

Ex-Ante Evaluation

**Private Sector Investment Finance Division 2,
Private Sector Partnership and Finance Department,
Japan International Cooperation Agency**

1. Basic Information

- (1) Country: Federal Republic of Brazil ("Brazil")
- (2) Project Site / Target Area: Brazil
- (3) Project Title: Project for Improving Efficiency in Agricultural Finance ("the Project")
- (4) Name of investee: AGL Holding ("Agrolend")
- (5) Signing date: May 28, 2025

2. Background and Necessity of the Project

- (1) Current status and challenges of the agricultural sector in Brazil and the positioning of this project

Brazil is the world's largest producer of soybean-related foods, sugar, and other products. The country's agricultural sector, which includes food processing and other agribusinesses, accounted for 27% of Brazil's GDP in 2020, making it a major industry (US Department of Agriculture, 2022). In terms of exports, Brazil is also the world's largest exporter of soybean-related products, corn, and other commodities (US Department of Agriculture, 2022). The development of Brazil's agricultural sector, which is one of the world's leading food suppliers, is important not only for the country's economic development but also from the perspective of global food security.

However, in terms of yield per unit area (hereinafter referred to as "yield"), Brazil's grain yield was 4.9 tons/ha in 2021, which is lower than that of the United States (8.1 tons/ha) and Argentina (5.1 tons/ha), which are also major grain-producing countries in the Americas (FAOSTAT, 2021).

Increasing yield per unit area on existing and new farmland is a key challenge. While there is a need to improve productivity across the entire agricultural sector, significant disparities exist in farm size and regional development. Small-scale farmers (with annual sales of 500,000 Brazilian reais or less) have low productivity, limited income growth, restricted access to financial services, and inability to invest in infrastructure, creating a vicious cycle of stagnant productivity (World Bank, 2017).

Even among medium-sized farmers, the lowest Total Factor Productivity (TFP)

is observed compared to small-scale and large-scale farmers. Low productivity is also evident across regions, with average productivity per hectare (sales, in reais) varying by region: South (2,590), Southeast (1,930), Central-West (1,760), North (810), and Northeast (370).

Small and medium-sized farmers rely heavily on government-subsidized loans from state-owned banks for nearly all their funding, while the amount of loans provided by state-owned banks is insufficient to meet market demand (USDA, 2024). Although small and medium-sized farmers need to seek alternative sources of financing outside state-owned banks, only 16% of small-scale farmers and a mere 9% of medium-scale farmers who are able to borrow from banks obtain loans from private financial institutions, indicating that financing from sources other than state-owned banks is limited (World Bank, 2020).

For farmers, a common alternative to bank loans is to borrow seeds and seedlings from distributors (or retailers) during the planting season and repay them at harvest time. In Brazil's agricultural supply chain, which encompasses vast farmlands, the input industry (agricultural chemical manufacturers; hereinafter referred to as "industry") (upstream) sell to farmers (downstream) through distributors. Distributors are spread across Brazil and serve as crucial partners in ensuring broad distribution channels to small and medium-sized farmers who face difficulties in securing their own materials (IFAMA, 2012). However, distributors, which generally do not provide financial services as their core business, have limitations in terms of capacity and capital, resulting in insufficient financial access for farmers. This is one of the factors contributing to reduced productivity (CGAP, 2017).

Agrolend, the recipient of this project's funding, plays an important role in Brazil's agricultural supply chain. It is replacing the financing of small and medium-sized farmers nationwide, which was previously provided by distributors that do not specialize in finance, with digital technology, thereby improving the financial situation of distributors and supporting their business expansion. Additionally, SME farmers benefit from simplified digital procedures for loan applications, reduced financial transaction burdens, and faster, more timely access to financing. This project provides capital to support Agrolend's growth and promotes our efforts in this area.

(2) Japan's and JICA's Cooperation Policies for the Agricultural Sector in Brazil

