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Report No: PAD345

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED CREDIT

IN THE AMOUNT OF (SDR50.8) MILLION
(US$70 MILLION EQUIVALENT)

TO THE

UNITED REPUBLIC OF TANZANIA

FOR A

SOUTHERN AGRICULTURAL GROWTH CORRIDOR OF TANZANIA (SAGCOT) INVESTMENT PROJECT

February 17, 2016

Agriculture Global Practice
Eastern Africa Country Cluster 1 (AFCE1)
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective: January 31, 2016)

Currency Unit	=	TZS
2,190 TZS	=	US$1
1.381 US$	=	SDR1

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AECF	African Enterprise Challenge Fund
ASDP	Agricultural Sector Development Program
ASDS	Agricultural Sector Development Strategy
AWPB	Annual Work Plans and Budgets
BoT	Bank of Tanzania
BRN	Big Results Now
CAS	Country Assistance Strategy
CCRO	Certificates of Customary Rights of Occupancy
CEO	Chief Executive Officer
CFS	Committee on Food Security
CTF	Catalytic Trust Fund
DA	Designated Account
DFID	Department for International Development
DP	Development Partners
EIRR	Economic Internal Rate of Return
ESMF	Environmental and Social Management Framework
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FM	Financial Management
GoT	Government of Tanzania
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
ICR	Implementation Completion and Results Report
IDA	International Development Association
IFC	International Finance Cooperation
IFR	Interim Financial Reports
IS	Implementation Support
IUFR	Interim Unaudited Financial Report
KPI	Key Performance Indicator
M&E	Monitoring and Evaluation
MGF	Matching Grant Fund
MG	Matching Grant
MoU	Memorandum of Understanding

MTB	Ministerial Tender Board
MTEF	Medium Term Expenditure Framework
NCB	National Competitive Bidding
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organization
NPV	Net Present Value
NYD	Not Yet Due
ORAF	Operational Risk Assessment Framework
PCU	Project Coordination Unit
PDO	Project Development Objective
PER	Public Expenditure Review
PMO	Prime Minister’s Office
PMP	Pest Management Plan
PMU	Procurement Management Unit
PPA	Public Procurement Act
PPP	Public Private Partnership
PPRA	Public Procurement Regulatory Authority
PRSC	Poverty Reduction Support Credit
PSC	Project Steering Committee
PSCP	Private Sector Competitiveness Project
RPF	Resettlement Policy Framework
RUBADA	Rufiji Basin Development Authority
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SRESA	Strategic Regional Environmental and Social Assessment
SVCF	Social Venture Capital Fund
SW	Staff-Week
TIC	Tanzania Investment Centre
TOR	Terms of Reference
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
USAID	United States Agency for International Development
VG	Vulnerable Groups
VGP	Vulnerable Groups Plan
VGPF	Vulnerable Groups Planning Framework
WBG	World Bank Group

Regional Vice President:	Makhtar Diop
Country Director:	Bella Bird
Senior Agriculture Global Practice Director:	Juergen Voegele
Practice Manager:	Mark E. Cackler
Task Team Leader:	Oliver Braedt

TANZANIA
SOUTHERN AGRICULTURAL GROWTH CORRIDOR OF TANZANIA (SAGCOT)
INVESTMENT PROJECT (P125728)

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PAD DATA SHEET

Tanzania

Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Investment Project (P125728)

PROJECT APPRAISAL DOCUMENT

Report No.: PAD345

Basic Information			
Project ID	Lending Instrument	EA Category	Team Leader
P125728	Investment Project Financing	A - Full Assessment	Oliver Braedt
Project Implementation Start Date		Project Implementation End Date	
March 8, 2016		*June 30, 2021*	
Expected Effectiveness Date		Expected Closing Date	
June 6, 2016		*October 31, 2021*	
Joint IFC			
No			
Practice Manager	Sector/Practice Director	Country Director	Regional Vice President
Mark E. Cackler	Juergen Voegele	Bella Bird	Makhtar Diop

Borrower: Ministry of Finance and Planning of the United Republic of Tanzania			
Responsible Agency: Office of the Prime Minister			
Contact:	Prime Minister's Office (PMO)	Title:	Permanent Secretary
Telephone No.:	(255-22) 213-5076	Email:	ps@pmo.go.tz

Project Financing Data(in USD Million)					
[ ]	Loan	[ ]	Grant	[ ]	Other
[X]	Credit	[ ]	Guarantee		

Total Project Cost:	108.50	Total Bank Financing:	70.00
Total Co-financing:	38.50	Financing Gap:	00.00

Financing Source	**Amount**
BORROWER/RECIPIENT	5.00
International Development Association (IDA)	70.00

Private sector investors	25.12
Donors (USAID, DfID)	8.38
Total	108.50

Expected Disbursements (in USD Million)

Fiscal Year	2017	2018	2019	2020	2021	2022		
Annual	8.8	8.00	18.00	18.00	14.20	3		
Cumulative	8.8	16.80	34.80	52.80	67.00	70		

Proposed Development Objective(s)

To increase the adoption of new technologies and marketing practices by smallholder farmers through expanding and creating partnerships between smallholder farmers and agribusinesses in the Southern Corridor of Tanzania.

Components

Component Name	**Cost (USD Millions)**
Strengthening SAGCOT Support Institutions	14.33
Strengthening Smallholder Business Linkages	85.76
Project Management and M&E (including PPA)	8.41

Institutional Data

Sector Board

Agriculture and Rural Development

Sectors / Climate Change

Sector (Maximum 5 and total percent must equal 100)

Major Sector	Sector	percent	Adaptation Co-benefits percent	Mitigation Co-benefits percent
Agriculture, fishing, and forestry	Agricultural extension and research	75	80	20
Agriculture, fishing, and forestry	General agriculture, fishing and forestry sector	25	50	30
Total		100		

[ ] I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total percent must equal 100)

Major theme	Theme	percent

Financial and private sector development	Micro, Small and Medium Enterprise support	50
Rural development	Rural markets	30
Rural development	Rural services and infrastructure	20
Total		100

Compliance

Policy

Does the project depart from the CAS in content or in other significant respects?	Yes [ ] No [X]
Does the project require any waivers of Bank policies?	Yes [X] No [ ]
Have these been approved by Bank management?	Yes [X] No [ ]
Is approval for any policy waiver sought from the Board?	Yes [X] No [ ]
Does the project meet the Regional criteria for readiness for implementation?	Yes [X] No [ ]

Safeguard Policies Triggered by the Project	**Yes**	**No**
Environmental Assessment OP/BP 4.01	**X**	
Natural Habitats OP/BP 4.04	**X**	
Forests OP/BP 4.36	**X**	
Pest Management OP 4.09	**X**	
Physical Cultural Resources OP/BP 4.11	**X**	
Indigenous Peoples OP/BP 4.10		**X**[1]
Involuntary Resettlement OP/BP 4.12	**X**	
Safety of Dams OP/BP 4.37	**X**	
Projects on International Waterways OP/BP 7.50		**X**
Projects in Disputed Areas OP/BP 7.60		**X**

Legal Covenants

Name	**Recurrent**	**Due Date**	**Frequency**
The Recipient shall ensure that the Project is carried out in accordance with the provisions set out in the Environmental and Social Management Framework, the Resettlement Policy Framework, the Vulnerable Groups Planning Framework, and the Integrated Pest Management Plan.	X		
The Recipient and the Project Implementing Entities	X		

[1] OP/BP was not triggered. A Board waiver has been sought at time of submission to the Board. Refer to paragraphs 68-73 for more detail.

shall carry out its Respective Part of the Project in accordance with the provisions of the Project Implementation Manual and the Matching Grant Manual.			

Type
Effectiveness
Description of Condition
Recipient has conducted a public consultation on the Vulnerable Groups Planning Framework (VGPF) and reviewed the VGPF and Operations Manual in the light of outcomes and recommendations of such public consultation and updated said Framework and Manual, if such updates are deemed appropriate by both the Recipient and the Association, in a manner and substance satisfactory to the "Association."

Type
Disbursement Conditions
Description of Conditions

No withdrawal shall be made:

(a) for payments made prior to the date of this Agreement;

(b) under Categories (1) and (2), until: (i) a Subsidiary Agreement, acceptable to the Association, has been duly executed on behalf of the Recipient and the SAGCOT Center; and the Association has received a legal opinion satisfactory to the Association of counsel acceptable to the Association, showing that the Subsidiary Agreement has been duly authorized, executed and delivered on behalf the Recipient and the SAGCOT Center and is legally binding upon the Recipient and the SAGCOT Center in accordance with its terms; and (ii) the SAGCOT Center has strengthened its financial management and procurement capabilities satisfactory to the Association for managing Part A.1 of the Project;

(c) under Category (3), until TIC has strengthened its financial management and procurement capabilities satisfactory to the Association for managing Part A.2 of the Project;

(d) under Category (5), until: (i) a Subsidiary Agreement, acceptable to the Association, has been duly executed on behalf of the Recipient and the SAGCOT Catalytic Trust Fund; and the Association has received a legal opinion satisfactory to the Association of counsel acceptable to the Association, showing that the Subsidiary Agreement has been duly authorized, executed and delivered on behalf the Recipient and the SAGCOT Catalytic Trust Fund; and is legally binding upon the Recipient and the SAGCOT Catalytic Trust Fund in accordance with its terms; and (ii) the SAGCOT Catalytic Trust Fund has engaged financial management and procurement staff in adequate number with qualifications and terms and reference satisfactory to the Association and put in place a financial management system acceptable to the Association; or

(e) under Category (5)(ii), until, the conditions set forth in sub-paragraph (d) immediately above have been met; and the SAGCOT Catalytic Trust Fund has engaged Fund Manager(s) with terms and reference, qualifications and experience satisfactory to the Association for managing Matching Grants under Part B.2 of the Project.

Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Oliver Braedt	Program Leader	TTL	LC6A
Jeffrey John Delmon	Senior Private Sector Development Specialist	Private Sector	GTCDR
Mei Wang	Senior Counsel	Legal	LEGAM
Alexandra Bezeredi	Lead Social Development Specialist	Environmental and Social Safeguards	GSURR
Hanneke van Tilburg	Senior Social Development specialist	Environmental and Social Safeguards	OPSPF
Jorge A. Munoz	Practice Manager	Land tenure	GURDR
Grahame Beaumont Richard Dixie	Agri-business Advisor	Agri-business	Retired
Frank Fulgence K. Byamugisha	Operations Adviser	Land	Retired
Helen Z. Shahriari	Senior Social Specialist	Social Development	GSURR
Mary Bitekerezo	Senior Social Specialist	Social Development	GSURR
David Rohrbach	Senior Agriculture Economist	Agriculture	Retired
Jonathan Mills Lindsay	Lead Counsel	Legal, Land	LEGEN
Ganesh Rasagam	Lead Private Sector Development Specialist	Private Sector	GTCDR
Ann-Jeannette Glauber	Lead Environmental Specialist	Environment	GENDR
Jane Kibbassa	Senior Environmental Specialist	Environment	GENDR
Donald Paul Mneney	Senior Procurement Specialist	Procurement	GGODR
Winter M. Chinamale	Senior Procurement Specialist	Procurement	GGODR
Christopher Paul Jackson	Lead Rural Development Specialist	Agriculture Economy	GAGDR
Christiaan Christiaan Johannes Nieuwoudt	Senior Finance Officer	Financial Management	WFALA
Michael Okuny	Financial Management Specialist	Financial Management	GGODR
Judith Mzirai	Team Assistant	Team Assistance	AFCE1
Srilatha Shankar	Team Assistant	Team Assistance	GFADR

Non Bank Staff			
Name	**Title**	**Office Phone**	**City**
Josef Ernstberger	Consultant		
Peter McCrea	Consultant		
Tobias Von Platen-Hallermund	Consultant (previously JPO)		
Amy Faust	Consultant		

Locations					
Country	**First Administrative Division**	**Location**	**Planned**	**Actual**	**Comments**
Tanzania	Ruvuma Region	Ruvuma Region	**X**		
Tanzania	Iringa Region	Iringa Region	**X**		
Tanzania	Njombe Region	Njombe Region	**X**		
Tanzania	Morogoro Region	Morogoro Region	**X**		
Tanzania	Lindi (Liwale) Region	Lindi Region	**X**		
Tanzania	Singida Region	Singida Region	**X**		
Tanzania	Da es Salaam Region	Da es Salaam Region	**X**		
Tanzania	Mbeya Region	Mbeya Region	**X**		
Tanzania	Katavi Region	Katavi Region	**X**		
Tanzania	Rukwa Region	Rukwa Region	**X**		
Tanzania	Coastal Region	Coastal Region	**X**		
Tanzania	Dodoma (Kondoa) Region	Dodoma Region	**X**		

I. STRATEGIC CONTEXT

A. Country Context

1. Tanzania has been experiencing high rates of economic growth in the last decade. This growth has been driven by economic liberalization, sound macroeconomic policy management, and expanding public sector spending. Growth accelerated from an average of 3.5 percent during the 1990s to around 7 percent over the past decade. Improvements in tax administration and provision of foreign aid created space for a significant expansion in public spending, which increased from less than 16 percent of GDP in 2000 to almost 28 percent in 2011. Inflation was low from 2000 to 2005, but picked up pace from 2006 to 2014. It was briefly in double digits, and has now settled back to around 7 percent. Fiscal policy has been largely prudent accompanied by strong growth in tax revenues. However, the government needs to keep its debt and debt service to reasonable levels, reduce the growing deficits of certain parastatals, and manage the commitments under the public pension scheme. There are a number of recent developments (including discovery of natural gas) that are expected to contribute to Tanzania's positive economic performance. Looking forward, the economy is likely to remain on its current growth trajectory in the near future.

2. Notwithstanding the country's solid economic growth record, poverty rates have not declined significantly. In November 2013, the government announced the new official poverty figures. The basic needs poverty level in Tanzania mainland has fallen from 33.34 percent in 2007 to 28.2 percent in 2012. Rural poverty has declined from 39.4 percent to 33.4 percent over the same period. Despite impressive macro-fiscal performance, and decades of concerted efforts to lift rural masses out of poverty, agricultural incomes have grown slowly. Economic growth has been concentrated in urban areas and in capital-intensive sectors, such as the mining, telecommunication, construction, and banking sectors. In comparison, the growth in agricultural value added has been less than two percent per worker. This growth in the agriculture sector has not been high enough to reduce poverty in rural areas, where more than 80 percent the country's poor reside. Moreover, malnutrition continues to be a challenge for Tanzania. Although rates of child stunting in Tanzania have fallen, they are still high. Three national surveys in 2004, 2009, and 2010 showed a static rate of stunting at 44–43 percent, whereas two later national surveys—in 2011 and 2014—show rates of 35 percent (Global Nutrition Report 2015). Micronutrient deficiencies are also prevalent. Forty-three percent (43%) of children 6–59 months old suffer from Vitamin A deficiency (2013 data), while 40 percent of women of reproductive age have anemia (2011 data) (Global Nutrition Report 2015).

3. Limited opportunities for commercialization are at the heart of small farmers' problems in Tanzania. The majority of smallholder farmers sell little of their production. Approximately three quarters of all maize, and approximately half of all paddy, is consumed within the village in which it is produced. The expansion of smallholder production of these food crops, as well as a range of cash crops such as cotton, tea and coffee is undermined by low productivity, and high transport and marketing costs. New strategies for agricultural commercialization are needed.

4. The economy in Tanzania is highly dependent on natural resources, rain-fed agriculture and biomass for household energy, being highly vulnerable to extreme weather events and the adverse effects of climate change. The impacts are already being felt and recent temperature

measurements from 21 meteorological stations in the country have shown a steady increase in temperature over the last 30 years. Climate change projections indicate that the frequency and severity of climate change related events will continue to increase, including a consistent increase in warming from 0.5° C in 2025 up to around 4° C in 2100, with the South Western part of the country more heavily affected. Mean seasonal rainfall is expected to progressively and continuously decrease in most parts of the country, specifically in the North-eastern highlands, where projections show a decrease by up to 12 percent in 2100. The country has experienced recurrent droughts in the past 40 years which have triggered devastating effects in the agriculture, water and energy sectors. It has also experienced extreme drop of water levels in Lake Victoria, Lake Tanganyika, Lake Jipe and Lake Ruwa, massive loss of the glacier on the Mount Kilimanjaro (80%), inundation in Maziwe Island in Pangani District and intrusion of sea water into water wells along the coast of Bagamoyo town. Currently, more than 70 percent of all natural disasters in Tanzania are climate change related and are linked to recurrent droughts.

5. The top leadership of the country is strongly committed to share prosperity more widely, and recognizes the economic importance of agriculture for rural growth and poverty alleviation. The government at the highest levels has made transformation of agriculture a major national priority. Learning from the experience of other countries, the Tanzanian government has embarked on an ambitious program to strengthen agriculture value chains and integrate larger numbers of small-scale farmers into these competitive trade partnerships. These initiatives target the transformation of large numbers of semi-subsistence producers to become successful commercial farmers. There is a market failure in service provision to these smallholders to enable them to link up with modern agriculture value chains (which enables them to acquire modern technologies and markets; and learn by doing); hence government is committed to correcting this market failure by incentivizing agribusinesses through matching grants. The matching grants would help underwrite the risks agribusinesses face in bringing in more smallholders into their value chains, and smallholders would gain from the experience of more targeted modern services and improved markets for their output.

B. Sectoral and Institutional Context

6. Tanzania's agricultural sector has significant potential to be a key driver for growth, employment generation, and poverty reduction. The sector accounts for 25 percent of GDP and employs about 75 percent of the labor force. Share of women of agriculture labor force is 53 percent[2]. The agricultural sector GDP has been growing at a rate of four percent annually; however real growth has only been around one percent annually in view of population growing at about three percent per year. Most smallholder farmers continue to operate on small plots, using hand tools and few improved inputs.

7. There are many opportunities to transform Tanzanian smallholder agriculture into a modern competitive sector. Tanzania has a large endowment of 44 million hectares of agriculturally suitable land. Yet only 15.5 million hectares (14.0 million small holder farmers and 1.5 million commercial) are cultivated. The country has one of the largest livestock herds in Africa. Tanzania has a favorable rainfall. The country shares borders with eight East African

[2] L. Christiansen, T. Kilic and A. Palacio-Lopez. 2014. Rhetoric and Reality: How Much Do Women in Africa Contribute to Agriculture IN: Levelling the Field, World Bank.

countries offering the potential to export to growing regional markets. Tanzania has an expanding road and rail network linked to a major port facility in Dar es Salaam. The port of Dar es Salaam provides a major conduit for goods moving through regional markets, including land locked countries like Burundi, Uganda, Malawi, Zambia and Rwanda. The country has five international airports in Dar es Salaam, Kilimanjaro, Songwe, Mwanza and Zanzibar.

8. The challenge is to convert these opportunities into a sustained program of rural growth, poverty reduction, and shared prosperity. As a starting point, there is considerable scope to increase the average yields of major staple foods and cash enterprises, and boost total factor productivity. The technologies already exist to double yields and improve productivity. However, most farmers still lack awareness of, and access to, these technologies. More importantly, most still lack the market linkages necessary to assure their investments in expanding production are profitable. This problem is particularly difficult in a country like Tanzania where the density of farm population tends to be low, and marketing costs are high.

9. The Government of Tanzania (GoT) first broadly acknowledged the importance of the private sector in building successful agricultural markets in the 1990s. The 2001 government Agricultural Sector Development Strategy (ASDS) highlighted the need to attract increased private sector participation in agricultural development. The Agricultural Sector Development Program (ASDP), which became operational in early 2006, correspondingly encouraged the expansion of private sector investments linked with smallholder development. In 2009, the government signed the Kilimo Kwanza (Agriculture First) resolution calling for a commitment to stronger public-private partnership as a means to speed up the modernization and commercialization of the smallholder sector. A year later, the government proposed the establishment of the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Program in order to operationalize the Kilimo Kwanza.

10. Tanzania’s private agribusiness sector has grown rapidly over the last 20 years. However, the development of value chains encompassing large numbers of smallholders has not followed suite. The SAGCOT Program aims both to speed the expansion of commercial agribusiness investment, and incorporate much larger numbers of smallholder farmers into competitive supply chains. The SAGCOT Investment Blueprint, states that the GoT seeks to attract US$2.1 billion of new agribusiness investment over the next 20 years in order to bring at least 350,000 additional hectares into commercial production incorporating Tanzanian smallholders into internationally competitive supply chains. Much of this will be expanded smallholder production. In the process, the SAGCOT Program aims to create at least 420,000 new jobs and lift more than 2 million people out of poverty.

11. The SAGCOT Program was originally proposed as a public private partnership at the World Economic Forum on Africa in May 2010 in Dar es Salaam, Tanzania. Following the drafting of an Investment Blueprint, the program was formally launched in Dar es Salaam in November 2010, and then highlighted at the World Economic Forum meetings in Davos, Switzerland in January 2011. The wider SAGCOT Program was later showcased at meetings of the G8, and has been discussed at the African Union events, and the New Partnership for Africa's

Development (NEPAD) sponsored "Grow Africa" Initiative. The international private sector[3], the domestic private sector[4] and donors[5] have each expressed considerable interest in working with the GoT to implement this initiative.

