

**PROJECT INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.: AB6530

Project Name	Tanzania - Southern Agriculture Growth Corridor Investment Project
Region	AFRICA
Sector	Micro- and SME finance (75%);General agriculture, fishing and forestry sector (25%)
Project ID	P125728
Borrower(s)	GOVERNMENT OF TANZANIA
Implementing Agency	SAGCOT Secretariat Tanzania Investment Bank
Environment Category	<input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	April 13, 2011
Estimated Date of Appraisal Authorization	December 07, 2011
Estimated Date of Board Approval	March 22, 2012

1. Key development issues and rationale for Bank involvement

There is tremendous growth potential for agribusiness in Tanzania. The country is well endowed with large areas of favorable soils, rainfall and freshwater resources suitable for expanded irrigation. The country borders eight other countries offering excellent prospects for the expansion of regional trade. Tanzania has a well-functioning seaport, and improving backbone transport infrastructure. Yet the country has struggled to achieve its agricultural development potential. For most crop enterprises, the growth in production still depends largely on the expansion of area under production. Productivity gains have been limited. Over the last few decades, the country has achieved little growth in the value of agricultural exports. High transport costs and underdeveloped markets undermine incentives to adopt improved technologies and expand production. Limited access to finance constrains the growth of agribusiness MSMEs. As a result, while agriculture accounts for about 26% of GDP (2009), and employs nearly 80 percent of the national workforce, the contributions of the sector to poverty alleviation remain limited.

The SAGCOT is a public-private partnership explicitly designed to achieve higher rates of income growth and job creation through the development of competitive agribusiness value chains across the Southern Corridor. The initiative initially concentrates investments within the rail and road corridor stretching from Dar es Salaam in the east through to Morogoro, Iringa, Mbeya, and west to Sumbawanga. Over the next 20 years, SAGCOT aims to bring 350,000 hectares of farmland into commercial production for regional and international markets, to increase annual farming revenues by US\$1.2 billion, to lift more than 2 million people (roughly 450,000 farm households) out of poverty. If this pilot initiative is successful, it will be replicated across other transport corridors in the country.

In late 2010, the Bank received two written requests for funding of the SAGCOT – one from the Prime Minister to the Country Director and one from the Prime Minister to the World Bank

President. His Excellency President Kikwete also requested such support from the Bank's Managing Director during a meeting in Davos in January 2011.

The SAGCOT initiative coincides with the Objective 1 of the Tanzania draft CAS for the period 2012-2015: to promote inclusive, sustainable, private sector-led growth. The SAGCOT Project contributes both to proposed CAS Outcome 1.1 targeting improved business environment and financial intermediation, and proposed to CAS Outcome 1.2 targeting improved productivity and incomes.

The SAGCOT program planning was initiated by government with support from a range of public and private sector agencies including Norway, USAID, AGRA, Yara, Unilever, DuPont and Syngenta. Program implementation is likely to be similarly supported by multiple donors. Norway has expressed interest in providing joint funding for the establishment of a SAGCOT Secretariat, and USAID has tentatively committed \$2 million in funding to the establishment of a SAGCOT Catalytic Fund. DFID and the EU are also considering co-funding the Project. Bank Group support for the SAGCOT initiative can considerably strengthen what is ultimately viewed as a tripartite commitment (public sector, private sector and development partners) to sustainable agribusiness development in the country. Bank expertise can help government establish a strong and transparent governance framework for the Partnership, support the establishment of the enabling environment for agribusiness investments including critical policy, regulatory, and administrative reforms and critical backbone and last-mile investments, and support improved access to finance by MSMEs across agribusiness value chains in the Corridor.

2. Proposed objective(s)

The proposed Project Development Objective (PDO) is to expand investment in agribusiness leading to income growth among smallholders and employment generation across agribusiness value chains in the Southern Corridor.

3. Preliminary description

The Project contains three components: (i) Support to the SAGCOT Secretariat; (ii) Support to the Kilimo Kwanza Catalytic Fund; and (iii) Support to access to finance by MSMEs in agribusiness value chains.

Support to SAGCOT Secretariat

The objective of the SAGCOT Secretariat is to support competitiveness partnerships between the private and public sector along selected agribusiness value chains in the Corridor. Under this concept, the public and the private sectors agree to work together to systematically remove the policy, regulatory, administrative, access to infrastructure and access to finance constraints facing the value chain with the objective to drive the value chain to international competitiveness.