and the Positioning of this Project

The National Development Cooperation Policy for the Federative Republic of Brazil (April 2018) states that “support will be provided to sectors contributing to the stable supply of natural and food resources,” and this project aligns with that policy. Additionally, “improving the investment environment” is identified as a priority area, with the policy stating that “support will be provided in areas that promote economic growth, including human resource development, with a focus on collaboration with private-sector funds, through environmental and technical support aimed at enhancing industrial competitiveness.” This project is also consistent with this policy. Furthermore, in May 2024, the Japanese and Brazilian governments launched the “Japan-Brazil Green Partnership Initiative (GPI),” and this project is consistent with the GPI’s “sustainable development.” This project is consistent with the JICA Global Agenda (Issue-Specific Project Strategy) “Private Sector Development (improvement of the external environment for private enterprise growth and improvement of financial access and market access),” “Climate Change Response (contributing to the achievement of international goals under the United Nations Framework Convention on Climate Change and the realization of a sustainable and resilient society),” and “Agriculture and Rural Development (reducing poverty in rural areas through increasing farmers’ incomes and revitalizing rural economies, and ensuring food security through stable food production and supply).” Furthermore, JICA has previously implemented projects such as the “Cerrado Irrigation Project” (yen loan), the “Strengthening of the Agricultural Technology Dissemination System for Small-Scale Farmers in Tocantins State Project” (technical cooperation), the “Agricultural Supply Chain Strengthening Project” (overseas investment and financing), and the “Agricultural Sector Support Project” (overseas investment and financing), which have contributed to improving agricultural infrastructure and enhancing the capabilities of domestic farmers. This project is expected to play a synergistic role with existing JICA projects in Brazil’s agricultural sector.

This project aligns with Brazil’s development challenges and policies, as well as Japan’s and JICA’s cooperation policies and analyses. It contributes to SDG Goal 2 (Ensure food security and promote sustainable agriculture), Goal 8 (Achieve high levels of economic productivity), Goal 9 (Expand access to financial services, value chains, and markets for small and medium-sized enterprises), and Goal 17 (Promote partnerships). The Project is consistent with Brazil’s development agenda and policies, as well as the cooperation policy and

analysis of Japan and JICA, and will contribute to Goal 2 (food security and promotion of sustainable agriculture), Goal 8 (high level of economic productivity), Goal 9 (expansion of small businesses' access to financial services, value chains and markets), and Goal 17 (partnership) of the SDGs. (expanding access to financial services, value chains and markets for small businesses), and Goal 17 (partnerships).

(3) Responses of other aid organizations

N/A.

3. Project Description

(1) Project Overview

① Business Objectives

This project aims to stabilize and increase the efficiency of Agrolend's small and medium farmer finance industry and distributors by investing in Agrolend, a digital bank for small and medium farmers in Brazil, thereby improving access to finance and agricultural operations for small and medium farmers in Brazil, and improving the productivity of the agricultural supply chain. This will contribute to improving access to finance and agricultural operations for small and medium farmers in the country, and to increasing the productivity of the agricultural supply chain.

② Business

Agrolend is a digital bank for small and medium-sized farmers. Similar to a traditional bank, it conducts financial operations such as lending funds obtained through deposits and earning interest income, all online without physical branches. It provides loans with no collateral or guarantees to approximately 2,700 farmers nationwide, mainly soybean and corn farmers, for the purchase of seeds, fertilizers, pesticides, and other agricultural inputs.

③ Beneficiaries of the Project (Target Group)

Small and medium farmers in Brazil.

(2) Total project cost: N/A

(3) Project implementation schedule (cooperation period): May 2025 - December 2028

(4) Project Implementation Structure

Investing party and implementing agency: Agrolend

(5) Cooperation and division of roles with other projects and assistance organizations

1) Japan's aid activities: None in particular.

2) Assistance activities of other aid agencies, etc.: N/A.

(6) Environmental and social considerations

(1) Environmental and social considerations

① Category Classification: C

② Basis for categorization: The project is judged to have minimal undesirable effects on the environment under the "Guidelines for Environmental and Social Considerations of the Japan International Cooperation Agency" (promulgated in January 2022).

(7) Cross-Sectional Items: none in particular.

(8) Gender Classification: Not applicable

The need for gender mainstreaming was identified during the screening, but no indicators were set for specific initiatives that would contribute to gender equality and women's empowerment.

(9) Other special note: None in particular.

4. External Factors and Risk Control

None in particular.

5. Lessons learned from Past Projects

In the post-evaluation of overseas investment and financing projects in the agricultural sector in Southeast Asia (evaluation year: 2022), it was found that reviewing the customer needs of the borrowing companies during the screening process and considering how to address those needs contributed to confirming the sustainability of the business. As a result of interviews with Agrolend's customers during the review process, it was confirmed that the company has benefited from its participation in the supply chain. It was also confirmed that Agrolend's business model meets the customer needs within the agricultural finance supply chain.

6. Evaluation Results

As described above, this project is in line with the Brazilian development issues, development policies and Japan's cooperation policy, and is recognised as necessary, has an appropriate project plan and has a good prospect of being accomplished. The support through a Private Sector Investment Finance loan is

highly significant.

7. Plan for Future Evaluation

(1) Indicators for future evaluation

As per 4.

(2) Future evaluation schedule

Post-evaluation will be conducted approximately three years after the signing of the investment agreement.

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