12. Given the international publicity received, the SAGCOT program is viewed by some primarily as an effort to encourage new international agribusiness investment in the country. Indeed, Tanzania seeks such investment. However, the principal strategy underlying the program is not only agribusiness investment per se, but more the construction and expansion of sustainable partnerships between agribusinesses and smallholder farmers, offering win-win solutions to both sets of investors, leading to an agricultural growth rate that is transformative of the rural economy of Tanzania. The main indicators of Program success are more than just investment or even agricultural growth. They include improvements in food security, rural incomes, employment and poverty reduction. In line with the recommendations of the recent report on agri-business in Africa[6], the SAGCOT Program is expected to simultaneously tackle the two major constraints to the development of the sector – low on-farm productivity and lack of market access – through business partnerships. The SAGCOT Program aims to encourage new agribusiness investment that explicitly supports the commercialization of smallholder farming systems, as well as the expansion of number of smallholder farmers successfully working with the many domestic agribusinesses already in existence.

13. Agribusiness surveys conducted in preparing this Project quickly identified more than 50 small to medium scale agribusinesses in Tanzania seeking supplementary support to improve the productivity of their smallholder partnerships.[7] The businesses and smallholders commonly cite the need for improved access to new technologies (e.g., new crop varieties, improved livestock breeds and better management practices), improved commodity assembly and grading systems, and better extension support in order to increase the volume and value of smallholder commodity traded in regional and international markets. Recent assessments of "out-grower" arrangements for sugar and rice, highlight the achievement of higher levels of productivity and income derived from these partnerships.[8] The SAGCOT Blueprint highlights specific opportunities for the development of more agribusiness partnerships in a wider range of commodities including soya, potato, beef, fruit and vegetable production.

14. Yet a profound transformation as envisaged by the SAGCOT Program also carries significant risks. Tanzania has one of the strongest land policy frameworks in Africa for the protection of land rights (see Annex 8, section V). In 1999, Tanzania allocated most land to villages (70 percent of the country's total), with strict procedures for any reallocation to private

[3] Companies including Unilever, Yara, DuPont, Monsanto, General Mills, Stanbic, SAB Miller, Diageo and Syngenta cosponsored the drafting of the SAGCOT *Blueprint* with government and development partners.
[4] The SAGCOT *Blueprint* was also drafted with support from the Confederation of Tanzanian Industries, the Tanzanian Sugarcane Growers Association, the Agricultural Council of Tanzania, and the National Microfinance Bank.
[5] In addition to the World Bank, USAID, Norway, and DFID have committed early funding for the SAGCOT Program and others are considering support.
[6] *Growing Africa: Unlocking the Potential of Agribusiness*, World Bank, January, 2013.
[7] These include producers and processors of a wide range of commodities including rice, tea, cocoa, avocados, potatoes, poultry and dairy.
[8] Cf Hermann, Mutabazi and Grote. 2014. Agro-industry investments, smallholders and workers: evidences on household income effects from Tanzania.

investors. However, a number of stakeholders remain worried about agribusinesses taking over land of rural households. A Letter of Sector Policy on Land from the government includes measures to protect the land rights of rural households and village communities (see paragraph 48 and Annex 8, Attachment). The letter confirms that the government will give first priority to allocating General Land under the control of various public institutions to agribusiness development. If villagers seek to partner with agribusinesses, following current regulation, land allocations to the business will only be agreed with the full consent of the rural community, with appropriate compensation as needed, a well-defined sharing of benefits and a commitment to partnership between the community and the investor. The government is also committed to ensure that such allocations are transparent and publicly documented.[9] The challenge is in the implementation of these commitments. Government is committed to strengthening its capacity in this area, and to ensure that adequate redress mechanisms are in place for the communities.

15. The government is also committed to support environmentally sustainable solutions in the SAGCOT area. The SAGCOT Blueprint highlights environmental risks to implementation. For example, rapid growth of agricultural investment will place pressures on land and water resources, including areas adjacent to national reserves and parks. The government has prepared a SAGCOT *Greenprint*[10], drafted to identify more environmentally sustainable investment opportunities. This highlights a wide range of environmentally friendly practices that might be employed in the context of agribusiness partnerships under the SAGCOT Program, including such options as conservation farming, rainwater harvesting, off grid solar power and biogas energy production. The Government is committed to building its capacity, and those involved in the SAGCOT program, to meeting this challenge.

16. The Government's Kilimo Kwanza (Agriculture First) includes a need for developing programs to strengthen the position of women in agriculture. The Project seeks particularly to assure that women farmers are integrated into internationally competitive supply chains. There are also vulnerable groups, including vulnerable pastoralists, farmers and other groups, such a women-headed households, the elderly, disabled, youth, children, refugees, and persons with HIV/AIDs. The Project has prepared Vulnerable Groups Planning Framework to assist to identify measures to include them in the project.

17. The Government commonly refers to the SAGCOT Program as 'business unusual'. Rather than working through its own Ministries, the Government chose to create two new private sector institutions to lead the SAGCOT Program implementation. The SAGCOT Centre is a private company limited by guarantee[11] and the SAGCOT Catalytic Fund is an independent Trust. Each has its own governing board.

18. The SAGCOT Program represents a unique partnership mechanism. The Prime Minister's Office (PMO) leads the government team in partnering with the new institutions. This high level commitment improves the opportunity to achieve complementary investment support from multiple Ministries including Agriculture, Trade and Industry, Transport, Energy, Works and Natural Resources. Representatives of both the domestic and international private sector

[9] G8 – Tanzania Land Transparency Partnership, June 15, 2013.
[10] A Vision for Agriculture Green Growth in the SAGCOT Program: The *Greenprint*. April 2013.
[11] The SAGCOT Centre is a non-profit entity with no share capital.

have been working together with the government to define the governance arrangements of these institutions. The boards of both the SAGCOT Centre and the Catalytic Trust Fund include public and private sector representatives, including agribusiness specialists from abroad. The SAGCOT Program is now attracting funding from multiple development partners, including United Nations Development Programme (UNDP), United States Agency for International Development (USAID), and Department for International Development (DFID) (See Annex 2).

19. While many of the risks and mitigation strategies associated with the wider SAGCOT Program are outside the scope and direct influence of the proposed Project, the Project helps to address these with a number of tools, including a Strategic Regional Environmental Assessment and the Letter of Sector Policy on Land (see Annex 8).

20. Overall, IDA's support can add considerable credibility and value derived from the Bank's global experience with inclusive agribusiness development. The success of the SAGCOT project will not only help to modernize agriculture in Tanzania, but also provide lessons for other countries which have large untapped potential to improve their agricultural productivity and lift large populations from living in poverty.

C. Higher Level Objectives to which the Project Contributes

21. The SAGCOT Investment Project will support specific aspects of the SAGCOT Program. The Project aims particularly to support innovative strategies for generating agricultural growth and poverty alleviation through building successful partnerships between smallholder communities and agribusiness investors.

22. The Project is closely aligned with the 2010 National Strategy for Growth and Reduction of Poverty (*Mkukuta II)*; specifically Cluster I: Growth and Reduction of Income Poverty, which highlights the need for the modernization and commercialization of private sector-based agricultural activities through accelerating productivity growth and removing bottlenecks along agribusiness value chains.

23. The Project supports the GoT's approach of a strong and effective system to accelerate implementation and achieving of results of its development plans and programs as stipulated in the *Five Year Development Plan*.

24. The project supports GoT's "Big Results Now!" (BRN) initiative launched in 2013, which identifies solutions to key development bottlenecks, develops detailed implementation plans to implement these solutions, and pursues a new delivery system to ensure effective execution and monitoring. Phase 1 of BRN consisted of an intense planning process, comprising the following Delivery Labs covering Key Results Areas: Agriculture, Education, Energy, Water, Transport, Investment Climate and Resource Mobilization. A number of investment activities prioritized under BRN have synergies with the SAGCOT program, including the development of electric power supply and transport infrastructure (such as the port of Dar es Salaam) that are essential for agriculture development, and improving the investment climate. Lastly, the project is aligned with the National Nutrition Strategy (July 2011/12 – June 2015/16) that identifies a set of eight priority areas that are key to improving nutritional status in Tanzania including Household Food Security either from own production or through purchases – clearly

thus recognizing the role of agriculture in addressing underlying causes of poor nutrition. More broadly the Government has signaled its commitment to place high priority on nutrition by joining in June 2011, the Scaling Up Nutrition (SUN) Movement, and also by establishing the High-Level Steering Committee for Nutrition that is a multi-sectoral body to ensure collective efforts are made to scale up nutrition, and is chaired by the Permanent Secretary in the Prime Minister's Office (PMO).

25. The Project supports GoTs Nationally Determined Contribution (NDC) submission to the United Nations Framework Convention on Climate Change (UNFCCC) and its Climate-Smart Agriculture Program actions 2015-2025, by building increased resilience to the impact of spatial and temporal variability of declining rainfall, frequent droughts, increased temperatures and floods as well as reducing emissions intensity of agricultural production.

26. The Project is aligned with the World Bank's Tanzania Country Assistance Strategy (CAS) for the period 2012-2015, where it contributes in particular to Objective 1: to promote inclusive, sustainable, private sector-led growth. The Project is expected to contribute both to CAS Outcome 1.1: improved business environment and financial intermediation; and to CAS Outcome 1.2: improved productivity and incomes. It is also fully aligned with the CAS Progress Report that extends the current CAS period until mid-2016. Given the strategic role and potential of the Program to support poverty reduction, the project is expected to remain a key priority under the next Country Partnership Framework which is under preparation. The Project is furthermore fully in line with the Bank's Africa Strategy – particularly Pillar 1: Competitiveness and Employment.

II. PROJECT DEVELOPMENT OBJECTIVE

A. PDO

27. The Project Development Objective (PDO) is *to increase the adoption of new technologies and marketing practices by smallholder farmers through expanding and creating partnerships between smallholder farmers and agribusinesses in the Southern Corridor of Tanzania.*

B. Project Beneficiaries

28. The Project's direct beneficiaries will be about 100,000 smallholder farming households (some 500,000 people) and at least 40 agribusiness operators in the SAGCOT Program area. Emphasis will be placed on incorporating women farmers into successful commercial value chains. Direct beneficiaries would also include the Tanzania Investment Centre, the SAGCOT Catalytic Trust Fund and the SAGCOT Centre as supporting institutions. Indirect beneficiaries will be smallholder farmers not directly supported by the Project, and other agribusinesses in the value chains (e.g., input suppliers, transporters and traders). These indirect benefits will materialize through rural growth and spillover effects from new technologies, investment, employment, incomes, rural spending, and new market opportunities introduced by the Project.

29. In effect, the SAGCOT Project is a clear manifestation of the Bank's goals of promoting shared prosperity and poverty reduction. Based on the survey of more than 60 private local

investors, representing numerous prospective commercial partnerships, smallholders will gain access to new technologies including better seed varieties, improved animal breeds, and technical advice for strengthening crop and livestock management practices. A food security/ nutrition lens will be applied throughout the project approach. This effort will not only increase incomes for participating smallholders, but also support activities towards improved nutrition by enhancing the competitiveness of smallholders in rice, maize, and horticulture. In addition, these farmers will benefit from enhanced yield improvements, product grading and assembly systems offering higher farm-gate prices for commodity products. Farmers will become more resilient against the impacts of climatic shocks as the introduced technologies will be better adapted to the changing climate and as additional income generated through the project will allow farmers to build more overall buffer against risks. Some of the proposed partnerships focus on strengthening access to agricultural finance. In effect, poorer farmers are gaining access to improved technologies and a higher incentive to adopt these technologies in order to meet the demands of a commercial market. These partnerships specifically target income gains and employment gains in the rural community. The multiplier effects of these income gains will improve the economic opportunities in the surrounding off-farm economy. The successful commercialization of the smallholders will bring complementary gains in input retailing, rural financial services, transport services, and local agro-processing.

C. PDO Level Results Indicators

30. The achievement of the PDO will be measured by the: (a) clients who have adopted an improved agricultural technology promoted by the project (gender-disaggregated); (b) the percentage of smallholder farmers adopting new marketing practices (gender-disaggregated), and (c) the number of direct Project beneficiaries (gender-disaggregated).

III. PROJECT DESCRIPTION

A. Project Components

31. The Project is an IPF and will be implemented over a period of 5 years and will comprise three components:

Component 1: Strengthening of SAGCOT Support Institutions (total US$14.33 million, of which IDA US$5.95 million). This component will strengthen the capacity of SAGCOT Support Institutions in order to pursue their functions of information and data provision, support of investment planning and guidance, government/private sector intermediation, business enabling environment and investment promotion. The component will support two institutions:

(i) SAGCOT Centre (total US$11.83 million, of which IDA US$3.45 million): The sub-component will support the SAGCOT Centre, which was established as a public private partnership entity in 2011 to: (a) facilitate agri-business and partnership development; (b) ensure inclusive and sustainable investment and development; and (c) facilitate an improved enabling environment for investors. The Project will support the Centre by providing financing for staff and operational costs, studies and consulting services to be contracted by the Centre.

(ii) **Tanzania Investment Centre (Government institution) (total US$2.50 million, all IDA)**: This sub-component will support the Tanzania Investment Center (TIC) which was established as a public sector entity in 1997 and designated as the first point of call and a "one-stop facilitation centre" for all potential investors coming into the country. The Project will support TIC to reform its processes with the aim to: (a) strengthen its capacity to attract high quality, responsible, inclusive and sustainable commercial investments (national and international private sector); (b) provide a competitive framework for tendering; and (c) monitor and evaluate investments. The Project will finance equipment, technical assistance and consultancies.

Component 2: Strengthening Smallholder Business Linkages (total US$85.76 million, of which IDA US$55.65 million): The objective of this component will be to link smallholder farmers to agricultural value chains. The component will: (a) expand the number of smallholders linked to agribusinesses in successful commercial partnerships; and (b) improve the benefits derived by smallholders and rural communities from these partnerships in the form of growth in agricultural productivity, income, resilience to shocks, employment and improved food security. This component will comprise two sub-components:

(i) **Fund Management (total US$7.79 million, all IDA):** Under this sub-component the Project will support a management structure responsible for the implementation of the Catalytic Trust Fund (including Board, Secretariat and Fund Manager). Project support will include fees and salaries, goods and equipment, office operational costs, meetings and workshops, communications, and technical assistance.

(ii) **Matching Grants (total US$77.98 million, of which IDA US$47.86 million)**: Matching Grants (MG) of US$250,000 up to US$1.5 million with a matching contribution of 30 percent (national businesses) and 40 percent (international business operators) will be awarded to agribusiness companies with undisputed land rights who apply in partnership with smallholder groups or associations, following a defined process of application, evaluation and competitive selection. The grants can be used for capital and operational costs directly related to expanding smallholder participation in competitive agricultural supply chains.

Component 3: Project Management and Monitoring and Evaluation (total US$8.41 million, all IDA): The component will establish project management and M&E systems and provide financing for salaries, office equipment, transportation and technical assistance services. Complementarities will particularly be sought with other IDA funded programs such as the Private Sector Competitiveness Project and the Agricultural Sector Development Program.

32. The proposed IDA funded Project will not support the entire SAGCOT Program but a distinct and critical element of the larger Program. The Project will focus on certain key interventions that build on lessons from global experience, and at the same time help manage the associated reputational and operational risks. The Project is very innovative in nature: it is intended to contribute to "catalyzing" the integration of smallholders into competitive agribusiness value chains to help create the opportunity for technology acquisition, productivity improvement and income growth of farmers. The Project is also intended to strengthen the due

diligence systems of key institutions linked to the SAGCOT Program that are critical to improving the quality and success of partnerships between agribusinesses and smallholders.

B. Project Financing

33. The total costs of the Project are estimated at about US$108.05 million. The costs are proposed to be financed by an IDA credit in the amount of US$70.00 million[12] equivalent. Matching contributions from private sector businesses under the SAGCOT Catalytic Trust Fund Matching Grant Facility are estimated to be US$25.12 million, based on a formal market assessment conveying strong demand for the matching grants. Over 50 of the 55 local agribusinesses interviewed planned to submit applications. The average grant will be about US$500,000. USAID, DFID, UNDP and Norway have agreed to provide at least US$7.32 million to the SAGCOT Centre over the next five years. The Tanzanian Government expects to use its own resources to commit US$5.0 million to the SAGCOT Catalytic Trust Fund. A more detailed financing table is provided in Annex 2. It is expected that as the SAGCOT Program gains momentum, DFID, USAID, and other development partners will provide more investments.

Project Components	Project cost US$m	IDA Financing US$m	Percent Financing
A. Strengthening of SAGCOT Support Institutions			
SAGCOT Centre	11.83	3.45	29.1
Tanzania Investment Centre	2.50	2.50	100.0
Subtotal Strengthening of SAGCOT Support Institutions	**14.33**	**5.95**	**41.5**
B. Strengthening Smallholder Business Linkages			
Fund Management	7.79	7.79	100.0
Matching Grants	77.98	47.86	61.4
Subtotal Strengthening Smallholder Business Linkages	**85.76**	**55.65**	**64.9**
C. Project Management and M&E			
Project Management	4.42	4.42	100.0
Monitoring and Evaluation	0.18	0.18	100.0
Subtotal Project Management and M&E	**4.61**	**4.61**	**100.0**
Project Preparation Advance	**3.80**	**3.80**	**100.0**
Total Project Costs	**108.50**	**70.00**	**64.5**

34. The PCU has already implemented a Project Preparation Advance (PPA) of US$3.0 million provided to the Government of Tanzania on September 21, 2011. An additional PPA of US$0.8 million was provided in August 2014. The PPA is being used for the design and start-up of the SAGCOT Catalytic Trust Fund, development of the SAGCOT Centre, strategic planning and stakeholder dialogue of the TIC, and the drafting of key operations manuals for the Project. The PPA was also used for the preparation of key safeguard documentation including the Strategic Regional Environmental and Social Assessment. The remaining funds are being used to

[12] Out of the US$70 million US$3.8 million were already provided by two Project Preparation Advances to the Government.

support the initial operations of the project's implementing agencies, including the Project Coordination Unit. The second PPA is scheduled to close on January 31, 2016. The Government has indicated to request an extension of the second PPA with a proposed closing date of June 30, 2016.

C. Lessons Learned and Reflected in the Project Design

Lessons reflected in the design:

35. The Bank has gained experience and insights from a large number of projects[13] and programs both World Bank and non-Bank financed, where private sector entities and businesses are important development partners[14]. The design of this Project has incorporated past lessons and experiences, which in particular refer to the following points (for each of the lessons some key references are provided and refer to the footnotes below):

- *Importance of alignment with the country's policies and programs and political stability (see reference (2),(6) and (7)):* The Project is fully aligned with the Tanzania's development strategy of using private sector investment as an engine of equitable agricultural growth; bringing innovation and market access to smallholders, as well as employment opportunities;
- *Importance of a transparent and predictable policy environment for investors (see reference (9)*. For many interested investors, it is not so much the level of taxation, duties, fees, licences or other regulations to be followed, which prevents them from investing, but the transparency and predictability of such Government policies. To improve transparency and predictability, the Project will establish a policy analysis and

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[13] For some important project level experiences see:

1. World Bank: "Turkey Technology Development Project." Project Appraisal Document. Washington, DC: World Bank.
2. World Bank: "China Agriculture Technology Transfer Project." Project Appraisal Document, and Implementation Completion Report. Washington, DC: World Bank.
3. World Bank: "Zambia Smallholder Agricultural Commercialization Strategy." Report No. 36573-ZM. Washington, DC: World Bank.
4. World Bank: 2008. "Vietnam Agriculture Competitiveness Project." Project Appraisal Document. Washington, DC: World Bank.
5. PPAP in PNG

[14] For some of the analytical work see:

6. van der Meer, K., and M. Noordam. 2004. "The Use of Grants to Address Market Failures: A Review of World Bank Rural Development Projects." Agriculture and Rural Development Paper No. 27. Washington, DC: World Bank.
7. World Bank: 2010. Designing and Implementing Agricultural Innovation Funds: Lessons from Competitive Research and Matching Grant Projects." Report No. 54857-GLB. Washington, DC: World Bank.
8. World Bank: Agricultural Innovation Systems: An Investment Sourcebook. See specifically Module 5: Innovative Partnerships and Business Development, with Thematic Notes on Foundations for Public Private Partnerships, Innovation Funds, and Agricultural Clusters; http://siteresources.worldbank.org/INTARD/Resources/335807-1330620492317/9780821386842_ch5.pdf,
9. Geoff Tyler and Grahame Dixie. 2012. "Investment in Agribusiness: A Retrospective View of a Development Bank's Investments in Agribusiness in Africa and East Asia", Washington, DC: World Bank
10. World Bank/UNCTAD: Field Survey of the application of principles of responsible agricultural investment with Investors and Local Communities, Hafiz Mirza, Will Speller & Grahame Dixie, 2013, Joint UNCTAD World Bank report, (to be published)

dialogue mechanism through the SAGCOT Centre to facilitate consultations between the public, private and productive sectors so that investors have a forum in which they can become better informed about policies and have the opportunity to state their views and expectations.