The SAGCOT Secretariat will provide an institutionally neutral, professionally competent platform for SAGCOT planning, coordination, facilitation and monitoring and evaluation. The Secretariat will have six primary functions: (i) promoting the SAGCOT partnership, (ii) identifying business opportunities; (iii) assisting access to finance; (iv) promoting public-private partnerships; (v) facilitating the resolution of policy constraints; and (vi) monitoring and

evaluation. The proposed draft terms of reference of the Secretariat are presented in Technical Annex 3.

The Project will support the Secretariat through a grant for (i) administrative and management costs, (ii) diagnostic studies, (iii) technical assistance; (iv) training, and (v) monitoring and evaluation.

Support to Kilimo Kwanza Catalytic Fund

The objective of the Kilimo Kwanza Catalytic Fund is to provide social venture capital to support the establishment and expansion of commercially viable agribusinesses in the Southern Corridor – particularly those building commercial relationships with smallholder out growers.

The Fund will be established as a new private company limited by guarantee. The Fund will be led by a Board of Directors appointed by the Kilimo Kwanza Executive Committee. The Board of the Catalytic Fund will be strictly independent of the Board of the Secretariat and its members subject to a fit and proper test administered by a specialized company. The Project will support the Catalytic Fund through a grant.

The support of the Catalytic Fund to agri-businesses in the corridor will be channeled through three possible windows:

- start-up equity for new small to medium size agribusinesses;
- capital grants to new and established agribusinesses to help expand and strengthen links with larger numbers of out growers; and
- capital grants for infrastructure to strengthen out grower links with agribusiness value chains.

Support to access to finance for MSMEs in agribusiness value chains

The Bank of Tanzania (BOT) will provide as Apex institution long-term lines of credits and/or partial credit guarantees to the Tanzania Investment Bank (TIB) and to participating commercial banks to extend (i) short-term loans backed by warehouse receipts; (ii) medium-term leasing finance; and (iii) medium and long-term loans to MSMEs in agribusiness value chains.

The Project will support BOT through a long-term line of credit and through a partial credit guarantee facility that will allow it to refinance its loans and counter-guarantee its partial credit guarantees to TIB and participating banks.

The design of the line of credit and partial credit guarantee to agribusiness MSMEs will be carried out by BOT in collaboration with the SAGCOT Secretariat and the Bank team before appraisal. A detailed financial analysis of the LOC/PCG will be carried out by the Team as part of appraisal. A detailed pipeline of possible MSME finance transactions will be developed by the SAGCOT Secretariat before appraisal.

4. Safeguard policies that might apply

The project has important significant potential environmental impacts given the sensitivity of the project areas, coupled with the large-scale, diverse nature of the project activities. As such, the

project is preliminarily proposed as a Category A activity and a Regional Environmental Assessment (REA) will be conducted as part of project preparation activities. The REA will assess the proposed project in the context of the regional environmental setting, and include an Environmental and Social Management Framework (ESMF) outlining the specific procedures to ensure adequate environmental and social safeguards management of project-supported activities.

The REA will also assess other safeguard policies triggered by the project. In addition to the Environmental Assessment Policy (OP 4.01), the project will likely trigger Involuntary Resettlement, Pest Management, and Cultural Property. It may also trigger Natural Habitats, Forests and Indigenous Peoples. It will also include baseline information on environmental and social issues. The REA's final chapter – the ESMF – will set forth the specific mandatory measures to avoid, mitigate or compensate for environmental and socio-economic impacts.

The REA will also include baseline information on environmental and social issues. It will also be supplemented by a Social Assessment, which will include information on who lives in the project areas and their main social-economic characteristics, i.e., their livelihood activities and strategies, the numbers, their farming practices, the holdings (size, type, etc.), the situation of land tenure regime, the land use practices, who are the smallholders, the roles of men and women in farming, especially with respect to small holdings. In addition, it will collect information: on the needs of the smallholders and the constraints they face to expand; and on the most vulnerable, i.e., who are they and who may be left out from project benefit or possibly be worse off. The Social Assessment will also identify if there are indigenous people in the project area, based on the definition of OP 4.10 as well as Government of Tanzania own definition.

The Social Assessment will be the first step in preparing the Resettlement Policy Framework (RPF) and possibly an Indigenous People Framework (IPP). Those frameworks would in turn be incorporated into the ESMF, to provide a single overall guidance document on project safeguard management.

5. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	5
International Development Association (IDA)	60
Total	65

6. Contact point

Contact: Michel Noel

Title: Lead Financial Specialist

Tel: +1-202- 473-0062

Fax: 1-202-522-3158

Email: mnoel@worldbank.org

Location: Washington D.C., USA

Contact: David Rohrbach

Title: Senior Agricultural Economist

Tel: +255-22-216-3270

Fax: +255-22-211-3039/3295

Email: dbrohrbach@worldbank.org

Location: Dar es Salaam, Tanzania