

## Ex-Ante Evaluation (for Japanese ODA Loan)

## 1. Name of the Project

Country : The People's Republic of Bangladesh

Project : Food Value Chain Improvement Project

Loan Agreement : 12 August, 2020

## 2. Background and Necessity of the Project

## (1) Current State and Issues of the Industrial Development and Agriculture Sector in Bangladesh

Bangladesh has achieved an average rate of around 6.6% in annual GDP growth since 2010 led mainly by the textile industry that contributes 80% of exports. The country's sustainable economic development requires diversifying the potential value-added export goods to develop the export industry. As agriculture in Bangladesh accounts for around 13% of its GDP, and employs almost half of the working force, the food processing industry has the potential to become an export industry by expanding the production of processed food.

To grow the industry, improving the food value chain is required. The country faces challenges in the chain from production and processing to distribution, including insufficient processing facilities and storage as well as low productivity of raw materials. The underdeveloped food value chain limits the variety of domestically processed products to rice milling, pressed oil and so forth. It also leads to an import dependency for processed food and a high percentage of post-harvest loss at around 30 to 40%. In recent years, the food processing industry is growing (the industry's average GDP growth rate is 10.6% while real GDP growth rate is 6.6% from 2010 to 2016 (BBS (2019) Statistics Yearbook Bangladesh 2018)) pushed by the increasing demand for processed food. However, it has been pointed out that companies in the agribusiness and food processing industry do not have adequate financial access due to high interest rates and complicated application processes, and face difficulty in business management such as the development of investment plans (JICA Preparatory Survey). Additionally, improvement of food safety is another issue that requires attention. The Bangladesh Food Safety Authority (BFSA) was established in 2015 to address food safety issues and improved the food inspection system by developing standards and regulations for food safety, training food safety inspectors, and so forth. Further efforts should be made to fulfill global safety standards and most food processing companies in the country are in need of technical support to improve food safety.

In the "Seventh Five Year Plan" (FY2016/17-2020/21), the Government of Bangladesh commits to the promotion of food processing industry, strengthening of value chains, promoting agricultural diversification and the expansion of horticultural crops,

introducing quality control including food safety measures, etc. “National Industrial Policy 2016” developed by the Ministry of Industries identifies the food processing industry as one of the priority areas to be further developed, and indicates that the capacity for quality control is improved and the value chain strengthened under the policy. Additionally, the ministry is drafting Agro-Processing Policy to set the details for the priority area.

## (2) Japan and JICA’s Policy and Operations in the Industrial Development and Agriculture Sector

The JICA Country Analysis Paper for Bangladesh (March 2019) identifies the need to support the diversification of industry through assistance for agribusiness including the food processing industry, the strengthening of food safety, and the creation of high added-value. Japan’s Country Assistance Policy for Bangladesh (February 2018) has also set forth the priority areas of “accelerating inclusive economic growth towards becoming a middle-income country” and “overcoming social vulnerability,” with initiatives for promoting activities of the private sector and improving living conditions and livelihoods in rural areas. The Project is thus consistent with this analysis and policy. In addition, the Project contributes to strengthening the food value chain through the development of high added-value for agricultural and food processing industries, thereby contributing to the achievement of SDGs 1 (no poverty), 2 (zero hunger), and 8 (decent work and economic growth).

JICA’s past assistance in the industrial development and agricultural sectors includes the Technical Cooperation for Development Planning called the “Development Study Toward High-Quality Industrial Growth and Economic Development” (2017-2018) and the ODA Loan for the “Small and Marginal Sized Farmers Agricultural Productivity Improvement and Diversification Financing Project” (Loan Agreement signed in 2014).

## (3) Other Donors’ Activity

The United States Agency for International Development (USAID), the Asian Development Bank (ADB), and the World Bank, among others, are providing loans and/or technical assistance to micro food processing companies and certain large food processing companies to improve agricultural value chains, increase farmers’ incomes, etc. All of this assistance is limited to companies in different regions and of different sizes than those eligible for financing by the Project.

<h3>3. Project Description</h3>
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#### (1) Project Objective(s)

The objective of the Project is to improve credit access for agribusiness and food processing industries and to enhance their capacity in business development, food processing, and food safety by providing concessional financing and technical

assistance, thereby contributing to the improvement of food value chain in Bangladesh.