- *The need to build on basic comparative advantages in the project area, rather than trying to change it (see reference (8):* The Project investment will build on competitive advantages of the SAGCOT area related to location, infrastructure, agro-climate, work force and skills[15].
- *Competitive matching grant schemes can be highly effective, especially if the lessons learned from the World Bank Group (WBG) extensive project portfolio are incorporated.* The use of Competitive Matching Grants, both targeted at Producer Organizations and Agribusinesses, have a long and mainly successful record in the WBG. In the early 2000s, there was a raft of projects in Eastern Europe which focused on supporting new technology and marketing channels with about 40 percent funding being channeled through agribusiness. These projects were successful. One of the first was in Romania which demonstrated with Net Present Value (NPV) with weighted Financial Rate of Return (FRR) at 111 percent. In the LAC region, partnership programs called Productive Alliance now amount to over 16 projects. By October 2013, nearly 3,000 partnerships benefited 110,000 families in this region. The best established scheme is the Colombia program with 775 supported partnerships, and an assessment that over 75 percent of the Productive Alliances are assessed as being sustainable businesses. The preliminary results of the Bolivia Productive Alliance of 159 projects has shown increases in productivity (+50%), prices, marketable surpluses (x2) and sales incomes (x2) for the small holder producers linked with agribusiness. One of the success parameters is that these investments are built on existing businesses, as does the proposed SAGCOT design and are not nearly as vulnerable as start-ups and especially small start-ups. In Zambia, the Agricultural Development Support Project provided some 24 competitiveness matching grants to agribusiness. The full results are yet to be written up, however, there is good evidence that the results were positive. Competitive matching grants have been taken up in three other projects in Zambia. The key problem, after a slow start in disbursement, is the failure of the private sector to release their matching funds. The SAGCOT project has addressed this by allowing the proportion of the new agribusiness investments in their own business which directly benefits the small holders to also be considered as part of the matching grant.
- *Importance of consultation[16] and mutual benefits (see reference (2), (3) and (7):* Field interviews and experiences gained in similar projects (e.g., China Agricultural

[15] The agro-climatic conditions of the SAGCOT corridor allow the production of the high quality crops (i.e., Mufindi - highest quality limited expansion potential; Unjombe - more expansion potential with still good quality; and Tikulu area – on the north side of Lake Malawi - fertile and produce high yields, average quality without irrigation). Good quality coffee in Mufindi and Mubozi. Excellent oranges and limes in Kilimbaro. The lower lying areas in the corridor have been a major rice producing area. There are the possibilities of high quality papaw (and groundnuts) and irrigated maize in Morogoro, and Mango's nearer Dar es Salaam (harvesting in Nov-Jan period (i.e., counter season to Southern Asian production). Proven potential for wattle, soft wood and eucalyptus. Cattle can be successful but with concerns for the level of tick borne diseases.

[16] The preparation of the SAGCOT Program, including the identification of governance arrangements and institutional strategies for the SAGCOT Centre and the SAGCOT Catalytic Trust Fund, has been highly consultative. This process started with the preparation of the SAGCOT *Blueprint* under the guidance of an ad hoc

Technology Transfer Project) confirmed that successful partnerships are characterized by a close and frequent interaction between the business and smallholder partners generating trust and understanding that both sides have to benefit in a fair benefit sharing arrangement. The Project will give special attention, encouragement and support to ensure MG investment proposals are proposed jointly (investor and smallholders), are financially sound, include community consultation and offer sufficient benefits to both investors and smallholders.

- *Importance of competition and transparency (see reference (6) and (7):* Private sector partners will be selected on a competitive basis with a transparent evaluation and selection process. This is ensured through a professional Fund Manager and an International Board outside of the Government system. Additionally, TIC will develop and implement competitive and transparent processes based on international best practice processes.
- *High sustainability of project built on strong partners with demonstrated experience to link with smallholders (see references (2), (7), (8) and (9)):* Commercial risks are reduced by the Project investing: (a) in established and operationally skilled agribusinesses, rather than first time investors, and (b) in well- resolved business models. The MG will only support existing businesses with a two year track record, audited accounts and can demonstrate financial capacity, management skills, technical know-how and past experience for linking to small holders.
- *Need for results to be agreed up front, then transparently pursued and monitored (see references (2) and (7)):* The MGF specifically identifies a set of results laid out in the Trust Deed. These include (i) increases in the number of smallholders, and particularly

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Executive Committee composed of representatives of the highest levels of government, the private sector, farmer organizations and development partners. The drafters of the SAGCOT *Blueprint* visited agribusinesses and rural communities distributed across a large part of the southern corridor. A consulting firm specializing in communications completed an assessment of stakeholder views of the SAGCOT Program. The Ministry of Agriculture, Food Security and Cooperatives then sent several missions to district governments and smallholder communities to discuss the objectives and plans of the SAGCOT Program. The Rufiji Basin Development Authority (RUBADA) conducted village level meetings encompassing at least 20 different smallholder communities to discuss opportunities for agribusiness partnerships in the context of the SAGCOT program. The consulting firm drafting the SRESA met with several smallholder communities to discuss the potential social and environmental impacts of the SAGCOT Program and also met with broader groups of national stakeholders in several meetings in Dar es Salaam. IDA teams have conducted multiple discussions with agribusinesses and nearby farmers about the opportunities and challenges underlying their commercial partnerships.

The government has organized a series of discussions about the SAGCOT program with smallholder farmers in the Southern Corridor region. Complementary village meetings have also been organized by the Rufiji Basin Development Authority (RUBADA) to discuss partnerships between these communities in the Southern Corridor and potential agribusiness investors. The SAGCOT Centre has also organized a related set of meetings to explain the SAGCOT Program strategy with current and potential private agribusiness investors.

Specific consultations about the Project proposed for funding by the World Bank have been held with many smallholder groups, private businesses, non-governmental organizations and other development partners. These began in June 2011 with wide ranging discussions with government and private sector representatives about the SAGCOT Program's Investment Blueprint and options for distinct World Bank funding. In mid to late 2012, discussions were held with smallholder communities involved in business partnerships with external investors as part of a land study. The World Bank's environmental assessment team was also meeting with investors and farm communities while preparing a more detailed assessment of the impacts of agribusiness investment in the Kilombero region. The teams met with key NGO representatives concerned about land allocations including Haki Ardhi, Oxfam and Concern Universal. In June 2013, these consultations were extended to encompass agribusinesses and their smallholders partners in central SAGCOT targeted Mbeya, Iringa and Morogoro Regions.

women farmers, operating as out-growers; (ii) increase of incomes received by smallholders; increased employment; and (iii) improvements in the availability of agricultural inputs to smallholders. Applications for grant funding will have to specify the targeted gains for each specific indicator, and the MGF contracts will require transparent monitoring of accomplishment. In cases of non-compliance, the Trust Fund will stop disbursements to the grantee and seek full or partial reimbursement.

Alternatives Considered:

36. During project design, a number of alternatives were considered:

- *Providing support to smallholders directly:* It was considered to fund smallholder farmers directly (e.g. through the development of farmer organizations, training and capacity building, producer and marketing cooperatives, technical extension, etc.). While there may still be scope for such kind of a project in certain products and areas, this approach involves the risk of being largely production driven and insufficiently market driven. It would have lacked the significant features of technical innovation, new high value products, and market linkages expected to come from investors. The matching grants link smallholder farmers into defined partnerships with local agribusiness within an agreement framed by the targeting of benefits to smallholders. The advantage to the agribusiness is that it shares the risks of integrating more smallholders into the company's supply chain. The advantage to the smallholder is that the primary performance objectives underlying the grant are productivity, income and employment gains to small-scale farmers participating in the partnership. This is a win-win arrangement for both parties.
- *Setting up a project specific Matching Grant implementation management structure:* An option to set up a Matching Grant Management structure within the Project and specifically for the Project was rejected by the Government for reasons that a Trust governed by a Board: (a) would ensure sustainability beyond the life-time of the Project; (b) would have the ability to attract funds from other donors, who want support investments in the SAGCOT Program area; and (c) would have the necessary independence from Government and local interest groups and individuals as a Public Private Partnership (PPP).
- *Investment in land planning:* The option to include a project component for strengthening of land survey and land use planning system was considered and rejected.
- *Using existing funding institutions:* When the project design was initiated, the team explored the options of setting up the catalytic fund under the auspices of the Tanzania Investment Bank, the proposed Agricultural Development Bank and the African Enterprise Challenge Fund. Both the Government and the ad hoc public-private SAGCOT Program Executive Committee that supervised the drafting of the SAGCOT *Blueprint* proposed, however, the establishment of a specific funding institution, which fully subscribes to the overall strategic program and devotes its undivided efforts to a corresponding set of investments in the Southern Corridor, and for purposes of sustainability as discussed above. Over time, this may be expanded to support related agribusiness-smallholder partnerships in other corridors in the country.

Partnering with IFC:

37. The IFC has been a partner in the development of the Project. The Investment Climate team, now part of the Trade and Competiveness Global Practice of the World Bank, provided early inputs, helping to assess the investment climate in the SAGCOT Program[17] and helping to focus on the needs and priorities of private investors. It is envisaged to closely provide support under Component 1 of the proposed project, in particular toward the envisaged support for the TIC. Possible additional Trust Fund resources may be mobilized to further strengthen the support of TIC. The IFC Investment team has informed the Government of the kind of improvements in institutional and regulatory arrangements which would attract investments in agricultural production, processing, and trade in the SAGCOT Program area. The project is expected to strengthen the profitability and sustainability of agribusiness investments linked with smallholder communities that may later be attractive candidates for IFC funding. The IFC is therefore following closely the development of this Project to leverage opportunities to support private sector clients in their investment programs.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

38. The Project will be overseen by the Prime Minister's Office (PMO). A Project Steering Committee (PSC) meeting quarterly and on specific demand has been established. It is chaired by the Permanent Secretary (PS) of the PMO, and amongst others comprises PS from key line ministries, the Chief Executive Officers of the TIC, SAGCOT Centre, SAGCOT Catalytic Trust Fund (CTF), Rufiji Basin Development Authority (RUBADA), and representatives from smallholder farmers. The PSC will: (a) ensure coordination and cooperation among all participating agencies; and (b) endorse annual work plans and budgets for all project-related activities.

39. The PMO has proposed that the Project Coordination Unit (PCU) originally created for the IDA funded Private Sector Competitiveness Project be expanded to also coordinate the SAGCOT Investment Project. This PCU will have management oversight and reporting responsibilities for all components of the Project. This entity will integrate the financial and technical progress reports from each of the agencies being funded, and carry out the overall M&E for the Project. The PCU will also take overall procurement and financial management responsibility during the first six to 12 months of the Project implementation until sufficient capacity has been built in the other implementing agencies (an assessment will be undertaken to assess the agencies capacity). The full staffing of this PCU as set out in the Operational Manual will be required three months after project effectiveness. All participating institutions will prepare annual work plans and budgets to be submitted to the PCU for approval by the Project Steering Committee. It will be ensured that PCU and other decision making bodies have both men and women staff members.

[17] SAGCOT Program: Launch of the Targeted Investment Generation Campaign, November 2011.

40. IDA financing agreed with the Ministry of Finance that will flow to agencies other than the PCU, will be governed by subsidiary agreements acceptable to IDA (these agencies are the SAGCOT Centre and the SAGCOT Catalytic Trust Fund). These subsidiary agreements lay out the fund flow, implementation and reporting requirements of the two entities. Direct funding to these entities may only begin once these subsidiary agreements, and an associated set of fiduciary systems including financial management and procurement systems acceptable to IDA, are in place. It is estimated that this will take place in the first year of implementation.

41. The SAGCOT Centre will be the responsible implementing agency for sub-component 1.1 activities. Funding for the SAGCOT Centre will be committed in parallel with other Development Partners (initially DfID and USAID) to support the operations of the Centre as a whole. A Memorandum of Understanding (MoU) was signed on September 30, 2014 between the SAGCOT Centre, GoT, DfID, the World Bank, Norway, EU, and UNDP. The MoU states that the funding will be committed against an indicative five year budget, and against an approved annual budget agreed by the SAGCOT Centre Board.

42. TIC will be the responsible implementing agency for sub-component 1.2 activities. The TIC will directly implement these activities and be responsible for procurement, financial management, input/output and progress reporting. In the first instance, procurement under the Project will be implemented by the PCU until such time as TIC has reinforced its procurement capacity.

43. Component 2 will be implemented through the SAGCOT Catalytic Trust Fund. The institutional structure of the catalytic fund management is designed and specified in a Trust Deed. A Board comprising five members has been established. The Board has recruited an Executive Secretary and initiated recruitment of a Fund Manager, estimated to be selected soon after the approval of the Project.

44. The grant application process under the Matching Grant Fund (MGF)[18] will be managed by a professional and competitively recruited Fund Manager. The Fund Manager will periodically (at least twice a year) invite applications from eligible partnership between smallholders and established agribusinesses, and through a two phased process select those applications which satisfy the core criteria (benefits to smallholders, "climate-smartness" based on climate risk and emissions, safeguard compliance, sustainability, etc.). The Fund Manager will have a specific duty to provide support to applicants, in particular to help ensure benefit flows to smallholders, and that both male and female smallholder interests are well represented in the application and the partnership. The final applications will be submitted to the independent Investment Committee to be appointed by the Board to review all grant proposals and make recommendations to the Board on those that warrant funding. The eligibility, selection process and implementation arrangements are detailed in the Trust Deed and further specified in the MGF Operational Manual. Grants will be funded on a reimbursement basis with expenses pre-financed by the investors and may be *tranched*. Grants payments made through the agribusiness

[18] The SAGCOT Catalytic Trust Fund is also envisaged to have a Social Venture Capital Fund (SVCF) to be funded by other Donors (DFID and USAID). The SVCF window is expected to become operational after the first transactions under the MGF have been successfully implemented.

may be allocated to the agribusiness investor, smallholders or some combination thereof, as requested in the application, and set out in the grant agreement.

B. Results Monitoring and Evaluation

45. A Monitoring and Evaluation (M&E) system will be established to capture data on physical and financial progress, the performance of implementing agencies and service providers, and the achievements of outcomes and impact vis-à-vis the project development objectives. Project Monitoring and Evaluation will also be an important tool for facilitating continuous critical reflection on experience and learning by all stakeholders. The PCU will have primary responsibility for monitoring progress and outcomes based on indicators defined in the project results framework (Annex 1).

46. The Fund Manager of the CTF will have the responsibility to collect the PDO level indicators. Intermediate outcome indicators will be collected and reported by the SAGCOT Catalytic Trust Fund, the SAGCOT Centre and the Tanzania Investment Centre. These agency reports will be collated by the Monitoring and Evaluation Officer of the PCU, and summarized in the project's quarterly and annual technical progress reports. Given the importance of assuring a targeted flow of benefits to women farmers, key indicators will be disaggregated by gender.

47. The selection of MGF sub-projects for funding will depend, in large part, on the expected level of accomplishment in meeting specific performance indicators identified in the Trust Deed. Applicants will have to quantify the expected contribution of their matched grant to increasing the numbers of smallholders newly operating as out-growers (with a separate accounting for women), increases in incomes, increases in employment, increases in input availability, and increases in agribusiness investment. The CTF is expected to assess the practicality of these proposals, and then monitor the level of accomplishment. Confirmation of the level of accomplishment will be obtained from the project's independent impact surveys. These results will be aggregated for the measurement of key performance indicators for the project. Since all project indicators start at zero, no baseline survey is planned.

48. After the first round of applications for the MGs (approximately 6-8 months after project effectiveness) a special review will be conducted by the Government, the Bank, the development partners and the implementing agencies. The review will cover all processes involved in the SAGCOT Catalytic Trust Fund implementation such as transparency in the advertisement, application and selection, outreach to smallholders, inclusiveness of vulnerable groups, grant size, funding percentages, etc. At this stage, adjustments in the SAGCOT Catalytic Trust Fund design and implementation arrangements will be considered including a possible need for an amendment of the Trust Deed. In subsequent periods, the Bank will periodically review the performance of the MGs in close coordination with other development partners.

C. Sustainability

49. The Project is a reflection of the GoT's strategic vision for agricultural development. It enjoys strong backing from the President and the Prime Minister's Office and is backed up by the main line ministries. The Project specifically addresses smallholder interests as its primary objective and will as such have a positive impact on social stability and sustainability. Potential

risks are more fully articulated in Annex 4. IDA will pursue intensive monitoring and work with the implementing agencies to adjust design features to resolve unexpected problems.

50. Land risks, associated with Project supported activities, are addressed through Project safeguard instruments and matching grant eligibility criteria. As noted above, there are also land risks associated with the broader SAGCOT Program, which are generally beyond the scope and direct influence of the Project. These are being addressed through a dialogue with the Government aiming to strengthen public communication and awareness, and associated support for strengthening systems of due diligence. In addition, the Government has provided to the Bank a Letter of Sector Policy on Land in which it confirms and elaborates its position on key issues related to land governance in the SAGCOT Program area. The Letter of Sector Policy – which is attached in its entirety in Annex 8 – confirms *inter alia* that:

- Land selection for investment in the SAGCOT Program will be guided by the principle that it should reflect genuine and informed choices by involved communities;
- The utilization of General Land (ie, land already under the control of the State) will be given priority to meet investor demand, to help reduce pressures to convert Village Land for investment purposes;
- Where Village Land is utilized, emphasis will be given to investment modalities that limit the need to convert that land to General Land (such as joint ventures between existing rights holders and investors);
- Village consent is required for allocation of land within village boundaries even when such land appears to be "unused", thus addressing perceived ambiguities in the Land Act;
- Investment agreements will be promoted that ensure affected communities are involved in selecting specific investments, fairly compensated, receive sustained and well-defined benefits and have the legal ability to hold investors accountable to their commitments;
- The Government is committed to ensuring that the process of land allocation to investors is transparent throughout, including making available the terms and conditions of investment agreements;
- Government does not intend to exercise its powers of compulsory acquisition (eminent domain) for purposes of assembling land for commercial agriculture investments in the SAGCOT Program;
- While displacement is expected to be minimal, where it occurs, compensation will be provided in accordance with international best practice;
- Investment decisions in the SAGCOT Program will be accompanied by appropriate environmental and social assessments, and agricultural investment will not take place in protected areas.

51. Financial and economic sustainability of the MG funded investments depends at the micro-level on a thorough system of financial analysis and good business planning, which will be part of each individual investment under the Matching Grants. At the macro level, the county is pursuing a course of liberalization and sound macroeconomic management. Changes in the macroeconomic environment (country internal and external) or unforeseen changes in the country's import/export policies and procedures could impact project sustainability. The Project's funding for the SAGCOT Centre will support the completion of policy analyses and

associated policy dialogue needed to identify and pursue the resolution of major policy constraints. The housing of the Project under the authority of the PMO further facilitates this dialogue.

52. The financial sustainability of the supported institutions is likely to be high. The TIC receives a secured core budget from the Government and the Project only invests in capacity building, which will therefore not have future budget implications. The SAGCOT Centre is proposed to be financed from a mix of donor funds and the Project is expected to provide about one third of its budget over a five year period. Other donors, including USAID, UNDP, and DFID have pledged to provide additional funds sufficient to pay the remaining two-thirds of the planned budget. The Catalytic Trust Fund is designed to attract funds from different development partners, Government and/or open new funding windows.

V. KEY RISKS AND MITIGATION MEASURES

A. Risk Ratings Summary Table

Risk Category	**Rating**
Stakeholder Risk	High
Implementing Agency Risk	
- Capacity	High
- Governance	Substantial
Project Risk	
- Design	High
- Social and Environmental	High
- Program and Donor	Substantial
- Delivery Monitoring and Sustainability	Substantial
- Linkage with wider SAGCOT Program	High
- Market risk	High
Overall Implementation Risk	High

B. Overall Risk Rating Explanation

53. The overall risk of the Project is described in the ORAF (Annex 4). The risk is rated High mainly due to the following:

- Investments under the broader Program (as compared to the IDA financed Project which supports specific parts of the broader Program) might not be fully consistent with the Bank's safeguards policies, but could nevertheless be perceived as associated with the Project. The most important risks related to the wider SAGCOT Program include: (i) the cumulative environmental impacts related to multiple agricultural development investments in the SAGCOT Program area unrelated to agribusinesses financed by the Project; (ii) issues related to the allocation and use of land for agricultural development provided to investors including a potential reclassification of Village Land as General Land by the GoT; and (iii) level of transparency for business deals packaged by TIC.

- Need to strengthen capacity of the implementing institutions. Two institutions – the Catalytic Trust Fund and the SACGOT Centre, are new with untested capacity and unpredictable efficiency (e.g. depending on outputs actually delivered, overhead and staff costs risk being high in relation to their outputs).
- The Project is creating and expanding partnerships between smallholder farmers and agribusinesses leading to adoption of new technologies and improved market access by smallholders. While direct impacts of subprojects financed through the Catalytic Fund are expected to be modest and site-specific, the Project overall is classified as a Category A - given the scale of the Project and its location within an area supporting environmentally sensitive habitats with high biodiversity and an area with a diversity of people. The overall risks are therefore rated as high for environmental and social aspects, particularly due to the Project's linkages with the overall SAGCOT Program, which may entail large-scale, cumulative impacts across the SAGCOT Corridor as a whole.
- The Matching Grant management arrangements and modus operandi are defined in the Trust Deed and the SAGCOT Operational Manual. However, the quality of implementation will still depend on the capabilities of the Fund Manager that is still in the process of being hired. This includes management structure and costs, which are open to proposals from the applicants for the Fund Manager position. The selection of the Fund Manager is largely at the discretion of the Board of the Catalytic Trust Fund.
- The SAGCOT Catalytic Trust Fund management system (Board, Secretariat, and Fund Manager) constitutes a significant up-front financial commitment. Expenses may be difficult to control and are likely to occur irrespective of the success of the MG.
- The complexity of the institutional arrangements with a mix of public and private sector makes overall project management difficult. Communications and reporting arrangements between these institutions are not well established. The project preparation experienced significant communication issues between the agencies involved. The Project Steering Committee has just been established. Its capacity and power to oversee project implementation is yet unclear.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

54. An economic and financial analysis of the project was undertaken in order to assess and answer three main questions related to the proposed project design and expected outcome (for details see Annex 6):

- *What is the Project's expected development impact?* A standard cost-benefit- analysis based on two typical out-grower schemes is used to assess this impact.
- *Is public funding needed and what levels of financing are appropriate?* This part of the analysis identified the specific market failures preventing desirable levels of private

investments in agriculture, how these market failures would be addressed by the project, and what level of public interventions are needed.

