of Tanzania, Ministry of Foreign Affairs (mofa.go.jp)