(2) Project Site/Target Area

Throughout the country

(3) Project Component(s)

- 1) Two Step Loan (Concessional Financing for capital investment and quality improvement activities by agribusiness and food processing companies)
- 2) Consulting Services (Capacity building for the end borrowers (agribusiness and food processing companies), Operational Support for Two Step Loan) (Short-Listed)

(4) Estimated Project Cost (Loan Amount)

12,172 million Yen(Loan Amount : 11,218 million Yen)

(5) Schedule

June 2020 – September 2026 (76 months in total). Project Completion is defined as the completion of disbursement.

(6) Project Implementation Structure

- 1) Borrower : The Government of the People's Republic of Bangladesh
- 2) Guarantor : N/A
- 3) Executing Agency : Bangladesh Infrastructure Finance Fund Limited (BIFFL)
- 4) Operation and Maintenance System : BIFFL carries out overall project fund management.

(7) Cooperation and Sharing of Roles with Other Donors

1) Japan's Activity: Technical Cooperation "Project for Strengthening Capacity of Bangladesh Food Safety Authority (BFSA) to enhance food safety control system" and "Advisor for Agro Processing Industry Development Policy Formulation and Implementation of Action Plan" are expected to collaborate with the Project through the food safety training for targeted companies and in other areas.

2) Other Donors' Activity: N/A

(8) Environmental and Social Consideration/Poverty Reduction/Social Development

1) Environmental and Social Consideration

① Category : FI

② Reason for Categorization: Based on the Guidelines for Environmental and Social Consideration (issued in April 2010), subprojects cannot be identified before JICA's loan approval, but it is assumed that such subprojects may have an impact on the environment.

③ Other / Monitoring: With support from the Consultant hired through the ODA Loan, the Executing Agency for the Project will classify the subprojects into categories, and take the measures necessary for each category based on the domestic legal system and the JICA Guidelines for Environmental and Social Considerations. There will be no Category A subprojects.

2) Cross-Cutting Issues: N/A

### 3) Gender Category: GI (S) Gender Integrated Project

#### Activity Component(s)/Reason for Categorization

In accordance with the Bangladesh's Industrial Policy 2016 and in order to support female entrepreneurs, the Project aims to provide a certain percentage of its two-step loans for SMEs to enterprises operated and/or owned by women. Consequently, this is categorized as a Gender Integrated Project.

(9) Other Important Issues: N/A

## 4. Targeted Outcomes

### (1) Quantitative Effects

#### 1) Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline (Actual Value in 2020)	Target (2028) 【Expected value 2 years after project completion】
Total amount of sub-loans approved (million JPY)	0	10,800
Annual sales of the end borrowers (million BDT)	N/A	To be set upon finalization of subproject(s)
Annual profit of the end borrowers (million BDT)	N/A	
Number of certifications and licenses related to food safety (HACCP, ISO, etc.) received by the end borrowers	N/A	
Amount of purchases of agricultural products by the end borrowers (thousand BDT)	N/A	
Amount of purchases from the contract farmers by the end borrowers (thousand BDT)	N/A	

### (2) Qualitative Effects

- Improvement of food safety management capacity in end borrowers
- Diversification of products manufactured by end borrowers
- Improvement of BIFFL's screening capacity for agribusiness and food processing industries

### (3) Internal Rate of Return

The Financial Internal Rate of Return (FIRR) and Economic Internal Rate of Return (EIRR) were not calculated because it is difficult to identify subprojects before implementing the Project.

## 5. External Factors and Risk Control

(1) Preconditions: N/A

(2) External Conditions: N/A

## 6. Lessons Learned from Past Projects

In the Micro, Small and Medium Enterprises Energy Saving Project, Phase 2 (evaluated in 2016) and other projects, it was observed that technical assistance, provided through seminars for companies, and support for loan appraisal to stimulate borrower demand and to improve financial institutions' appraisal capacity, contributed to smooth project implementation and the achievement of goals.

For the Project, in addition to providing two-step loans, technical support will also be provided through consulting services, including seminars for companies to further publicize and promote the Project and stimulate borrower demand. Support will also be provided for the Executing Agency to improve their appraisal capacity in agribusiness and food processing industries.

## 7. Evaluation Results

The Project is consistent with the development issues and development policies of Bangladesh, as well as the assistance policies and analyses of the Government of Japan and JICA. Through the development of high added-value for agricultural and food processing industries, the Project will help strengthen the food value chain, thereby contributing to the achievement of SDGs 1 (no poverty), 2 (zero hunger), and 8 (decent work and economic growth). Therefore, the need to support implementation of the Project is high.

## 8. Plan for Future Evaluation

### (1) Indicators to be Used

As described in (1)-(3) of Section 4.

### (2) Timing

Ex-post evaluation: Two years after project completion.