- *What is the World Bank's value added in the Project?* This part of the analysis examined the value added derived from Bank experiences. It indicates the necessary commitment of Bank technical support

55. Development Impact: In the absence of Project specific investment proposals, an analysis has been carried out using typical examples of existing business smallholder funding arrangements involving annual and perennial crops. This analysis showed that there is sufficient scope for economically viable investments in agricultural value chains in the Project area. The rate of returns observed in these existing investments were between 14.4 percent and 15.6 percent and proved to be relatively robust in terms of changes in costs and benefits streams. This analysis has not taken into account indirect benefits from spill-over and growth effects, which will likely occur. The EIRR of the project is likely to be above 15 percent. To ensure that the Project's economic and financial returns will be sufficiently high, each investment proposal will include a detailed and thorough economic and financial cash-flow projection. Investments with an economic EIRR below 12 percent or a financial IRR below 10 percent will not be considered.

56. Justification of Public Financing and Appropriate Levels: The project addresses a number of market failures related to temporary barriers to entry, stakeholder diversity in combination with weak organizational structures, and imbalance in access to knowledge and information of smallholders. The most difficult aspect of managing the MG program is determining how much grant funding is required to overcome a particular market failure. If too little grant is given, the market failure may not be overcome. If too much grant is provided, it would create its own market distortion. To ensure that the MG investments follow the 'additionality principle' each MG proposal will be evaluated in terms of its justification for public funding and in terms of the level of public financing justified to trigger additional private investment. This requires a specific *economic* and *financial* analysis to be carried out for each MG proposal. These analysis' will determine whether an investment generates sufficient public goods and the financial analysis will determine whether public funds are required and what amounts of public funds are needed. Appropriate agricultural economics and/or agri-business expertise and resources will be employed at the Fund Manager's office to support such analytical work. Annex 6, Section III describes the detailed methodological background and provides examples on how this Project is addressing market failures.

57. *World Bank's Value Added:* A detailed explanation of the Bank's value added is provided in Annex 6, Section IV. The Project will fully exploit opportunities of adding value through the World Bank's intervention. Main areas of added value include: (a) helping to understand the roles of stakeholders and the rationale of using public funds for private business investments, which includes improving the understanding of private and public goods in MG funding;[19] (b) optimizing the use of public funds by applying the principle of additionality to avoid over- and under-spending and not to create additional market distortions with grant support; and (c)

[19] The World Bank's source books provide important empirical background in this regards. See World Bank: Agricultural Innovation Systems: An Investment Sourcebook. See specifically Module 5: Innovative Partnerships and Business Development, with Thematic Notes on Foundations for Public Private Partnerships, Innovation Funds, and Agricultural Clusters

maximize project impact by taking a macro-economic perspective into account; for which the Project design includes support for policy analysis and policy dialogue under sub-component 1.2. The Bank’s global expertise and understanding of the important role of private partners in Innovative Partnerships has already helped with the project design and implementation arrangements. As the project moves forward, the Bank will support a continuing discussion of strategies for pursuing more productive partnerships between agribusinesses and smallholders. Bank monitoring will encourage optimal use of the project investment funds, and encourage the continuing consideration of options for sustaining the CTF and SAGCOT Centre programs. The Bank's emphasis on closely monitoring impacts, particularly the gains achieved by women and poorer smallholders, will help assure the payoffs to these investments are well mapped.

58. *Demand for MG investments:* During project preparation a demand assessment was carried out with some 55 businesses interviewed and analyzed in more detail (see Annex 6, Section III for more detail). The assessment indicated sufficient demand for the MG, which once the first round of applications has been processed are estimated to increase. One key task of the Fund Manager (who will receive TA support) will be to raise awareness and to help develop proposals. The relatively larger grant size for experienced investors is chosen initially to reduce risks by attracting investors that are well linked into global value chains. The first round advertisement and applications will be used to eventually revise initial provisions of grant size and eligibility criteria of applicants. In addition, the African Enterprise Challenge Fund (AECF), which operates at an East African regional level, provided similar support to enterprises in the past posing a risk of competition and overlap. The Project will monitor the investment portfolio of the AECF.

59. *Overhead Costs:* The Project involves preparation costs on the government side of four percent used under a Project Preparation Advance and general project management costs including M&E of 3.3 percent. These overhead costs are comparable to other similar types of operations. The management costs for the SAGCOT Catalytic Trust Fund of 11 percent against the total project costs or 16 against the SAGCOT Catalytic Trust Fund investment are within acceptable boundaries, with other similar funds having costs ranging between 10-15 percent. These costs are mainly due to: (a) the structure of the Board; (b) the professional Fund Manager; (c) significant costs for technical assistance needed for quality assurance/enhancement and safeguarding of the investments; and (d) the ‘teething’ issues with respect to the establishment of any new facility. There will be a good return on investing in building the capacity of the SAGCOT Catalytic Trust Fund management in order to help ensure transparency and quality of the investments. Institutional development and capacity building cost for the SAGCOT Centre and the TIC, totaling 14 percent of the project, are to be considered investment costs generating their own benefits.

B. Technical

60. The technical approaches of the SAGCOT Matching Grant Fund take into account experiences with similar activities within Tanzania and in other countries, and have been widely discussed and agreed with Government and other stakeholders. The Matching Grants mechanism is based on good practices and lessons learned from projects in other regions. These include the African Enterprise Challenge Fund being supported by DFID and other donors in Africa, and Bank supported projects in China, Vietnam, Armenia or Albania. Similar Matching

Grant Funding has proved well-suited to attract additional investments and entrepreneurs in commercial farming and agricultural businesses to introduce innovative technologies and new initiatives, and thus contribute to raising the productivity, market access and commercialization level of associated smallholders. To reduce risks and improve smallholder linkages, the Project provides technical assistance to improve the quality of business planning and to support access and integration of smallholders in the Matching Grant investments.

61. The interest and attractiveness for private sector investments depend on co-investments by the public sector in particular in infrastructure. The SAGCOT *Blueprint* proposes US$1.3 billion in public investment to back US$2.1 billion of private investment. The corridor benefits from existing key infrastructure, including international highways, airports and ports. The Government is prioritizing investments in feeder roads, a dry bulk terminal at the Dar es Salaam port, and cold storage and cargo-handling at Dar es Salaam and Mbeya airports. However, there is no comprehensive public infrastructure development planning with secured funding at levels suggested in the SAGCOT *Blueprint*. This could limit the attractiveness of the Project to private investors in the long run.

C. Financial Management

62. The Financial Management Assessment revealed that there are adequate financial management arrangements in the PCU to manage the project funds. The PCU has had previous experience in implementing the IDA funded Private Sector Competitiveness Project. Unaudited Interim Financial Reports (IFRs) have been submitted on time, reviewed and found to be satisfactory. The assessment revealed that the TIC does not have experience in managing IDA funds and its finance and accounts as well as internal audit staff have not had any training on IDA Financial Management and disbursement guidelines. The FM assessment for the SAGCOT Centre shows that its capacity needs to be strengthened for it to manage IDA funds. The SAGCOT Centre will be required to put in place a fully-fledged accounting departments as well as an internal audit unit, have qualified accounting staff, operationalize the accounting policies and procedures manual and a functioning information system before it can take on the full responsibility of managing the IDA funds. No assessment was carried out at the SAGCOT Catalytic Trust Fund as it is still at initial stages of formation.

63. The PCU will initially be responsible for managing all the funds for the three entities, SAGCOT Centre, TIC and SAGCOT Catalytic Trust Fund until such a time when these entities have adequate fiduciary capacity, acceptable to IDA, to manage IDA funds (estimated within six to twelve months after effectiveness). The PCU will act as the operational coordination unit between IDA and Government of Tanzania on matters related to implementation and financial management of the project. As part of project preparation, a full Financial Management Assessment was carried out in September 2013 for the PCU, TIC and SAGCOT Centre in accordance with the Financial Management Practices Manual issued by the Financial Management Sector Board in March 2010.

64. Before any funds are disbursed directly to the different implementing entities, the FM assessment will be carried out, or updated, for the SAGCOT Centre and the SAGCOT Catalytic Trust Fund to confirm that there are adequate FM arrangements in place.

D. Procurement

65. An assessment of the capacity to implement procurement was conducted for the following entities: (a) Prime Minister's Office (PMO) Project Coordination Unit (PCU); (b) TIC; (c) SAGCOT Centre; and (d) SAGCOT Catalytic Trust Fund. The assessment reviewed the organizational structure, functions, staff skills and experiences, and adequacy for implementation of the project. PCU under the PMO works closely with PMO's Procurement Management Unit which has prior experience with Bank financed projects and their procurement team of nine procurement/supplies officers is familiar with Bank procurement procedures. However, the PMO's procurement unit's capacity needs to be further strengthened as it is currently managing the procurement activities under several projects financed by government and by Development Partners.

66. TIC has two procurement/supplies officers with experience in undertaking procurement under the national system based on the Public Procurement Act. However, they have no experience in procurement under IDA procedures. Both the SAGCOT Centre and SAGCOT Catalytic Trust Fund which were established in 2011 and 2013 respectively have no procurement/supplies officers and procurement systems in place. Initially PCU will carry out all procurements under the project until TIC, the SAGCOT Centre and the SAGCOT Catalytic Trust Fund have built the required capacity and systems to implement procurement under their respective components (this is estimated to take place in the first six to twelve months of implementation). The overall project procurement risk was assessed to be substantial with mitigations put in place (Annex 3), the residual risk is reduced to moderate.

67. All procurement to be financed under the Project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011 (Revised July 2014), and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 (Revised July 2014), and the provisions stipulated in the Legal Agreement. The Project will carry out implementation in accordance with the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD and IDA and Grants" dated October 15, 2006 and revised January 2011 (the Anti-Corruption Guidelines).

E. Social (including Safeguards)

68. The potential social impacts of the project are expected to be small-scale and localized. The majority (75%) of IDA funding supports the SAGCOT Catalytic Trust Fund. While the specific investments are unknown at the present time, activities eligible for Matching Grants Fund (MGF) financing are expected to include investments such as extension support, the provision of agricultural inputs, the provision of new technologies (such as new seed or plant or animal varieties), improved grades and standards, and improved commodity assembly systems. There may also be investments in small-scale infrastructure, such as rural road upgrading or small warehouses to ease bottlenecks in the supply chain. The ESMF includes measures to address these localized negative social impacts. The Trust Deed for the CTF and the Operational Manual for the MGF highlight the need to direct special attention to assuring women farmers fully participate in, and benefit from, the MGF sub-projects.

69. It is anticipated that the several small-scale infrastructure development and productive investments may entail land acquisition, or affect access to common assets/resources and/or livelihoods of the surrounding communities. These impacts cannot be fully determined until applications are submitted by investors to the SAGCOT Catalytic Trust Fund for specific subprojects, and the ESMF includes screening criteria for these types of impacts. The project triggers Involuntary Resettlement (OP 4.12), as there may be some land acquisition leading to involuntary resettlement and/or restrictions of access to resources or livelihoods. A Resettlement Policy Framework (RPF) has been prepared, consulted upon and disclosed (November 2013) which includes principles and procedures for resettlement and compensation for project affected people, and establishes standards for identifying, assessing and mitigating negative impacts.

70. In regard to the application of the Indigenous Peoples Policy (OP 4.10), the Government of Tanzania suggested a waiver to the application of the policy in Tanzania as this policy is considered inconsistent with the Tanzanian Constitution, which emphasizes unity among its citizens and calls for an equal treatment of all ethnic groups by not giving special preference to individual ethnicities. In return, an approach for this project is proposed that includes preparing social assessments to analyze needs of Vulnerable Groups (VGs) and propose measures for engagement and participation in project supported sub-projects. The Fund Manager is provided with a budget for Technical Assistance, which will be used to prepare the required social assessments. The Fund Manager will hire suitable and competent social experts to conduct this work. This approach ensures that VGs (e.g., those that may be below the food poverty line, lack access to basic social services—including those that are geographically isolated, and are not integrated with society at large and its institutions due to physical, or social factors) participate in informed consultations and benefit from sub-projects under the project in appropriate ways.

71. Vulnerable groups are present in the SAGCOT area. However, determination of which groups in the project area are recognized as vulnerable will be done on a sub-project by sub-project basis, and will be identified according to the following criteria: those that may be below the food poverty line, lack access to basic social services (including those that are geographically isolated), and are not integrated with society at large and its institutions due to physical or social factors. Based on a rapid social assessment undertaken for this project, some groups in the SAGCOT area meet this definition. These include women-headed households, the elderly, disabled, youth, children, refugees, persons with HIV/AIDs and disadvantaged communities. The Vulnerable Groups Planning Framework (VGPF) prepared to guide project implementation includes measures to ensure that: such groups have been involved in a process of free, prior and informed consultation leading to broad community support for the project; any adverse impacts on such groups are mitigated; the groups obtain appropriate benefits from the project; there is a process for grievance redress; and, the project includes monitoring and evaluation to assess the project's impacts on, and benefits for vulnerable groups.

72. Where necessary, Vulnerable Group Plans (VGPs) will be prepared, consulted upon and disclosed during project implementation. These Plans will include a Social Assessment that will examine local social organization, customary land use and tenure, and resource use patterns among the affected VGs. They will be prepared on the basis of free, prior and informed consultations. The VGPs will address the: (i) local social organization, social issues, customary land use and tenure, and resource use patterns among the affected VGs; (ii) potential positive

and negative impacts on VGs; (iii) measures to avoid, mitigate, or compensate for the adverse project effects; (iv) measures to ensure socially appropriate project benefits will accrue to VGs; (v) measures for grievance redress; (vi) measures to strengthen the capacity of the implementing agency at the central as well as the district level to address VGs issues; (vii) implementation arrangements for the VGP, including the respective roles and responsibilities for VGP implementation of the implementing agency, other government agencies involved (e.g. an agency responsible for dealing with vulnerable groups), their traditional institutions and organizations, and, where appropriate, other civil society organizations; (viii) budget allocation; and (ix) monitoring and evaluation.

73. To mitigate any potential risks resulting from a waiver of OP 4.10, the GoT ensures that the project components are designed and implemented in a manner that does not adversely affect the land rights / use of any of the people in the project area, including the disadvantaged communities referred to in the VGPF. This is reflected in the RPF, the VGPF and the Project Operations Manual. Bank supervision will focus on verifying that such groups are not adversely affected. *In case there is any evidence that they are being adversely affected, the Bank will retain the option to exercise loan remedies available (e.g., suspension/cancellation) to address such situations*.

F. Environment (including Safeguards)

74. Given the sensitivity of the site setting, the Project triggers several environmental safeguards including: Environmental Assessment (OP 4.01), Natural Habitats (OP 4.04), Pest Management (OP 4.09), and Forests (OP 4.36). Most of the investments in the Project are expected to be of low to moderate environmental risk, stemming from the small scale of the proposed investments under the Matching Grants Fund and feasibility of mitigation. However, the impacts of the broader SAGCOT Program are expected to be more significant, with high potential impacts on water quantity and quality, biodiversity/natural habitats conversion, and pesticide use. Some subprojects may also have significant environmental, including cumulative, impacts. For this reason, the project is Category A.

75. The SAGCOT Program area covers a wide variety of landscapes, agro-ecological zones of exceptional national and global ecological importance with large areas under some form of conservation designation. In addition to sheltering unique plants and wildlife and supporting a major tourism industry, the protected areas provide natural resources critical to the surrounding rural populations (wood, grazing, bush meat) and ecosystem services essential for downstream agriculture, fisheries, hydropower and urban areas (water, flood regulation).

76. At least 40 percent of the SAGCOT Program area comprises areas that could be considered important natural habitats under internationally recognized standards (for example, as Critical Natural Habitats under OP 4.04), and Forests under OP 4.36), especially the Eastern Arc forests and many of the wetlands.

77. This globally important region is undergoing rapid change due to a variety of stresses. The rapid growth of a poor rural population which is heavily dependent on natural resources is contributing to habitat conversion and land degradation, deforestation, increasing grazing

pressure and associated wildlife depletion, over-fishing, habitat fragmentation by farms, roads, mines and power lines, water abstraction for irrigation, and possible climate change.

78. As stated above, the specific environmental impact of the project investments are expected to be small, however the cumulative impacts of the larger SAGCOT Program (corridor development) are potentially high. Dry season river flows will not support the planned irrigation expansion unless storage dams are built; and, in any case, large-scale irrigation development is likely to have significant negative hydrological and ecological effects through consumptive use of water and contamination by agrochemicals and wastes. The cumulative ecological and environmental impacts of roads, hydropower dams (Kihansi, Ruhudji, Mpanga), irrigation, land conversion and population increase in the Valley are and will continue to be severe, with consequent impacts on downstream users of the Rufiji River. The Strategic Regional Environmental and Social Assessment (SRESA) propose measures to address such impacts, including: extensive public participation in the program (planning and implementation); strengthening land administration and participatory land-use planning (including mapping); an environmental flow assessment; efforts to protect and manage wetlands; cost-benefit analyses of public subsidies; strategic siting of major hydropower projects on the Rufiji River; and, integrated water resources management.

79. As a low emitter by world standards - Tanzania currently releases relatively low levels of greenhouse gases, predominantly from its agricultural sector as well as from transport and industry - the majority of national and sectoral development plans for Tanzania do not consider the problems of increasing greenhouse gas emissions. There is concern that the current planning process commits Tanzania to higher emission levels. With increasing population growth, urban expansion and development, emissions are rapidly increasing and projections indicate that by 2030 emissions could double their 2005 levels. Tanzania's National Adaptation Programme of Action (NAPA) aims to mitigate climate change impacts with a focus on the agricultural sector. NAPA identifies priority activities required for climate change adaptation, such as increasing water efficiency in crop production; the development of alternative farming systems, water storage programs and technology; and community based catchment conservation and management programs. Other proposed activities aim to reduce deforestation and improve energy sources, including renewables.

80. As indicated above, the SRESA looks at potential environmental impacts associated with the broader SAGCOT Program. The ESMF has also been completed which sets forth the mandatory procedures to be applied to investments supported through the project. The project will not support MGF sub-projects likely to result in the conversion of critical natural habitats. The ESMF screening form and associated guidelines also provide rules to mitigate environmental impacts to non-critical habitats.

81. Some of the project activities are likely to promote intensive commercial agriculture in tropical and subtropical environments with significant pest and disease control challenges. The GoT has therefore prepared an Integrated Pest Management Plan (IPMP). The IPMP sets out the specific pest management safeguard measures and advisory support expected to be included in Matching Grant sub-projects for: (a) integrated pest management (which involves working to

control pests in ways that minimize the need for pesticides); and (b) when pesticides are still used, the measures to ensure their safe use, storage, handling and disposal.

82. The Environmental and Social Management Framework has been prepared, consulted upon and disclosed in August 2013. The Resettlement Policy Framework has been prepared, consulted upon and disclosed in November 2013 after integrating comments following public consultations. The Strategic Regional Environmental Assessment has been prepared, consulted upon and disclosed in February 2014 after integrating comments following public consultations. An Integrated Pest Management Plan was prepared and disclosed in May 2014. A Letter of Sector Policy on Land has been completed. A Vulnerable Groups Planning Framework (VGPF) has been prepared by the GoT and disclosed in January 2016.

G. Other Safeguards Policies Triggered

83. Given the sensitivity of the site setting, the Project triggers several additional safeguards including: Forests (OP 4.36), Physical Cultural Resources (OP 4.11), and Safety of Dams (OP 4.37). There are numerous natural forests and critical forest areas within the corridor. Project-related activities have the potential to affect the health and quality of these forests and the rights and welfare of local residents depend on forest resources. The screening forms and guidelines developed as part of the ESMF seek to avoid impacts to critical forest areas and provide mitigation measures to identify and offset impacts to other non-critical forest areas.

84. The Project will not finance any constructions of new dams. However, project activities might rely on the performance of an existing dam or a dam under construction. The ESMF includes specific screening criteria to identify whether subprojects will rely on the performance of an existing dam or a dam under construction. In such cases, the ESMF contains guidelines for the assessment and preparation of the Dam Safety Measures Report.

85. Some Project activities may involve earthworks and land use change and therefore have the potential to directly affect Physical Cultural Resources. All sub-projects involving earthworks must include an approved Chance Finds procedure in the construction contracts, to cover the possibility of discovering physical cultural heritage in the course of excavation.

H. Readiness for Implementation

86. The main institutions going to implement the proposed SAGCOT Investment Project are currently operational and receiving funding from other development partners (DFID and USAID amongst others). The PCU, the main entity responsible to manage the project under the PMO, has been managing the Bank funded Private Sector Competitiveness Project (PSCP) for the past six years and the PPA for this project.

