

JBIC Provides First ODA Loan in 25 Years for Tanzania

--Supporting Economic Growth and Poverty Reduction through General Budget Support and Infrastructure Development--

1. Japan Bank for International Cooperation (JBIC, Governor: Kyosuke Shinozawa) signed on March 9 ODA loan agreements totaling up to 8,857 million yen with the government of the United Republic of Tanzania for the Fourth Poverty Reduction Support Credit and the Arusha-Namanga-Athi River Road Development Project.
2. Tanzania has been plagued by debt problems for many years, and the international donor community has provided debt relief several times under the Enhanced HIPC Initiative^[1] and other measures under an internationally agreed framework. However, after years of the Tanzanian government's efforts in structural reforms, macroeconomic management, development process, as well as the external debt relief, the country has finally emerged from this prolonged economic quagmire. In addition, driven by the emergence of new industries such as tourism and mining, Tanzania has maintained an annual economic growth rate of 5.8% on average since 2001. As a member of the East African Community (EAC)^[2], the country has been striving to strengthen regional cooperative ties with Kenya and Uganda in a broad range of areas, including the political and economic spheres. Tanzania has a good reputation of being one of the most politically stable countries in Africa since, for example, there has not been a single coup d'etat attempt after the country gained independence in 1964.
3. In consideration of the Tanzanian government's efforts towards reforms and sound economic management and with the main objective to further boost its efforts towards sustainable growth and poverty reduction, JBIC has decided to provide the first ODA loan for 25 years to Tanzania. Also since the year 2007 represents the target year for international commitment to double Japanese ODA for Africa, which the government of Japan announced in July 2005 at the Gleneagles Summit, JBIC intends to contribute to accomplishing this target through scaling up ODA loans to Africa.
4. Highlights of the newly-signed ODA loans are as follows:
 - (1) Supporting poverty reduction through financial assistance to the government's general budget
The National Strategy for Growth and Reduction of Poverty (MKUKUTA in Swahili), which the government of Tanzania with its strong ownership launched in 2005, stipulates a series of measures to effectively address a wide range of problems relating to poverty. The proceeds of the loan for the Fourth Poverty Reduction Support Credit will finance the Tanzanian government's general budget in order to implement the objectives laid down by MKUKUTA, such as "Growth and Reduction of Income Poverty", "Improvement of Quality of Life and Social Well-Being", and "Governance and Accountability".

(1) Supporting economic activities in the EAC region by upgrading an international trunk road
The Arusha-Namanga-Athi River Road Development Project is the second project^[3] to which JBIC co-finances with the African Development Bank under the Enhanced Private Sector Assistance for Africa (EPSA for Africa). The project is aimed at upgrading a section of an international trunk road, which provides the sole transport route linking Dodoma, the capital of Tanzania, to Nairobi, the capital of Kenya. The improvement is expected to enhance transportation capacity of the trunk road, and promote economic integration and trading activities in the EAC region, thereby improving residents' living standards and reducing poverty in the project area.

(Click here for details.)

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- [1] A debt relief initiative was agreed at the Lyon Summit in 1996, with the aim of relieving, to a sustainable level, the Heavily Indebted Poor Countries of its debt burden to international financial institutions and commercial creditors. At the Cologne summit in 1999, an agreement was reached to enhance the Initiative, by expanding and improving debt relief measures, including 100% relief on ODA loans and a 90% reduction on non-ODA loans for eligible countries, as well as by increasing the number of targeted countries.
- [2] The EAC was established in 1999 with the aim of eventually creating a federal government consisting of eastern African countries. Initial members included Uganda, Kenya and Tanzania, with Burundi and Rwanda scheduled to join in 2007.
- [3] JBIC signed the first such loan totaling up to 960 million yen on March 31, 2006 in order to finance the Road Improvement and Transport Facilitation Program on the Southbound Bamako-Dakar Corridor under EPSA for Africa.