87. The SAGCOT Centre has been operational for the last two years with a functioning Board and a defined set of work plans and budgets. While financial management and procurement systems have been defined, funding constraints have limited the completion of staff appointments and the operationalization of these procedures. The main donor partners, USAID, DFID, Norway, UNDP and IDA have signed a Memorandum of Understanding (MoU) with the SAGCOT Centre and the GoT guiding their joint funding commitments. The Centre has now

hired an account, and it is expected that the required capacity will be built up soon after the start of the implementation.

88. The Catalytic Trust Fund (CTF) has recruited an Executive Secretary and established an Investment Committee and the recruitment of a Fund Manager is ready to commence as soon as the project gets approved. In the meantime to the CTF through its secretariat started to implement a small matching grant program with a volume of US$ 1 million per year, which is provided by the GoT. A first round of advertisement was conducted in June 2015. By December 2015, five potential applicants have been considered for funding using Government funds.

89. TIC is fully operational as a Government agency. The Executive Director of the TIC sent a letter to the World Bank Country Director dated September 24, 2013, committing TIC to adopt best commercial, environmental and social practices when implementing agricultural investments under SAGCOT, followed by a letter dated May 29, 2014, reiterating this commitment and identifying the team within the TIC that will be responsible for delivering the Project for TIC.

90. An Operational Manual covering all implementation aspects of the project has been prepared.

World Bank Grievance Redress

91. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

Project Development Objective (PDO): *To increase the adoption of new technologies and marketing practices by smallholders through expanding and creating partnerships between smallholder farmers and agribusinesses in the Southern Corridor of Tanzania*												
PDO Level Results Indicators*	**Core**	**Unit of Measure**	**Baseline**	**Cumulative Target Values****					**Frequency**	**Data Source/ Methodology**	**Responsibility for Data Collection**	**Description (indicator definition etc.)**
				YR 1	**YR 2**	**YR3**	**YR 4**	**YR5**				
Indicator One: Clients who have adopted an improved agricultural technology promoted by the project (of which women).	☒	Number Number of women	0 0	0 0	7,500 375	46,000 5,750	150,000 37,500	375,000 140,625	Quarterly and Annually[1]	Impact Monitoring and Evaluation Surveys[2]	SAGCOT Catalytic Trust Fund Manager /PCU	See reference table below
Indicator Two: Percentage of smallholder farmers adopting at new marketing practices (of which women).	☐	Percent Percent	0 0	5 2.5	10 5	25 12.5	50 25	75 37.5	Quarterly and Annually[1]	Impact Monitoring and Evaluation Surveys[2]	SAGCOT Catalytic Trust Fund Manager /PCU	See reference table below
Indicator Three: Number of direct project beneficiaries (of which women)	☒	Number Percent	0 0	0 0	75,000 50	185,000 50	300,000 50	500,000 50	Quarterly and Annually[1]	Impact Monitoring and Evaluation Surveys[2]	SAGCOT Catalytic Trust Fund Manager /PCU	See reference table below
INTERMEDIATE RESULTS												
Intermediate Result (Component One): *The capacities of SAGCOT Centre and TIC are strengthened to facilitate PPP partnerships and the coordination among these institutions is improved to enable agribusiness development environment.*												
Intermediate Result	☐		0	25	50	75	100	100	Quarterly	Annual	SAGCOT	See

[1] To be reported in every quarterly progress report, and updated at least annually.
[2] The Catalytic Fund Manager responsible for the Matching Grants will monitor and report this indicator on an annual basis; and the PCU will hire an independent evaluator to verify the results of the monitoring in a midterm survey (late year 2) and an end of term survey (early year 5)

Indicator 1.1: Number of registered, paid up members of the SAGCOT partnership		Number							and Annually[1]	Technical Reports and Impact Monitoring[3]	Centre/PCU	reference table below
Intermediate Result Indicator 1.2: Number of policy studies targeting specific improvements (e.g taxation, infrastructure, access to finance) in the agribusinesses investment environment completed and published	☐	Number	0	1	3	5	7	10	Quarterly and Annually[1]	Annual Technical Reports and Impact Monitoring[3]	SAGCOT Centre/PCU	See reference table below
Intermediate Result Indicator 1.3: Number of new private agribusiness investments registered by TIC in the Southern Corridor	☐	Number	0	10	20	30	40	50	Quarterly and Annually[1]	Annual Technical Reports and Impact Monitoring[4]	TIC/PCU	See reference table below
Intermediate Result Indicator1.4: Value of new private agribusiness investments registered by TIC in the Southern	☐	USD million	0	25	50	75	100	100	Quarterly and Annually[1]	Annual Technical Reports and Impact Monitoring[4]	TIC/PCU	See reference table below

[3] The SAGCOT Centre will report this indicator on an annual basis; and the PCU will hire an independent evaluator to verify these records at the time of the midterm review and end of project review (year 5).
[4] The TIC will report this indicator on an annual basis; and the PCU will hire an independent evaluator to verify these records at the time of the midterm review and end of project review (year 5).

Corridor												
Intermediate Result (Component Two): *Smallholders are integrated to the agricultural supply chains to increase the agricultural production in Southern Corridor through the utilization of Matching Grants*												
Intermediate Result Indicator 2.1: Cumulative number of matching grants implemented through the SAGCOT Catalytic Trust Fund	☐	Number	0	0	6	15	25	40	Quarterly and Annually[1]	Quarterly Technical Reports	SAGCOT Catalytic Trust Fund Manager	See reference table below
Intermediate Result Indicator2.2: Cumulative value of investments generated under the MGs	☐	USD million	0	5	12	25	50	65	Quarterly and Annually[1]	Quarterly Technical Reports	SAGCOT Catalytic Trust Fund Manager	See reference table below
Intermediate Result indicator 2.3: Cumulative number of new formal jobs created by agribusinesses receiving matching grants	☐	Number	0	0	250	500	800	1300	Annual	Quarterly Technical Reports	SAGCOT Catalytic Trust Fund Manager	See reference table below
Intermediate Result Indicator2.4: Percentage of smallholder farmers that expressed satisfaction with the matching grant partnerships.	☐	percent	0	0	60	65	70	75	Annual[1]	Beneficiary survey[5]	SAGCOT Catalytic Trust Fund Manager /PCU	See reference table below
Intermediate Result Indicator2.5: Percentage of	☐	percent	0	0	60	65	70	75	Annual[1]	Beneficiary survey[6]	SAGCOT Catalytic Trust Fund	See reference table below

[5] Survey to be annually conducted by the fund manager of the Catalytic Fund and the PCU will hire an independent evaluator to verify the results of the monitoring in a midterm survey (late year 2) and an end of term survey (early year 5)

agribusinesses that expressed satisfaction with the matching grant partnerships											Manager /PCU	
Intermediate Result Indicator2.6: Grievances responded and/or resolved within the stipulated service standards for response times	☐	percent		0	80	90	90	90	Annual[1]	Annual reports	SAGCOT Catalytic Trust Fund Manager /PCU	
Intermediate Result (Component Three): *Capacity of PCU to manage the SAGCOT Investment Project effectively*												
Intermediate Result Indicator 3.1: Annual M&E progress report for matching grant program (Y/N)	☐	Y/N	No	Yes	Yes	Yes	Yes	Yes	Annual	Annual Reports	PCU	See reference table below
Intermediate Result Indicator 3.2: Number of quarterly progress reports submitted on time	☐	Number	4	4	4	4	4	4	Annual	Annual Reports	PCU	See reference table below

Definitions of Indicators:

PDO Indicator	Definition	Comment on data collection
Indicator One: Percentage of smallholder farmers adopting at least one new production technology.	Proportion of the population of smallholders identified as partners in catalytic fund matching grant proposals; Technology is defined as any new input or changed management technique identifiably linked with the matching grant investment (e.g. adoption of a new seed variety; new planting practice; new weed control method, nutrition-sensitive; etc.).	The population of smallholder partners must be explicitly identified in the matching grant contracts and therefore traceable; The change in technology must be explicitly identified in the grant proposal or directly traceable to the grant investment. The calculation of percentage adoption should take account of both adoption and disadoption in the target population.
Indicator Two: Percentage of smallholder farmers adopting at least	Proportion of the population of smallholders identified as partners in catalytic fund matching grant proposals;	The population of smallholder partners must be explicitly identified in the matching grant contracts and

one new marketing practice.	A new marketing practice may involve participation in a new crop assembly arrangement; a new commodity grading system; a new contract delivery system, etc., defined by the matching grant investment.	therefore traceable; The change in marketing practice must be explicitly identified in the grant proposal or directly traceable to the grant investment. The calculation of percentage adoption should take account of both adoption and disadoption in the target population.
Indicator Three: Number of direct project beneficiaries (of which women)	Number of smallholders who identify themselves as partners in the matching grant commitments**.** Percentage of smallholders who identify themselves as partners who are women.	The population of smallholder partners must be explicitly identified in the matching grant contracts and therefore traceable; Indicator encompasses the population of affected households. The percentage of women in smallholder farm households partnering on the matching grants
Intermediate Indicator	**Definition**	**Comment on data collection**
Component 1: The capacities of SAGCOT Centre and TIC are strengthened to facilitate PPP partnerships and the coordination among these institutions is improved to enable agribusiness development environment.		
Intermediate Result Indicator 1.1: Number of registered, paid up members of the SAGCOT Program partnership	Annual number of agents who have signed partnership application papers and paid their subscription fee with the SAGCOT Centre	SAGCOT Centre records should clearly indicate identity of entities who have signed and paid an annual subscription charge. Number of partners may decline if these agents stop paying their annual fee. Annually reported at the time of each 4th quarterly report.
Intermediate Result Indicator 1.2: Number of policy studies targeting specific improvements (e.g taxation, infrastructure, access to finance) in the agribusinesses investment environment completed and published	Cumulative number of policy studies that are paid for, at least in part, by project funds and posted on the SAGCOT Centre website.	Annually reported at the time of each 4th quarterly report.
Intermediate Result Indicator 1.3: Number of new private agribusiness investments registered by TIC in the Southern Corridor	Cumulative number of new agribusinesses. These may include businesses registering to pursue production, processing or trade activities directly relating to agriculture (crops and livestock)	New registrants may include new established businesses establishing new subsidiary units or newly registering to obtain TIC investment incentives; Boundaries of the southern corridor must be clearly defined.
Intermediate Result Indicator 1.4: Value of new private agribusiness investments registered by TIC in the Southern Corridor	Cumulative value of intended investment at the time of registration.	New registrants may include new established businesses establishing new subsidiary units or newly registering to obtain TIC investment incentives; Boundaries of the southern corridor must be clearly defined.

Component Two: Smallholders are integrated to the agricultural supply chains to increase the agricultural production in Southern Corridor through the utilization of Matching Grants		
Intermediate Result Indicator 2.1: Cumulative number of matching grants implemented through the SAGCOT Catalytic Trust Fund	Cumulative number of matching grants with contracts completed according to the grant agreement signed between the Catalytic Trust Fund and the grantee.	
Intermediate Result Indicator2.2: Cumulative value of investments generated under the MGs	Cumulative investments including grant and matching contribution completed.	
Intermediate Result indicator 2.3: Cumulative number of new formal jobs created by agribusinesses receiving matching grants	Number of formal, full time equivalent jobs created by the agribusiness company that are directly or indirectly linked with the receipt and application of the matching grant	Only accounts for employment gains of the private agribusiness investor, and not the broader multiplied effects in the rural economy
Intermediate Result Indicator 2.4: Percentage of smallholders expressed satisfaction with the partnerships.	Proportion of smallholders in the population of grant recipients cited PDO Indicator Three	This is a cumulative denominator encompassing all smallholders partnering with agribusinesses in implementing matching grants.
Intermediate Result Indicator 2.5: Percentage of agribusinesses expressed satisfaction with the partnerships	Proportion of agribusiness grant recipients ever receiving SAGCOT Catalytic Trust Fund matching grants.	This is a cumulative denominator encompassing all agribusinesses receiving matching grants.
Component Three: *Improved capacity of PCU to manage the SAGCOT Investment Project effectively*		
Intermediate Result Indicator 3.1: Annual M&E progress report for matching grant program (Y/N)	Report issued by the Fund Manager and approved by the SAGCOT Catalytic Trust Fund Board	
Intermediate Result Indicator 3.2: Number of quarterly progress reports submitted on time	Project reports that are inclusive of documentation from all agencies including the Catalytic Fund, the SAGCOT Centre, TIC and the PCU delivered to IDA within 45 days of the end of the reporting quarter.	

Annex 2: Detailed Project Description

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

1. The Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Program is an international public private partnership launched at the World Economic Forum on Africa in May 2010 in Dar es Salaam, Tanzania and in Davos Switzerland in January 2011 as a means to implement Tanzania's transformational agriculture vision, the Kilimo Kwanza. Its mandate is to mobilize private sector agribusiness investments, and, linked closely with public sector commitments, to achieve rapid and sustainable agriculture growth in southern corridor of Tanzania. The SAGCOT Program is led by the Kilimo Kwanza Advisory Committee and represents a new, long term commitment from many different organizations to work in partnership and create a critical mass of successful and sustainable agriculture development in Tanzania. Funding of various aspects of the Program will be from an array of donors, including IDA, DFID, USAID, UNDP, Norway, EU, as well as contributions from the Government and private sector. It is the first of a sequence of phased initiatives to develop Agricultural Growth Corridors in Tanzania.

2. The Project is based on a proposal by the Government of Tanzania (GoT). Its design further evolved from a range of follow-up consultations with Government, private sector, smallholder farmers and other civil society stakeholders, and other Development Partners including national and international NGOs (see Text Box 1 below). The Project comprises one element of the wider SAGCOT Program, with principal funding from the International Development Association (IDA). The Project supports specific activities encompassed in the SAGCOT *Blueprint* prepared by the Government of Tanzania (GoT): the operation of: (i) the SAGCOT Centre – to act as a focal point for planning, implementation and monitoring; (ii) the TIC, which has the responsibility to attract agribusiness and infrastructure investment; and (iii) the SAGCOT Catalytic Trust Fund supporting early stage investment in the corridor. The Project will be implemented over a period of five years and comprises of three components.

3. **Component 1: Strengthening SAGCOT Support Institutions (total US$14.33 million, of which IDA US$5.95 million).** This component will strengthen the capacity of the SAGCOT to support institutions in order to pursue their functions of information and data provision; support investment planning and business guidance; government/private sector intermediation; enhance business enabling environment; and investment promotion.

4. **Subcomponent 1.1: Support for the SAGCOT Centre (total US$11.83 million, of which IDA US$3.45 million).** The objective of this sub-component will be to help get the Centre functional and operational and to carry out its tasks effectively. The Project will support the Centre by providing financing for operating costs (goods and services), staff salaries, consultancies and training costs, in relation to the following core activities:

(1) <u>Cluster and partnership development.</u> SAGCOT Centre will focus on the development of agribusiness partnerships in geographic clusters proposed in the SAGCOT *Blueprint* as Kilombero, Dakawa, Ihemi, Rufiji, Sumbawanga and Mbeya. In each cluster, the Centre will

focus on facilitating joint planning, identifying opportunities and constraints, information sharing, monitoring and evaluation. The SAGCOT Centre will not implement individual projects, but will assist relevant partners in achieving the SAGCOT Program objectives. Cluster planning will occur in three phases. The first phase encompasses the design of a cluster development plan encompassing situation and opportunity analysis, infrastructure and environmental assessment, the identification of agribusiness opportunities and the development of a communication plan to facilitate investment partnerships. The second phase, titled cluster development tracking and partnership engagement will support the implementation of investment partnerships through information sharing and the diagnosis of bottlenecks. The third phase will involve the monitoring and evaluation of agribusiness partnerships against agreed performance indicators.

(2) <u>Enabling environment and policy analysis.</u> SAGCOT Centre will generate an annual progress report that will aggregate and consolidate the progress to-date on key issues in-cluster, partner investment activities, partnership development, and highlight bottlenecks to be addressed. SAGCOT Centre will also publish an annual policy paper focused on a specific 'theme' that strives to address areas of structural bottlenecks in the agribusiness enabling environment. The SAGCOT Centre will facilitate the convening of periodic meetings on its findings with the Prime Minister's Office and with an annual forum meeting of its partners.

(3) <u>Information, communication and education.</u> The SAGCOT Centre will promote broader understanding of the SAGCOT Program through presentations at national and international events, develop and maintain a website, newsletter and other promotional materials. The SAGCOT Centre will actively share information on partnership activities and potential alliances. Partnership case studies will be completed for 3-5 partnerships per year. Special issue seminars will be conducted quarterly. The Centre will also promote understanding of social and environmental and other safeguard issues.

(4) <u>Monitoring and evaluation.</u> All of the above work streams have a proportion of their resources dedicated to monitoring and evaluation. The SAGCOT Centre will correspondingly track progress by measuring the agreed key performance indicators in clusters. The success of the public-private investment partnership underlying the overall SAGCOT strategy will be reviewed and partnership case studies will be implemented each year in order to draw lessons for future investment. The SAGCOT Centre will collate the technical progress reports of other recipients of IDA funding for presentation in a common quarterly progress report.

5. **Subcomponent 1.2: Support for the Tanzania Investment Centre (total US$2.50 million, all IDA).** The TIC was established as a public sector entity in 1997 and designated as the first point of call and a "one-stop facilitation center" for all potential investors coming into the country.

6. The specific objective of this sub-component is to strengthen the capacity of the Tanzania Investment Centre to attract high quality commercial investments in the agriculture sector, through transparent, competitive processes following international standards. Under this plan, the TIC will help prepare investments using international best practices and implement transparent procurement processes, and will work with the SAGCOT Centre to make foreign and domestic investors aware of these investment opportunities in the southern corridor. The TIC will also

monitor implementation of these investments to ensure that obligations are fulfilled, to help resolve any issues that arise and provide feedback to improve future investments based on lessons learned. TIC will also work with the SAGCOT Centre to facilitate the removal of specific barriers to investment when identified in order to improve the investment climate in the corridor.

7. The Project will finance incremental equipment, technical assistance and consultancies, with the aim of strengthening TIC's capacity in the following areas:

(1) Reorganize activities by sector: The capacity of TIC's officers to prepare materials, support investment preparation, answer investor inquiries and solve investor problems will be strengthened. In the context of promoting investment in the SAGCOT Program area, TIC management has identified the need to reorganize its activities by sector and enhance staff expertise along sector lines. The first step is to establish an agribusiness-focused team and an infrastructure-focused team within TIC's promotion and after-care departments. The Project will help the TIC with technical assistance in reorganizing the departments to align all officers by sector (not just agribusiness and infrastructure, but also tourism, extractive and other sectors) and then providing the sector officers with basic training in information gathering, etc., to become effective sector representatives.

(2) Institute Key Performance Indicators (KPIs) and management processes: In order to ensure focus on proactive promotion of priority sectors, TIC is seeking assistance to establish standard management systems within TIC, with KPIs, performance monitoring and regular internal meetings. These systems will apply to company and individual staff activities, providing incentives for corporate and staff performance to align with those priorities. The Project will support technical assistance to help TIC with establishment of KPIs and a performance based management strategy.

(3) Hands on support for investment generation: Successful investment generation for any one sector requires 1-2 years of diligent work to coordinate sector working groups, push forward investor outreach, respond to investor requests, prepare specific investments, develop competitive, transparent tendering mechanisms, and compile sector information. In order to assist each sector officer and sector working group to complete these tasks and stay the course, the Project will provide support with 1-2 sector promotion experts to coach and guide each of these sector teams and create the processes and practices needed to implement international practices.

(4) Training in promotion methodologies: The Project will support TIC with a series of technical training sessions for TIC's promotion and research officers on key skills required for investment promotion: i.e. training in how to conduct sector research (online and primary sources), how to create PowerPoint presentations, how to create and maintain investor (CRM) databases, and public speaking and communication skills.

(5) Establish investor screening and due-diligence process: The Project will support TIC with technical assistance to design and implement a simple investor screening and due-diligence methodology, so TIC officers and the sector working groups can weed out less qualified

investors and focus their time on the most qualified investors that will bring the value that Tanzania requires, including smallholder linkages and out-grower arrangements.

(6) TIC communications strategy and tools: The Project will provide support in the form of communication specialists to design, update and implement a new communications strategy and materials, both for investors and for local stakeholders.

(7) Aftercare: TIC plans to prioritize the aftercare function as an essential service to help ensure the success of investors and investments. During the aftercare, TIC will help investors address challenges as they arise. This will then help TIC understand how to improve the investment climate to make it easier for future investors, and reduce the challenges they will face. Lessons learned from investor experiences can be fed into promotion activities to help future investors learn from the experiences of existing investors. The Project will finance experts to help redesign the TIC aftercare function, re-skill staff to help them implement this new function and redesign its operating guidelines and documentation to provide for this reinforced aftercare function.

8. **Component 2: Strengthening Smallholder-Business Linkages (total US$85.76 million, of which IDA US$55.65 million).** The objective of this component will be to link smallholder farmers in agricultural value chains. The component will:

- Increase the number of smallholders linked to agribusinesses in successful commercial partnerships; and
- Increase the revenues derived by smallholders and rural communities from these partnerships through agricultural productivity growth, income and employment.

9. **Subcomponent 2.1: Fund Management (total US$7.79 million, all IDA).** The Project will support a management structure responsible for the implementation of the Catalytic Trust Fund. This will include the Board of the Trust Fund with its Secretariat and the Investment Committee (Annex 3). Project support will include financing of fees (including salaries, but not for civil servants), goods and equipment, office operational costs, travel, meetings and workshops, communication and technical assistance.

10. **Subcomponent 2.2: Matching Grants (total US$77.98 million, of which IDA US$47.86 million).** Matching Grants (MG) of US$250,000 - US$1.5 million with a matching contribution of 30 percent (national business operators) and 40 percent (international business operators) will be provided to existing agribusiness operators. They will follow a defined process of application, evaluation and competitive selection. The grants could be used for operational cost and capital costs directly related to expanding smallholder participation in competitive agricultural supply chains.

11. The MGF will support investments in public goods and services necessary to establish such relationships and only cover the costs of public goods / services that will directly benefit participating smallholders. The categories of activities potentially funded are laid out in the

SAGCOT Catalytic Trust Fund Trust Deed and the Operational Manual. These include: developing or expanding contract farming and out-grower schemes; increasing the productivity of smallholders in established supply chains through enhanced extension support and improved access to agricultural technology, especially for those enhancing climate resilience; capacity building for farmers' organizations that are in a partnership with an agribusiness entity; providing "last mile" infrastructure to serve smallholders, e.g. feeder roads, electricity connections and small reservoirs; making value chain investments such as assembly points, storage, cold store conservation units necessary and specifically for the inclusion of smallholders in the supply chain as part of an out grower scheme; and introducing new crops, including biofortified varieties if available, and developing livestock industries.

12. *Sustainability*: The MGF is designed so as not to create market distortion and compromise commercial discipline. Potential investments must meet a commerciality threshold that is endorsed by the for-profit business. The specific, time-bound nature of funding will minimize any perception that it is available to fund any expenditure on a permanent basis within the business. The new or expanded business, including the participation of smallholders, must be able to sustain itself from its customer revenues as any mainstream business would without additional subsidy.

13. *Recipients*: The targeted grant recipients are established commercial agribusinesses, or new investment by established companies, who wish to link with and develop mutually beneficial relationships with smallholder farmers to build or extend competitive supply chains. The MGF encourages private investment directly benefiting smallholders that would otherwise not be made without these funds. Rather than provide directly to small holders, the MGF uses the capacity and resources of established agribusinesses to extend support to smallholder through outgrower arrangements. The grant will help support partnerships between smallholders and agribusinesses establishing new models of linking to markets, as well as those that may replicate successful models.

14. *Size and Term:* Matching Grants will be between US$250,000 and US$1,500,000 per investment. Disbursements are made on the basis of milestone payments that reimburse the Grantee, whether agribusiness or smallholder. The Bank will review and provide a No Objection for the first 10 MGF grants and for all grants exceeding US$500,000 each, thereafter.

15. *Selection Criteria:* Potential recipients are first filtered to ensure they are financially viable, established businesses – with audited accounts for at least two years showing a profit. They must also show evidence of undisputed rights over the land they intend to work on. The individual application is then assessed. The key project selection criteria falls into two categories; the demonstration that the proposed project: a) is commercially viable and self-sustaining; and b) will have a direct positive impact on the targeted small-holders beneficiaries, including improved human nutrition outcomes.

16. *Grant criteria:* The first objective of the matching grants fund (MGF), as stated in the Trust Deed, is to: improve the productivity and incomes of smallholders. Correspondingly, the Deed identifies the main criteria for the allocation of matching grants are to increase the number of smallholders, and particularly women farmers who are successfully operating as out-growers

in defined value chains, and increase their incomes and employment. Each grant will be monitored by the Fund Manager to track the achievement of these objectives, and the level of accomplishment will be reported on at least an annual basis.

17. *Partnership Structures*: The matching grants will only be allocated to clearly defined partnerships between local agribusinesses and defined groups of smallholder farmers. The structure of these partnerships are expected to be varied – some may be formal contract farming relationships (e.g. a poultry processor provides farmers with day old chicks, feed and medicines in exchange for the mature birds), and many may be less formal marketing agreements (e.g. a dairy establishes a milk collection point, and veterinary support to encourage more raw milk supply, or a processor of avocados for export may offer farmers low-cost access to young trees of varieties offering fruits preferred in the market). In each case, however, participating farmers must form an identified grouping which contributes to the preparation of the funding proposal, the monitoring of the implementation, and the assessment of the implementation result. The Fund Manager will include a staff member with the unique responsibility to inform smallholder communities about the matching grant facility, facilitate the formation or strengthening of farmer groupings, help these farmer groups define a partnership agreement with a local agribusiness and monitor the implementation of the partnership. This included tracking the income and employment gains accruing to the farm community.

18. *Prospective MGF Pipeline*[25]: Applications for the MGF will be solicited once the Fund Manager is in place. Strong interest in the MGF has been expressed, however, by rice processors, tea processors, seed companies, sugar plantations, horticultural crop producers and traders, poultry units, brewers and distillers, fertilizer companies, logistics companies, farmer organizations, microfinance institutions, Savings and Credit Cooperative Societies (SACCOS) and farms engaged in the production of food crops (rice, maize, coffee, wheat), horticulture crops (flowers, fruits and vegetables) and other cash crops (such as pyrethrum). The most commonly proposed investments are to provide smallholder out-growers with extension support and training, new agricultural inputs, and market infrastructure for improved product assembly. Interest was also expressed in specialized processing infrastructure, information, communications technology (ICT) services, and in establishing new out-grower operations. These prospective applicants broadly endorsed the terms of the facility including the size of the grants, the level of match, and the payment conditions based on reimbursement of expenses and the importance of benefit flows to smallholders.

19. *Land safeguards:* Assessment of land issues related to the application will be a key factor in determining eligibility. The Fund Manager will be expected to develop and apply a land due

[25] In the development of the Project, over one hundred agribusinesses were identified through the registration lists of the Tanzania Investment Centre and in discussions with the agribusiness community as actively engaged in investment in the country. Fifty-five of these agribusinesses were interviewed to assess their interest in a matching grants program targeting improvements in smallholder productivity and incomes through the enhancement of out-grower operations. By June 2015 the CTF secretariat has started implementing a separate smaller scale MG activity funded by the GoT. Out of a total of 55 expressions of interest, 18 applicants were considered to merit full preparation. By December 2015 eight proposals were received, of which 5 were recommended by the Investment Committee for approval. This Government funded activity provided a further indication for the demand for the MG, and also indications about the potential clients; all of the applicants were local small businesses mainly in the livestock and horticulture sector.

diligence protocol, including document review and local-level inquiries. This will enable the Fund Manager to determine inter alia that the applicant has clean and properly registered rights to the land; that the land is free of conflicting claims in the form of formally-lodged complaints with courts or government agencies; that there is no indication, based on community-level consultations, of significant ongoing disputes concerning the land; that where relevant, consent of village institutions or other local bodies was properly secured for the acquisition and use of the land; and that the land in question is not land that has been converted from Village to General Land within the three years preceding the application.

20. Recognizing that these projects take several years to become "standalone" and get to full commerciality, matching grant recipients will be required to ensure that the business relationship between smallholders and agribusiness is maintained for a period after the matching grant has been used in order for the linkages to become firmly established. The aftercare and monitoring activities will be maintained by the Fund Manager for at least three years after the investment period.

21. The matching grant recipients will make a contribution to the sub-project investment in the form of cash and new investment. This will be determined on a case-by-case basis. While there is some flexibility with respect to the percentage match and the type of contribution, the matching component must be of a sufficient scale that there is a demonstrated financial incentive for success. The match itself must be at least 30 percent of the value of the planned investment. A higher proportion of match will be considered favorably in the consideration of proposals for funding.

22. *Grievance Mechanisms:* The success of the matching grants program depends on the establishment and maintenance of a good working partnership between agribusinesses and smallholders. The safeguards instruments -- Resettlement Policy Framework (RPF), Vulnerable Groups Planning Framework (VGPF), and Environmental and Social Management Framework (ESMF) all include procedures to address related grievances. The RPF sets up an inclusive mechanism to address all the grievances related to resettlement. The VGPF includes procedures to ensure that the VGs receive social and economic benefits that are appropriate, and they have access to judicial recourse and customary dispute settlement mechanisms. The ESMF again cites these procedures and highlights the need to confirm that agribusinesses involved in sub-projects have grievance mechanisms to mitigate partnership conflicts with smallholder communities.

23. In complement, the Catalytic Trust Fund (CTF) will operate a grievance mechanism for responding to complaints about the allocation of matching grant funding, or the underlying partnerships between agribusinesses and smallholders that receive grants. This procedure, laid out in the Operations Manual for the Matching Grants Facility, has two components. First, the Fund Manager will be responsible for working with prospective smallholder – agribusiness partners to identify possible sources of problems on an ex ante basis in order to ensure that the ultimate investment proposal is transparently understood and viewed beneficial to both parties. After the CTF acceptance of a project concept note, the Fund Manager will conduct a consultative meeting with each smallholder-agribusiness partnership group, review the characteristics of the proposed partnership, identify possible areas of future misunderstanding or dispute and coach the partners on the need for transparent planning to guide the funds flow and

collaborative relationship. During this consultation, the Fund Manager also evaluates whether there are any disputes relating to the land holding of the agribusiness.

24. In addition, the Fund Manager will establish a more formal grievance procedure to collect and review complaints about any stage of the matching grants allocation and administration. The draft Matching Grants Manual provides for the following: Fund documentation to potential and actual recipients, and matching grant contracts, will include an email and postal address to which complaints may be filed. Each complaint will be formally logged and if necessary reviewed during implementation support missions. It is anticipated that many complains will involve mis-interpretations of the fund rules and can be readily resolved through better communication with interested parties. If grievances cannot be quickly resolved through clarifications of the fund rules, these will be referred to a grievance sub-committee made up of a representative of the Investment Committee, a representative of the agribusiness community and a representative of a farmers organization to adjudicate. Major questions about the policies of the matching grants fund may be referred to the Board. The complaints log will include a record of how each grievance is resolved.

25. **Component 3: Project Management, Monitoring and Evaluation (total US$8.23 million, all IDA (of which US$3.80 million were provided by two Project Preparation Advances).** This component aims to ensure coordination between implementation agencies at all levels and with other with other IDA financed projects (Private Sector Competitiveness Project and the Agriculture Sector Development Program). The component will include the implementation of a comprehensive communication strategy, support for establishing and operating the Project's progress reporting and impact M&E system. Project financing will include management staff costs, management training, operational costs, and consulting services. The component will be implemented by a Project Coordination Unit (PCU) located within the Prime Minister's Office (PMO).

Text Box 1: Summary of Consultations during Project Preparation

In May 2010, then President Kikwete established an ad hoc SAGCOT Executive Committee mandated to define a strategy for promoting public-private partnership in strengthening agricultural commercialization in Tanzania's southern Corridor. This Committee was co-chaired by the Minister of Agriculture, Food Security and Cooperatives and the Regional Vice President of Unilever, and included representatives of the Tanzanian private sector, farmer organizations and development partners. The Committee met on at least 15 occasions over the next 2 years to guide the drafting of the Investment *Blueprint* for the Southern Agricultural Growth Corridor of Tanzania (SAGCOT), and the establishment of the SAGCOT Catalytic Fund and the SAGCOT Centre. The President formally announced the SAGCOT Program in a public gathering in November 2010.

Starting in early 2011, the Ministry of Agriculture organized a series of discussions about the SAGCOT program with smallholder farmers in the southern corridor region. At least 20 complementary village meetings were organized by the Rufiji Basin Development Authority (RUBADA) to discuss partnerships between these communities in the southern corridor and potential agribusiness investors. The SAGCOT Centre, established in mid-2011, began organizing a related set of meetings to explain the SAGCOT Program strategy with current and potential private agribusiness investors.

Specific consultations about the Project have been held with many smallholder groups, private businesses, non-governmental organizations and other development partners. These began in June 2011 with wide ranging discussions with government and private sector representatives about the SAGCOT Program's Investment *Blueprint* and options for World Bank funding. The discussions continued during a technical mission in November-December 2011 encompassing consultations with government officials, the Agricultural Council of Tanzania and Confederation of Tanzania Industries. In mid to late 2012, discussions were extended to encompass five smallholder communities involved in business partnerships with external investors as part of a land study.[1/] At this time the Project's environmental assessment team was also meeting with investors and farm communities while preparing a more detailed assessment of the impacts of agribusiness investment in the Kilombero region. Both teams met with key NGO representatives concerned about land allocations including Haki Ardhi, Oxfam and Concern Universal. In June 2013, these consultations were extended to encompass agribusinesses and their small-holders partners in central SAGCOT targeted Mbeya, Iringa and Morogoro Regions. In addition, there have been consultations with local communities during the preparation of the project's environmental and social safeguards instruments.

These consultations have been instrumental for the design of the Project, including the detailed MG arrangements, the focus on smallholder development, size of the grants, limiting eligibility to investors with secured land use rights, prioritization of women beneficiaries in the competitive ranking of the grants, etc.

[1/] See: "Study of Policy, Legal and Institutional Issues Related to Land in the SAGCOT Program area," by Dr. R. Willy Tenga and Prof. J.M Lusugga Kironde (July 2012).

Components by Financiers
(US$ Million)

	IDA		Other Donors		Private Business		GoT		Total	
	Amount	percent	Amount	percent	Amount	percent	Amount	percent	Amount	percent
A. Strength. SAGCOT Support Institutions										
SAGCOT Centre	3.45	29.1	8.38	70.9	-	-	-	-	11.83	10.9
Tanzania Investment Centre	2.50	100.0	-	-	-	-	-	-	2.50	2.3
Subtotal	**5.95**	**41.5**	**8.38**	**58.5**	**-**	**-**	**-**	**-**	**14.33**	**13.2**
B. Strength. Smallholder Business Linkages										
Fund Management	7.79	100.0			-	-	-	-	7.79	7.2
Matching Grants	47.86	61.4	-	-	25.12	32.2	5.00	6.4	77.98	71.9
Subtotal	**55.65**	**64.9**			**25.12**	**29.3**	**5.00**	**5.8**	**85.76**	**79.0**
C. Project Management and M&E										
Project Management	4.42	100.0	-	-	-	-	-	-	4.42	4.1
Monitoring and Evaluation	0.18	100.0	-	-	-	-	-	-	0.18	0.2
Subtotal	**4.61**	**100.0**	**-**	**-**	**-**	**-**	**-**	**-**	**4.61**	**4.2**
D. Project Preparation Advance	3.80	100.0	-	-	-	-	-	-	3.80	3.5
Total PROJECT COSTS	**70.00**	**64.5**	**8.38**	**7.7**	**25.12**	**23.1**	**5.00**	**4.6**	**108.50**	**100.0**

Annex 3: Implementation Arrangements

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

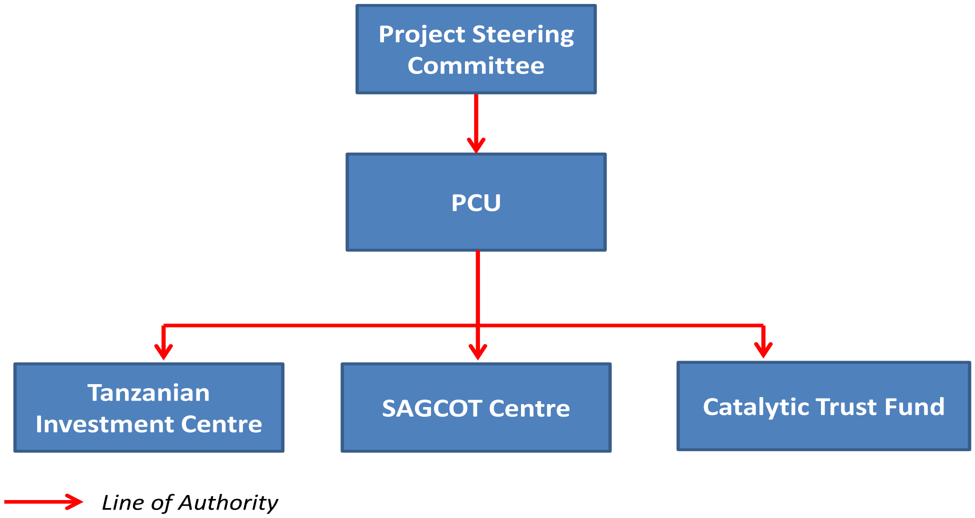
Project Institutional and Implementation Arrangements

1. The main project institutions/agencies are summarized in Table 1 below and the Project's organizational structure is shown in Figure 1 below. More details on the institutional and implementation arrangements are provided in the Project Operational Manual.

Table 1: Overview of Project Implementation Institutions/Agencies and Responsibilities

Agent	Role and Responsibility
Prime Minister's Office (PMO)	Providing leadership and support to the Project by chairing the Project Steering Committee and hosting the Project Coordination Unit.
Project Steering Committee (PSC)	Responsible for coordination and cooperation among all participating agencies; and endorsing annual work plans and budgets for all project-related activities.
Project Coordination Unit (PCU)	Located within the PMO and responsible for overall project coordination, reporting and M&E including integration of financial and technical progress reports from each of the agencies being funded. Procurement and financial management responsibilities on behalf of SAGCOT Centre, TIC and SAGCOT Catalytic TF during the initial stage of the project.
SAGCOT Centre	Implementation of Sub-component 1.1. The Centre's main tasks include: (i) promoting public-private partnerships; (ii) promoting better business enabling environment by identifying priority policy and regulatory limitations and rolling out targeted advocacy; and (iii) monitoring and evaluation of the results of SAGCOT Program.
Tanzania Investment Centre	Implementation of Sub-component 1.2. TIC's main role is to promote good practice agribusiness investment.
SAGCOT Catalytic Trust Fund	Implementation of Component 2. The SAGCOT Catalytic Trust Funds main role is to provide catalytic funding stimulating agribusiness investment through the matching grants fund (MGF) financed through IDA.

Figure 1: Project Organizational Chart



2. A Project Steering Committee (PSC) has been established chaired by the Permanent Secretary (PS) of the PMO, and encompassing the Permanent Secretaries of the Ministry of Agriculture, Food Security and Cooperatives, the Ministry of Livestock and Fisheries, the Ministry of Land and Human Settlements, and the Ministry of Finance, as well as the permanent Secretary of Regional Administration and local Government, the Chief Executive Officers of the TIC, the Chief Executive Officer of the Tanzania Private Sector Foundation, the Chairperson of the Mtandao wa Vikundi vya Makulima Tanzania (National Network of Farmer Groups in Tanzania), The Director General of the Rufiji Basin Development Authority and the Chief Executive Officer of the SAGCOT Centre and Executive Secretary of the SAGCOT Catalytic Trust Fund. The PSC will receive the annual work plans and budgets from all participating institutions for approval and will have an overall oversight and coordination role with all relevant government and non-government stakeholders in the SAGCOT region.

3. The Project will be implemented under the overall guidance of the Prime Minister's Office (PMO), which will provide the chair of the Project Steering Committee (PSC) and house the Project Coordination Unit (PCU). The PMO holds a mandate for investment promotion in the country, and its oversight of the TIC. The PMO is similarly viewed to have the convening authority to resolve investment problems in the country. The PMO has convened several meetings with agribusinesses in the country including discussions chaired by the Prime Minister. In addition, the leadership by the PMO is viewed necessary to assure complementary investments in infrastructure and resource support from multiple ministries in the government including the Ministry of Agriculture, Food Security and Cooperatives, the Ministry of Transport, the Ministry of Works, the Ministry of Energy and the Ministry of Lands.

4. The Government, with support of key representatives of the private sector and a farmers' association, has created two new private sector institutions – the SAGCOT Catalytic Trust Fund and the SAGCOT Centre. The principle was to establish a new working relationship between government, agribusinesses and farmers with a clear mission to expand commercial agriculture in the country. This process was from the beginning supported jointly by a group of donors (including DfID, USAID, Embassy of Norway, UNDP, etc.) and the World Bank through the original PPA.

5. The PCU will oversee overall project implementation; takes responsibility for the overall M&E and the integration of financial and technical progress reports from each of the agencies being funded. The PCU will have the responsibility for all communications and reporting and any implementation matters with the World Bank. The PCU will also have overall procurement and financial management responsibility during the initial stage of the project until sufficient capacity has been built in the other implementing agencies. The full staffing of the PCU will be required three months after project effectiveness.

6. *Subcomponent 1.1* will be implemented by the SAGCOT Centre. The SAGCOT Centre is a private sector entity established in 2011 and overseen by a Board of Directors, with day to day operations directed by an Implementation Unit, staffed by a Chief Executive Officer (CEO), Deputy CEO (Operations), Deputy CEO (Program), Program Officer, Cluster Development Manager, Operations Manager, Accountant, and administrative support staff. The main task of SAGCOT Centre is to facilitate the establishment of a SAGCOT Partnership made up of public and private agencies interested in implementing the SAGCOT Program. The SAGCOT Centre is not yet fully functional and receives ad-hoc budget support from Government and donor funding. The Project, in partnership with other donors, will provide capacity support and institutional strengthening to SAGCOT Centre, in order to assist it to get fully functional and undertake its role in the SAGCOT Program in an effective manner. The company has three subscribers: the Agricultural Council of Tanzania, the Confederation of Tanzania Industries Ltd., and the GoT. The rules governing the establishment of the company are laid out in a Memorandum and Articles of Association. The Centre's main functions are to: (i) facilitate agri-business and partnership development; (ii) ensure inclusive and sustainable investment and development; and (iii) advocate for an improved enabling environment.