1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/Grace Period (Year)	Procurement
Fourth Poverty Reduction Support Credit	2,000	0.01%*	40/10*	General Untied
Arusha-Namanga-Athi River Road Development Project	6,857	0.01%*	40/10*	Untied**
Total	8,857			

* Lending terms under the MIRAI Initiative[1].

**International competitive bidding among companies of participating countries and member countries as defined by the agreement on the establishment of the African Development Fund (AfDF).

2. Project Outline

(1) Fourth Poverty Reduction Support Credit

The loan was provided in cooperation with the World Bank's Fourth Poverty Reduction Support Credit Program, under the framework of the General Budget Support participated by 14 donors. The loan is thus expected to help boost economic growth and poverty reduction in the country.

Although Tanzania has registered an average economic growth rate of 5.8% since 2001, its GNI per capita remains low at \$340 (2005). In order for Tanzania to alleviate poverty, it is crucial to upgrade—both in terms of quality and quantity—agricultural and other infrastructure development, basic medical services and basic education to sustain economic growth by implementing an appropriate development policy, as well as to intensify measures narrowing economic disparities.

The MKUKUTA, a poverty reduction strategy paper which was finalized by the Tanzanian government in 2005, set forth the following three clusters as development targets: (1) Growth and Reduction of Income Poverty (e.g. improving rural market access); (2) Improvement of Quality of Life and Social Well-Being (e.g. upgrading the percentage of higher education enrollment); and (3) Governance and Accountability (e.g. drawing up an anti-corruption action plan report and speeding up the litigation process).

The loan will support the government's general budget to implement its policy goals laid out in the MKUKUTA. To ensure the appropriate utilization of such financial assistance, the donors who provide the general budget support also participate in policy consultations with the government of Tanzania, through monitoring and providing advice with regard to budget allocation and the policy making process. To date, Japan has made policy recommendations and provided technical assistance primarily for the agriculture and social sectors. In the implementation of MKUKUTA, which places emphasis on growth, Tanzania is now in need of expertise and know-how on ways to boost economic growth. Thus there are high expectations for JBIC to provide knowledge assistance in preparing effective and comprehensive infrastructure development policies in Tanzania, by drawing on its past experience of supporting economic growth through infrastructure development in Asia.

The executing agency is the Ministry of Finance (address: P.O. Box 9111, Dar es Salaam, Tanzania; Tel: 255-22-2111174; Fax: 255-22-2112856).

(2) Arusha-Namanga-Athi River Road Development Project

The project aims to promote trading activities between Tanzania and Kenya by upgrading (rehabilitating, paving and widening) an international trunk road (length: approximately 240km) connecting Arusha in northern Tanzania and Athi River in southern Kenya. The section to be upgraded in the project is an important section of the sole transport route providing linkage between the capitals of Tanzania and Kenya. While the road transports 20% of exports from Tanzania to Kenya, and 41% from Kenya to Tanzania, many sections are in bad condition due to the governments' financial difficulties and to damages caused by floods. In the meantime, there has been an increasing demand for transport in the EAC region, which was prompted by the launch of the EAC Customs Union in January 2005. The reinforcement of the transport network is, therefore, urgently needed. Under such circumstances, the project is expected not only to increase transport capacity, but also to contribute to the economic development of the regions along the road by promoting economic integration and stimulation in the EAC. Because of these benefits, the road is regarded as a priority project under the New Partnership for Africa's Development (NEPAD), which is designed to promote cross border infrastructure development towards African regional integration.

The executing agency is Tanzania National Roads Agency (address: P.O. Box 11364, Dar es Salaam, Tanzania, Tel: 255-22-215-2576; Fax: 255-22-215-0022).

[1] ODA loan's concessional scheme with a 0.01% interest rate and 40 years repayment period applicable to low-income LDCs. MIRAI stands for Minimal Interest Rate Initiative for low-income LDCs. The word "MIRAI" also represents "future" in Japanese.