7. The Project will finance operating costs, staff salaries (though not for civil servants), consultancies and training costs, especially in relation to the following core activities: (a) cluster and Partnership development; (b) promoting better enabling environment including the diagnosis of policy constraints to agribusiness investment; (c) information, communication and education; and (d) monitoring of SAGCOT Project implementation against the agreed performance indicators. Project funding will be provided jointly with Donors (currently USAID, DFID and Norway). This funding will be committed against an indicative five year budget, and against an approved annual budget agreed by the SAGCOT Centre Board up to a maximum amount of US$ 3.5 million, of which not more than 50 percent would be made available for operational costs and staff salaries. The funding arrangements are guided by a formal Memorandum of Understanding (MoU). This MoU confirms the applicability of the fiduciary procedures required for IDA funding. The Centre will directly implement its sub-component and be responsible for

procurement, financial management, input/output and progress reporting after it has become fully operational and acquired the necessary capacity in the respective areas.

8. *Subcomponent 1.2* will be implemented by the Tanzania Investment Centre. The TIC is a public sector institution overseen by a Board of Directors, with day to day operations headed by an Executive Director, who is supported by an existing corporate structure – including a Procurement Management Unit and an Administration & Finance Division. TIC's overall mandate is to be the first point of call and a "one-stop facilitation centre" for all potential domestic and foreign investors. The centre is responsible for marketing Tanzania's investment potentials and plays an investor facilitator's role on issues related to registering and approving investment projects, and issuing Certificate of Incentive encompassing a package of fiscal and non-fiscal incentives to generate more investment. International agribusiness investors seeking land for investment purposes must also obtain a sub-lease from the Centre.

9. The Project will fund training, consultancy services, meeting and workshop expenses and equipment to improve its operational procedures and capacity to provide high quality services. The TIC will directly implement these activities and be responsible for financial management, input/output and progress reporting. Procurement under component 1.2 will be managed by the PCU until sufficient capacity has been built within the TIC.

10. *Component 2* will be implemented through the SAGCOT Catalytic Trust Fund. The SAGCOT Catalytic Trust Fund is constituted by a Trust Deed signed and agreed between the Government of the United Republic of Tanzania, the Agricultural Council of Tanzania, and the Confederation of Tanzanian Industries Limited. The Trust is designed to provide two funding windows: (a) Matching Grant Fund (MGF) – to be funded under the Project, and (b) Social Venture Capital Fund (SVCF) to be funded by other Donors (DFID and USAID). The SVCF window is expected to become operational after the first transactions under the MGF have been successfully implemented. Once the SVCF window becomes operational other Donors will share part of the operational costs for the Board and Secretariat. The terms of reference, duties and budget of the existing Fund Manager may be expanded or an additional Fund Manager may be hired for the SVCF.

11. The SAGCOT Catalytic Trust Fund is overseen by a Board of Trustees. The Board, composed of a combination of international and domestic members, commenced its function in July 2013. The Board will appoint an Investment Committee, which will evaluate the recommendations for MGF and SVCF fund allocation and recommend commitments to the Board for approval. The Board is designed as an advisory Board with day-to-day operational tasks and responsibilities assigned to a Secretariat consisting of an Executive Secretary with sufficient staff for operations and secretarial tasks.

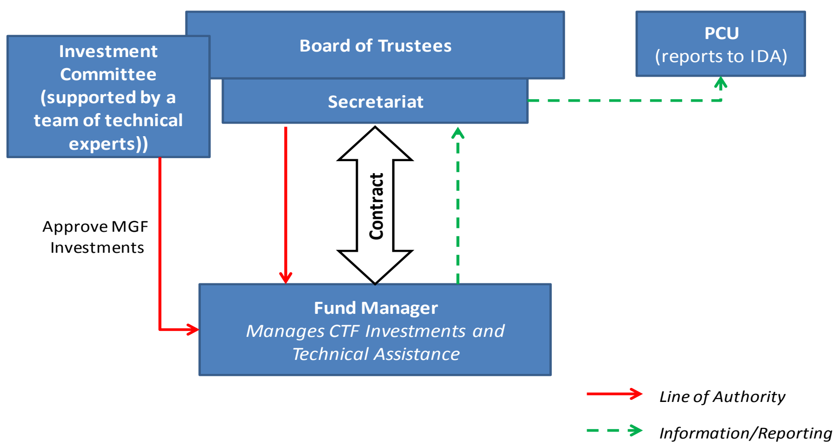
12. A Fund Manager will be competitively selected and contracted by the Board to administer the MGF. The role of the Fund Manager will be to advertise the grant opportunities, manage the application process, support the applicants during application and implementation, and manage and monitor the implementation process under each grant. In addition, the Fund Manager will manage the implementation of technical assistance to be contracted for improving investments on subjects such as: business planning, market analysis, environmental and social

safeguards, due diligence, out-reach and support for smallholders and smallholder groups, articulating the needs of the farming community in the preparation of proposal, etc. The Project has specifically earmarked a budget of US$2.0 million for such TA.

13. Recruitment of the Fund Manager is expected soon after the project is approved. Full proposals of the short-listed candidates are expected in the second quarter of FY 2017 to become available soon after the Project is approved.

14. Figure 2 provides an overview of the SAGCOT Catalytic Trust Fund organisational arrangements.

Figure 2: **CTF Organisational Arrangement**



15. The Matching Grant (MG) eligibility, selection process and implementation arrangements are detailed in the Trust Deed and further specified in an Operational Manual. The grants size is set between US$250,000 and US$1.5 million with a matching contribution of 30 percent (national businesses) and 40 percent (international business operators). Grants will be provided only to established investors, with undisputed land rights; agribusinesses with at least two years of good financial records will have the opportunity to apply at least twice a year for the matching grant in response to advertisements organized by the Fund Manager. Proposed recipients will be required to meet the criteria laid out in the Trust Deed and in the Operations Manual, including environmental and social safeguards requirements. The Fund Manager will ensure that the applications are of good quality, complete, the information and data provided are correct and the applicant meets the requirements set forth under the Project. The Investment Committee will competitively review all fully prepared grant applications submitted by the Fund Manager and make recommendations to the Board on those that warrant funding. The investment committee would draw on a list of technical reviewers (team of primarily national experts) to evaluate and score the investment proposals. These reviewers would be paid based on a fixed amount for each investment proposal reviewed. Successful applicants will sign a funding and implementation agreement (Grant Agreement) with the Executive Secretary acting on behalf of the Board. Grants will be funded on a reimbursement basis and may be *tranched*. Grants payments may be made to

investors, smallholders or some combination thereof, as requested by the partners and set out in the Grant Agreement.

16. The Fund Manager will conduct awareness raising and publicity workshops at least twice per year. These workshops will specifically address and raise interests and participation of smallholder groups in the Matching Grant. During these workshops the opportunity to access technical assistance in the preparations of proposals for smallholders will be offered.

17. After the first round of application an in-depth review will be undertaken to allow for adjustments to the process as necessary. This review will assess all processes set forth under the Trust Deed and in the Matching Grant Operational Manual. The review will in particular assess eligibility criteria for applicants, the appropriate size of the grants, potential obstacles for smallholder groups to apply, the outreach to smallholders and the needs and involvement of the local farming community.

18. *Consultations and Communications Strategy.* The Project will finance a comprehensive and GoT-led communications strategy as an integral part of project implementation. The strategy will be implemented by the PCU with support from the SAGCOT Centre.

Project administration mechanisms

19. Most of IDA financed activities will be implemented by agencies other than the PCU. At the beginning of the project the TIC, the SAGCOT Centre and the SAGCOT Catalytic Trust Fund will not have sufficient fiduciary management capacity to implement their respective activities. The PCU will take over the responsibilities for procurement and financial management for these three entities until sufficient capacity has been built. The readiness will be reassessed by the Bank's fiduciary experts on a six-monthly basis. After the capacity is found satisfactory, each agency will become individually responsible for the implementation of its own investment activities including procurement, financial management and reporting. Subsidiary agreements will be signed with: (a) the SAGCOT Centre; and (b) the SAGCOT Catalytic Trust Fund as non-Governmental entities under the Project. These agreements will lay out the implementation and reporting requirements of the two entities. Direct flow of World Bank funds to these entities may only begin once these subsidiary agreements, and an associated set of fiduciary systems including financial management and procurement systems acceptable to the Bank, are in place.

20. *The PCU will be responsible for integration of financial and technical progress reports* from each of the agencies being funded. The PCU will also have the responsibility for the overall Project Monitoring and Evaluation including the preparation of mid-term review and project implementation completion reports. The PCU will have the authority to request the timely provision of all necessary information and reports from all implementation agencies according to the requirements set out in the relevant Project legal agreements.

Financial Management, Disbursements and Procurement

Financial Management

21. The following Financial Management (FM) arrangements, as described below, relate to the PCU because the SAGCOT Centre and the SAGCOT Catalytic Trust Fund do not as of yet have the financial management capacity to manage IDA funds. The FM assessment was carried out in September 2013 in accordance with the Financial Management Practices Manual, issued by the Financial Management Sector Board in March 2010, and updated in June 2014.

22. *Budgeting:* The Annual Work Plans and Budgets (AWPB) will be prepared in a participatory manner and will be based on the Medium Term Expenditure Framework (MTEF). Budgets will be approved before the new financial year begins and monitored during project implementation. Budgets are currently prepared using spread sheets and are maintained using the same. There is a need to urgently computerize the process by acquiring a robust accounting software. Staffing arrangements are adequate. In this regard budgeting arrangements are adequate albeit the need to improve for reliability, security and better performance with a computerized system.

23. *Accounting:* The Project shall maintain adequate financial records in accordance with acceptable international accounting standards and practices. The unit currently uses spreadsheets to maintain accounting data as well as generate reports. There is need to computerize the accounting system for maintenance of project financial data and accounts. There is also need to develop finance and accounting manual. The books of accounts to be maintained specifically for the project will include: a cash Book, ledgers, journals, fixed asset register and a contracts register. A list of accounts codes (Chart of Accounts) for the Project will be drawn and maintained. All records and documents will be kept at the project offices. Staffing arrangements at the TIC are adequate. For the PCU, there is need to recruit an additional finance manager who will coordinate and supervise the FM arrangements in the various implementing entities.

24. *Internal Controls (incl. internal audit):* The internal control systems, including internal audit, as documented in the Financial Rules and Regulations Accounting Manual are adequate for use by this project in order to ensure funds are utilized for purposes intended.

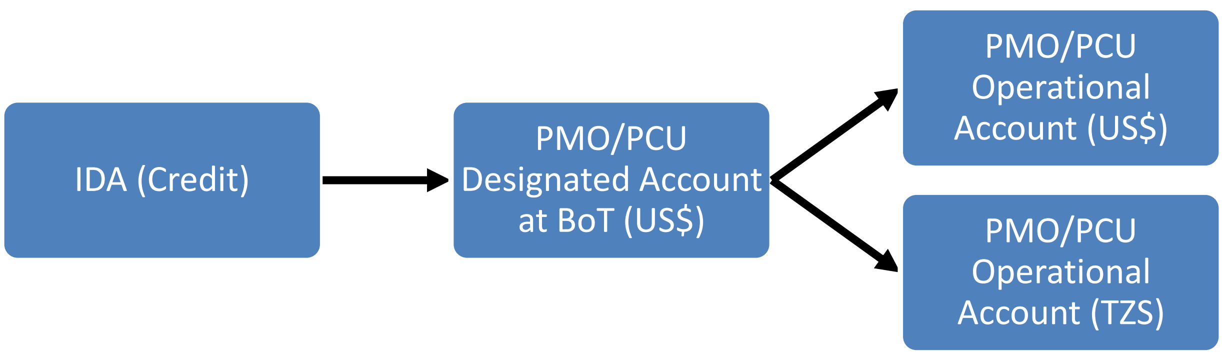
Disbursements

25. Report based disbursement based on Interim Unaudited Financial Report (IUFR) will be applied for the PCU only. The other implementing entities will use transaction based Statement of Expenditure (SOE) method when the time comes for them to open their respective DAs. Initially requests for disbursement by the Bank will be made on the basis of approved work plans and cash flow projections for eligible expenditures for six months. Thereafter, disbursements to the Project will be done after every calendar quarter upon submission of IFRs that document project expenditure for the quarter and submission of the next 6 monthly cash flow projections. Other methods of disbursement will include reimbursement, direct payment and special commitments. Details in relation to these disbursement methods will be documented in the disbursement letter.

26. If ineligible expenditures are found to have been made from the DA, the implementing entity will be obligated to refund the same. If the DA remains inactive for more than six months, the project may be requested to refund to IDA amounts advanced to the DA.

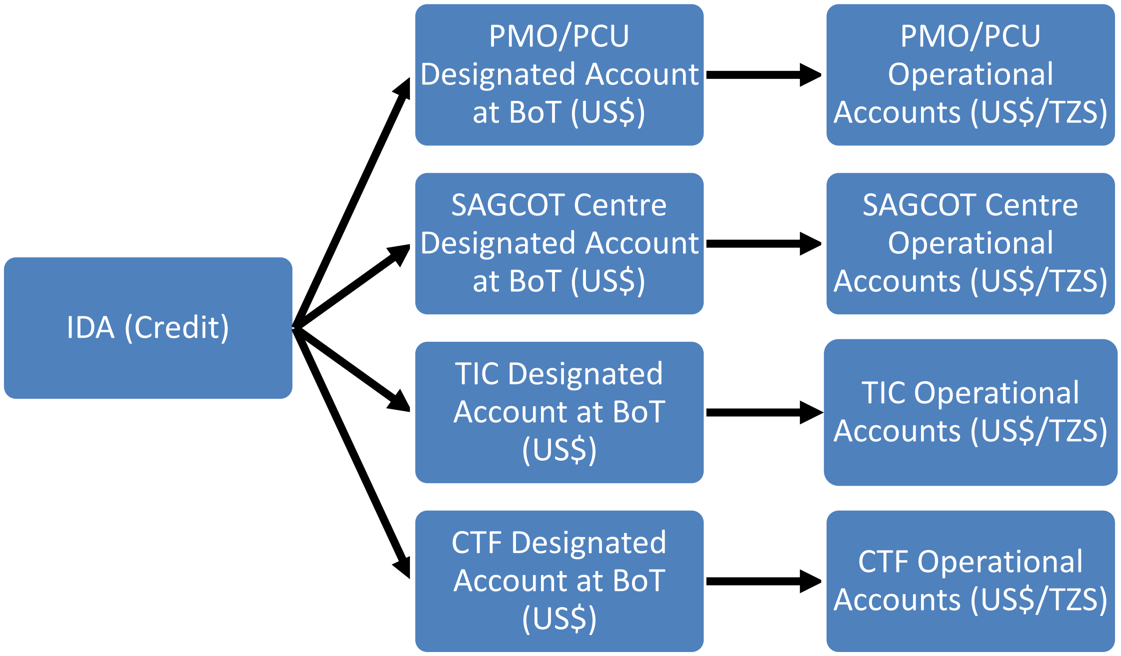
27. *Fund Flow: Funds will flow from the WB to a separate Designated Account opened at the* Bank of Tanzania (BoT) for the PCU. The signatories to the DA will be at the PMO but the management of the DAs will be by the PCU. All withdrawals and replenishment from and to the DAs will be authorized by the PCU. Until acceptable FM arrangements are in place at the TIC, the SAGCOT Center and the SAGCOT Catalytic Trust Fund, all funds will be managed (received and paid out) from the PCU DA. Project (operational) accounts will be opened in acceptable commercial banks for the PCU. The DA and project accounts will be opened after the signing of the financing agreement but before the project becomes effective. PCU will have to communicate the bank account details and the signatories to the Bank. The Project will initially submit a cash flow forecast projection for six months to receive the initial deposit in the DA. Subsequently, withdrawal requests will depend on the six months forecast derived after consideration of work plans and submission of quarterly unaudited IFRs as well as the need and utilization of funds in these accounts. Once acceptable FM arrangements have been put in place the implementing institutions will be eligible to open and manage separate DAs.

Figure 3: Funds Flow at the Initial Stage



28. Once acceptable FM arrangements are in place at each of three implementing entities, they will be authorized to open and operate a DA at BoT and operational bank accounts at acceptable commercial banks. The PCU will have to communicate details pertaining to these accounts including signatories to the Bank. The funds flow arrangements will then appear as below:

Figure 4: Funds Flow once acceptable FM arrangements in place



29. *Financial Reporting:* The quarterly Interim Financial Reports (IFRs) will be prepared at the end of each calendar quarter and submitted to the Bank not later than 45 days after the end of the quarter. The format and content of the IFRs were agreed at project negotiations. The IFRs will include Sources and Uses of Funds Statement, Uses of Funds by Project Activity/Component and Designated Account Activity Statement

30. To support the continued use of report-based disbursement, the Project will be required to submit Interim Financial Report (IFR), Designated Account (DA) Activity Statement, DA statements, Bank reconciliation statement for the DA, Summary Statement of DA Expenditures for Contracts subject to Prior Review, Summary Statement of DA Expenditures for contracts not subject to Prior Review. The financial statements should be prepared in accordance with International Public Sector Accounting Standards. The IDA Financing Agreement will require the submission of audited financial statements to the Bank within six months after the financial year end.

31. *External Audits:* The Controller and Auditor General (CAG) is primarily responsible for auditing all government funds including externally funded projects. In cases where the CAG is not in position to carry out the audit, he is mandated to contract a CPA firm to carry out the audit on his behalf with the final report being issued by him. The private firm to be contracted should be among those that are acceptable to IDA. In case the audit is subcontracted to a firm of private auditors, IDA funding may be used to pay the cost of the audit. The audits will have to be done in accordance with International Standards on Auditing. The external audit terms of reference will be agreed with the Bank. The audit report together with the management letter will be submitted to the Bank not later than six months after the end of the financial year. The project is

required to disclose the audited financial statements in a manner acceptable to the Bank. Following the Bank's formal receipt of the audit report from the project, the World Bank will make them available to the public in accordance with The World Bank Policy on Access to Information.

32. *Implementation Support:* Based on the FM risk assessment of the project, which currently gives an FM risk rating of **High,** a supervision mission will be conducted at least twice every year. The mission's objectives will include ensuring that strong financial management systems are maintained throughout the project life.

33. *Financial Management Action Plan:* The following actions need to be put in place by the project to strengthen the financial management arrangements in each of the implementing entities as shown below:

PCU:

SNo.	Action	Due Date
1	Develop an accounting policies and procedures manual	Six Months after project effectiveness
2	Acquire a robust accounting system	Six Months after project effectiveness
3	Recruit a finance manager and an additional accountant to beef up the current staff in place	Three months after effectiveness
4	Train the accounting staff on WB FM and Disbursement guidelines	Three months after effectiveness
5	Facilitate the internal audit function with laptop computers and internet connection	Six months after effectiveness
6	Put in place a complaints handling mechanism	Six months after effectiveness
7	Put in place a social accountability mechanism and a transparency system that will inform the public of funds received and spent	Six months after effectiveness
8	Opening of DA at a bank acceptable to WB-BoT.	After project signing but before effectiveness.
9	Agree terms of reference for external auditors.	Before effectiveness
10	Agree formats of IFRs	Before effectiveness

SAGCOT Centre:

34. Acceptable FM arrangements should be in place before the Centre can start managing IDA funds. Another assessment will be conducted within one year after effectiveness to determine if the Centre is ready to manage IDA funds. Specifically the following need to be addressed:

SNo.	Action
1	Acquire a robust accounting software
2	Operationalize the finance and accounting manual
3	Developed a chart of accounts
4	Financial Management documents to be put in place
5	Put a budget preparation and monitoring system in place
6	Recruit a competent, skilled, experienced and qualified Accountant and accounts assistant
7	Implement the internal control procedures as documented in the manual
8	Recruit an internal auditor or outsource the function
9	Carry out an audit of the transactions of the Centre for the last 12 months
10	Strengthen the internal control environment
11	Generate reports (management and statutory) in an acceptable form and substance.
12	Put in place a complaints handling mechanism
13	Put in place a social accountability mechanism and a transparency system that will inform the public of funds received and spent

TIC:

SNo.	Action	Due Date
1	Train the accounts and internal audit staff on the World Bank Financial Management and Disbursement Guidelines.	Six months after project effectiveness.
2	Put in place a complaints handling mechanism	Six months after effectiveness
3	Put in place a social accountability mechanism and a transparency system that will inform the public of funds received and spent	Six months after effectiveness

SAGCOT Catalytic Trust Fund:

Acceptable FM arrangements to be put in place before it can start managing IDA funds. Another assessment will be carried out within a year.

Procurement

35. Procurement activities for the SAGCOT Investment Project will be carried out in accordance with the World Bank's "Guidelines: Procurement of Goods, Works and Non Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (Revised July 2014) (Procurement Guidelines); "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (Revised July 2014) (Consultant Guidelines); "Guidelines on

Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011 and the provisions stipulated in the Financing Agreement. For each contract to be financed by the Credit, the different procurement or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements and time frames will be agreed between the Recipient and the Bank in the Procurement Plan. The Recipient has prepared a procurement plan for the first 18 months, which was agreed and approved by the Bank on February 4, 2015 and updated on December 18, 2015. The Procurement Plan will be updated at least every 12 months, or as required, to reflect the actual project implementation needs but shall require Bank's approval with each update. All procurement plans will be publicly disclosed in accordance with the Bank's disclosure policy.

36. The Bank's Standard Bidding Documents shall be used for procurement of goods, works and non-consulting services under International Competitive Bidding (ICB). National Bidding documents may be subject to the exceptions stipulated below. Similarly, selection of consultant firms shall use Bank's Standard Request for Proposal, in line with procedures described in the Consultant Guidelines.

37. The Borrower is required to prepare and submit to the Bank a General Procurement Notice. The Bank will arrange for its publication in *UN Development Business online (UNDB online)* and on the Bank's external website. Specific Procurement Notices for all procurement under ICB and Requests for Expressions of Interest for all consultancies estimated to cost not less than $300,000 shall be published in at least one newspaper of national circulation in the Borrower's country, or in the official gazette, or on a widely used website or electronic portal with free national and international access, and in *UNDB online.*

38. In November, 2011 the Government enacted a new Public Procurement Act (PPA) (2011) replacing the PPA (2004). The new law was endorsed by the President and became effective in December 2013 when the new Regulations were gazetted. The new Act has strengthened some of the functions of the Public Procurement Regulatory Authority (PPRA) including powers to cancel procurement proceedings if an investigation concludes that there was a breach of the Act. Otherwise, the basic principles of public procurement and general institutional arrangements have remained the same as in the PPA 2004. In addition, the new Act has enhanced the definition of fraud and corruption in a broader term by including definitions of coercive practices, collusive practices and obstructive practices that were missing in the PPA 2004. Furthermore, the new Act gives powers to PPRA to black list and debar a bidder who has been debarred by international organizations, such as the World Bank, in cases related or unrelated to fraud and corruption for such period as is debarred by the international organization plus a further period of ten years (for fraud and corruption cases) or five years (for non-fraud and corruption cases).

39. Public procurement in Tanzania is now governed by the Tanzania Public Procurement Act, No. 7 of 2011. The Act has been reviewed by the World Bank and found to be satisfactory and consistent with Bank Procurement Guidelines, except for the provisions of Clause 54 of the Act, which permits application of national preference in bid evaluation under National Competitive Bidding (NCB). Thus there will be no preference accorded to domestic suppliers and contractors under National Competitive Bidding for goods and works in this project. Furthermore, in accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding

document and contract financed out of the proceeds of the credit shall provide that: (a) the bidders, suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the bid submission and performance of the contract, and to have said accounts and records audited by auditors appointed by the Bank; and (b) the deliberate and material violation by the bidder, supplier, contractor or subcontractor of such provision may amount to an obstructive practice as defined in paragraph 1.16(a)(v) of the Procurement Guidelines.

40. **Details of goods, works, non-consulting and consultants' services** expected for the first 18 months of the project are detailed below under "Details of the Procurement Arrangements involving international competition"

41. **Operating Costs**: The financing of operating costs for the Project shall follow administrative and financial procedures agreed with and satisfactory to the Bank.

42. **Training and Workshops:** The Project will finance training and worskshops, if required, based on an annual training plan and budget which shall be submitted to the Bank for its prior review and approval. The annual training plan will identify, inter alia: (i) the training envisaged; (ii) the justification for the training, (iii) the personnel to be trained; (iv) the duration for such training; and (v) the estimated cost of the training. At the time of the actual training, the request shall be submitted to the Bank for review and approval. Upon completion of the training, the trainees shall be required to prepare and submit a report on the training received.

43. The overall implementation of the Project with regards to procurement will be under Prime Minister's Office (PMO) Project Coordination Unit (PCU). The TIC, the SAGCOT Centre and the SAGCOT Catalytic Trust Fund will be re-assessed at an appropriate time after project effectiveness on the readiness and capacity to implement procurement based on World Bank procurement procedures. Meanwhile they (TIC, SAGCOT Centre, and SAGCOT Catalytic Trust Fund) will provide technical input with regards to preparation of technical specifications and Terms of References (TOR) and also provide staff to participate in the evaluation of bids and proposals during processing of their respective procurements. Following conclusion of procurement processes, the respective agencies will be responsible for the signing and management of contracts under their respective components.

44. The procurement capacity assessment for PCU, TIC, SAGCOT Centre and SAGCOT Catalytic Trust Fund to implement procurement was carried out between August and September 2013. The assessment focused on the organizational set up of the procurement function in relation to the overall organization structure of the agency; staffing of the procurement unit/section/department in terms of numbers and qualifications; procurement cycle management; records keeping; and presence of controls in the procurement processes.

45. The key issues noted are: The PCU under PMO works closely with PMO's Procurement Management Unit (PMU) which has some experience with Bank financed projects and has a procurement team of nine procurement/supplies officers out of which two have some experience with World Bank procurement procedures. The staffs are mainly familiar with procurement of goods under National Competitive Bidding (NCB) procedures, shopping procedures and

selection of small value consultancy contracts. However, they have inadequate experience with processing of tenders under International Competitive Bidding (ICB) procedures and selection of large value consultancy services. Furthermore, the PMO's procurement unit is overwhelmed with procurement activities financed by both the Government and Development Partners. The PCU has hired an experienced procurement specialist under the "Private Sector/MSME Competitiveness Project (P085009), who will assist in implementation of this Project. However, due to the volume of work as a result of managing several Projects, there will be need for hiring another experienced specialist. The PMO's Procurement Management Unit has been established in accordance with the Public Procurement Act (PPA) of 2011 and a tender board is in place as per requirement of the Act with seven members and the chairperson is the Director of Parliamentary and Political Affairs.

46. TIC has two (2) procurement/supplies officers with experience in undertaking procurement under the national system based on the Public Procurement Act. However the two officers have no experience in processing procurements under World Bank procedures. Both SAGCOT Centre and SAGCOT Catalytic Trust Fund which were established in 2011 and 2013 respectively have no procurement/ supplies officers and procurement systems in place.

47. The Project procurement risk was assessed as "Substantial" with a reduced residual "Moderate" risk, taking into consideration mitigation measures put in place. Actions proposed and agreed to mitigate the procurement risk include: (a) hiring of an individual consultant/procurement expert with qualifications acceptable to IDA for duration of the project; (b) PMO to assign one procurement/supplies officer out of the nine to work full time in the PCU with the consultant to be hired; (c) the staff assigned to the PCU to receive training in processing procurement under ICB procedures and selection of consultants in order to improve his/her capacity; and (d) put in place coordination mechanism between the PCU and PMU in order to expedite adjudication of tenders through the Ministerial Tender Board (MTB); and (e) preparation of a procurement plan for at least the first 18 months.

Table 2: Procurement Risks

Risk	**Action**	**Timeframe**	**Responsibility**
Inadequate procurement skills	Hire procurement expert with qualifications acceptable to IDA for duration of the project	Within three (3) months after project effectiveness	PMO/IDA
Inadequate capacity to handle procurement for Projects financed by the government and development partners	PMO to assign one procurement/supplies officer out of the nine to work full time in the PCU with the consultant to be hired	Within three (3) months after project effectiveness	PMO
Procurement staff have inadequate experience on World Bank procurement procedures and processes.	Assigned procurement staff to be trained in World Bank procurement procedures and processes.	During implementation of the project	PMO/IDA
Delay in adjudication of tenders by the MTB	PCU and PMU to have mechanism of adjudication of tenders through the MTB	During implementation of the project.	PMO

48. **Frequency of Procurement Supervision:** In addition to the prior review supervision to be carried out from Bank offices, the capacity assessment of the Implementing Agencies recommends one supervision mission every six months to visit the field to carry out post review of procurement actions.

49. Details of the Procurement Arrangements Involving International Competitive Bidding and Other Methods:

I. GOODS, WORKS AND NON-CONSULTING SERVICES

Prior Review: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement

Expenditure Category	Contract Value Threshold (US$)	Procurement/ Selection Method	Contracts Subject to Prior Review
Works	≥15,000,000	ICB	All
	<15,000,000 ≥ 10,000,000	NCB	All
	<10,000,000	NCB	None (Post review) unless specified in the PP
	<200,000	Shopping	None (Post review)
	All values	Direct Contracting	All
Goods, IT Systems and Non-Consultancy Services	≥3,000,000	ICB	All
	<3,000,000 ≥1,000,000	NCB	All
	<1,000,000	NCB	None (Post review) unless specified in the PP
	<100,000	Shopping	None (Post review)
	All values	Direct Contracting	All

Procurement Packages with Methods and Time Schedule

1	2	3	4	5	6	7	8
Ref. No.	Contract (Description)	Estimated Cost in US$	Procurement Method	Prior/ Post Review	Prequalification (Yes/No)	Domestic Preference (Yes/No)	Expected Bid Opening
PCU /G/1	Supply of Furniture, Office Equipment, Computers and IT Equipment for TIC, CTF and PCU	86,000	Shopping	Post	No	No	10 Aug 2016

1	2	3	4	5	6	7	8
Ref. No.	Contract (Description)	Estimated Cost in US$	Procurement Method	Prior/ Post Review	Prequalification (Yes/No)	Domestic Preference (Yes/No)	Expected Bid Opening
TIC/ G/2	Supply of Motor vehicles for TIC	98,000	Shopping	Post	No	No	10Aug 2016

II. SELECTION OF CONSULTANTS

1) **Prior Review Threshold:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants.

Expenditure Category	Threshold (US$)	Procurement/ Selection Method	Prior Review
Consulting Services - Firms	> 500,000	QCBS/ Other (QBS/FBS/ LCS)	All
	<500,000≥ 300,000	QCBS/ Other (QBS/FBS/ LCS)	None (Post review) unless specified in the PP
	< 300,000	CQS/ Other (QCBS/QBS/ FBS/LCS)	None (Post review) unless specified in the PP
	All values	SSS	All
Consulting Services – Individuals (IC)	≥100,000	IC – Qualification	All
	<100,000	IC – Qualification	None (Post review) unless specified in the PP
	All Values	IC – SSS	All

2) General – Terms of Reference for all contracts shall be cleared with the Bank;

3) Consultancy services estimated to cost equivalent to US$300,000 and above per contract shall be advertised in the United Nations Development Business (UNDB) online in addition to advertising in national newspaper(s) of wide circulation and/or regional newspaper in accordance with the provisions of paragraph 2.5 of the Consultants Guidelines;

4) Shortlists for consultancy services for contracts estimated to cost less than US$300,000 equivalent per contract may be composed entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines;

5) QBS, FBS, and LCS will be applicable for assignments meeting requirements of paragraphs 3.2, 3.5, and 3.6 respectively of the Consultant Guidelines.

6) Consultancy Assignments with Selection Methods and Time Schedule

Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date
SC/S/1	Consultancy Services to undertake Policy analysis and reporting	60,000	CQS	Post Review	20/August/ 2016
SC/S/2	Consultancy Services to undertake Communication Support	130,000	CQS	Post Review	1/September/ 2016
SC/S/3	Promote In-depth partnership case studies	50,000	CQS	Post Review	1/September/ 2016
SC/S/4	Facilitate Recruitment, training and retreat support	30,000	QCBS	Post Review	1/September/ 2016
SC/S/5	Facilitate Financial management support	99,000	CQS	Post Review	1/September/ 2016
TIC/S/1	Facilitate Identification of Investment Opportunities	300,000	CQS	Prior Review	10/September/ 2016
TIC/S/2	Consultancy to Design & Implementation of Targeted Promotion & Investor conferences	200,000	CQS	Post Review	10/September/ 2015
TIC/S/3	Consultancy to facilitate Screening and due diligence processes	200,000	CQS	Post Review	10/September/ 2016
TIC/S/4	Facilitate Information Collection & Generation of Web Sphere Platform (2 positions)	50,000	CQS	Post Review	10/September/ 2016
TIC/S/5	Facilitate M&E Specialist for TIC Staff Training	50,000	CQS	Post Review	10/September/ 2016
TIC/S/6	Consultancy to promote Up-grading of Workflow and Management	100,000	CQS	Post Review	10/September/ 2016
TIC/S/7	Promote Investment Surveys	100,000	CQS	Post Review	10/September/ 2016
CTF/S/1	Consultancy Services for Fund Management	5,370,000	QCBS	Prior Review	1/July/2016
CTF /S/2	Recruitment of Executive Secretary CTF	520,000	IC	Prior Review	1/July/ 2016
PCU/S/1	Recruitment of Project Coordinator PCU	503,700	IC	Prior Review	1/Jan/ 2016
PCU/S/2	Recruitment of Deputy	326,600	IC	Prior	1/July/ 2016

Ref. No.	Description of Assignment	Estimated Cost	Selection Method	Review by Bank (Prior / Post)	Expected Proposals Submission Date
	Project Coordinator			Review	
PCU/S/3	Recruitment of PCU Finance Manager	326,600	IC	Prior Review	1/July/ 2016
PCU/S/4	Recruitment of PCU M&E Officer	260,000	IC	Prior Review	1/July/ 2016
PCU/S/5	Recruitment of PCU Procurement Specialist	260,000	IC	Prior Review	1/July/ 2016
PCU/S/6	Recruitment of PCU Accountant	175,000	IC	Prior Review	1/Jan/ 2017

Environmental and Social (including safeguards)

50. The environmental and social safeguards implementation arrangements including monitoring are described in Annex 7. The Fund Manager of the SAGCOT Catalytic Trust Fund will be responsible for conducting an annual environmental and social safeguards audit of a cross-section of recipients of the matching grants, in order to assess compliance with agreed actions defined by the Environmental and Social Management Framework (ESMF), the RPF and the IPMP and confirmed for specific investments in each grant agreement. The results of this audit should be compiled by the Fund Manager into an annual safeguards audit report. In complement, safeguards specialists will conduct a semi-annual review of safeguards compliance during each implementation support mission.

Monitoring & Evaluation

51. Responsibilities for M&E: The Project Coordination Unit (PCU), through its M&E officer, will undertake responsibility for the overall monitoring and evaluation of the project with the support of the SAGCOT Centre, TIC and SAGCOT Catalytic Trust Fund in collection and processing of information necessary to undertake this task.

52. PDO level indicators apply specifically to the matching grants provided by the SAGCOT Catalytic Trust Fund. Correspondingly, these data will be primarily collected and interpreted by the Fund Manager of the SAGCOT Catalytic Trust Fund. Intermediate outcome indicators will be collected and reported by the SAGCOT Catalytic Trust Fund, the SAGCOT Centre and the Tanzania Investment Centre. These agency reports will be collated by the Monitoring and Evaluation Officer of the PCU, and summarized in the project’s quarterly and annual technical progress reports. To the extent feasible key indicators will be disaggregated by gender.

53. The Fund Manager of the SAGCOT Catalytic Trust Fund will be responsible for monitoring the implementation of environmental and social safeguards underlying projects funded through the SAGCOT Catalytic Trust Fund. This includes the completion of an annual audit of safeguards compliance for a subset of matching grant funds. The results of this

monitoring will be passed to the PCU for integration into the quarterly and annual technical progress reports.

54. Reporting arrangements. The PCU is required to submit quarterly technical progress reports within 45 days of the end of each fiscal year quarter. Each of these reports will include i) a summary of progress in work-plan implementation, including a review of any challenges encountered; ii) a summary of expenditures relative to project disbursement targets, and iii) a summary of results being achieved, including a copy of the Results Framework listing performance targets and accomplishment.[26] The performance targets are not expected to change in every quarterly report. However, the implementation team is expected to summarize the progress of performance monitoring, and highlight any challenges that may affect the achievement of project targets. Each major implementing agency will be required to submit its quarterly report to the Monitoring and Evaluation Officer at the PCU for compilation into a single quarterly report for the project.

55. In addition, PCU is expected to submit an annual summary report on the results achieved. This will provide an overview of the status of achievement of each performance indicator in the Results Framework, and summarize the results of related monitoring and impact studies – e.g. the previews of partnerships, impact surveys and environmental and social management audits. Again, each implementation entity will submit its contribution to the annual report to the PCU for compilation into a single report.

56. Implementation Support (IS) Missions. The Project will undertake regular joint implementation reviews at an interval of three times per year in the first and twice a year in subsequent years. These will be coordinated with other development partners, who will be invited to join the missions. The reviews will be facilitated and coordinated by the PCU, and the review teams will encompass government representatives, implementing officials from the SAGCOT Catalytic Trust Fund, the SAGCOT Centre, TIC, and development partners. Field visits with interviews of agribusiness operators and smallholder will be part of the IS missions.

57. Review of first round MGs. After the first round of applications for the MGs a special review will be conducted by the Bank, the development partners and the implementing agencies. The review will cover all processes involved in the matching grant implementation such as transparency in the advertisement, application and selection, outreach to smallholders, inclusiveness of vulnerable groups, grant size, funding percentages, etc. At this stage, adjustments in matching grant design and implementation arrangements will be considered.

58. Baseline Study. In the first year of the Project and prior to the provision of funding under each MG baseline data and information will be established to facilitate measuring of the progress and impact made by the project. Information will be collected for the project indicators specified in the M&E plan.

59. Beneficiary Satisfaction and Feedback Surveys. Beneficiary satisfaction and feedback surveys will be carried out periodically (annually by the Fund Manager); these will be verified twice by the PCU during the midterm survey (late year 2) and an end of term survey (early year

[26] A draft outline of the quarterly technical progress report is provided in the M&E manual.

5). The methodology of the qualitative monitoring of beneficiary groups is defined in the M&E manual.

60. Assessment of SAGCOT Partnerships. A principal task of the SAGCOT Centre is to strengthen public and private partnerships in the implementation of the wider SAGCOT Program. The Project will fund an annual consultancy designed to review the achievements and challenges underlying public sector efforts to support agribusiness investment in the SAGCOT Program area. Private companies investing in the SAGCOT Program area will be interviewed to review perceptions of public sector support, and public sector entities will be interviewed to summarize their respective accomplishments and challenges. The Project will also support a series of case studies of successful partnerships involving one or more agribusinesses working with particular smallholder communities in order to derive lessons for improving the success of future agribusiness investments. It is anticipated that one case study will be conducted in the first year of the project and two per year thereafter. The results of this business environment assessment and case studies will be annually presented to the SAGCOT Partnership Forum.

61. Mid-Term Evaluation. A mid-term evaluation of the project will be undertaken after 24 to 30 months of operation. The main purpose of the evaluation will be: (a) to determine whether satisfactory progress is being made towards meeting the original project objectives; (b) to evaluate the initial outcomes of the project on the beneficiaries; (c) to assess whether the implementation arrangements agreed are being honored; and (d) to draw lessons from the experience, enabling the government to adapt its methodology for the future. The mid-term evaluation may include, apart from a more detailed analysis of information collected and stored in the MIS, the commissioning of special studies (which may include both qualitative and quantitative surveys) by external consultants. Appropriate funding has been allocated to the PCU for implementation of the mid-term assessment.

62. Implementation Completion and Results Report (ICR). The PCU will prepare and submit the client's ICR prior to the Project's closing date and the Bank will prepare its ICR within six months after the closing date.

Role of Partners (if applicable)

63. The SAGCOT Centre will be jointly financed by the Project together with DFID, USAID and the Government of Norway. The financing modalities are agreed in a joint MoU, which confirms that the Bank's fiduciary requirements (procurement and financial management) will be applied to activities receiving IDA funding. The supervision of fiduciary aspects (procurement and financial management) for those activities will be undertaken by the Bank.

64. The SAGCOT Catalytic Trust Fund management costs (Board, Secretariat, and Fund Manager) will initially be financed by the Project. DFID and USAID have indicated to open a SVCF window under the CTF at a later stage, in which case these development partners would share appropriate proportions of the fund management costs. The financing modalities would then be agreed in a joint MoU, stating that the Bank's fiduciary requirements (procurement and financial management) will be applied to those activities receiving IDA funding. The supervision of fiduciary aspects (procurement and financial management) for these activities will be undertaken by the Bank.

Annex 4: Operational Risk Assessment Framework (ORAF)

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

<table>
<tr><th>Project Stakeholder Risks</th><th colspan="4">Rating: High</th></tr>
<tr><td rowspan="2">Relations with Government, potential disagreements on:
Land policy issues (e.g. procedures and compensation arrangements underlying the allocation of land for agribusiness development)</td><td colspan="4">Risk Management: The Trust Deed for the SAGCOT Catalytic Trust Fund stipulates that agribusinesses applying in partnership with smallholders for the MGF must have undisputed land. This requirement is further summarized in the operations manual for the MGF. The project will not fund any land transfers. The ESMF and the RPF establish agreements for any possible resettlement associated with minor infrastructure construction. Risks linked with the Project's association with the broader SAGCOT Program are mitigated by: (a) receiving Government commitment to adhere to international acceptable protection of land tenure rights through a 'Letter of Sector Policy on Land, and (b) providing technical assistance to TIC to improve its procedures and monitoring capacity relating to agribusiness investment. However, the Project cannot fully control the risks of land disputes linked with disagreements about land access (including the possible reclassification of Village Land) and compensation arrangements outside the direct Project coverage.</td></tr>
<tr><td>Resp: Client</td><td>Stage: Both</td><td>Due Date : on-going</td><td>Status: NYD</td></tr>
<tr><td rowspan="2">Relations with Donors (USAID and DFID in particular), potential issues include:
• Timing and reliability of complementary funding for SAGCOT Catalytic Trust Fund and SAGCOT Centre by Development Partners
• How resources and efforts for the SAGCOT Catalytic Trust Fund Management are divided between Matching Grant window and Social Venture Capital window</td><td colspan="4">Risk Management: The Task Team is in regular contact with all relevant Donors and will continue to meet on a regular basis. A MoU has be signed stating the commitment of each funder to the SAGCOT Centre. The Project is currently designed to cover 100 percent of the SAGCOT Catalytic Trust Fund management costs, as soon as other funders come on board, these costs could partially be shared. As for the SAGCOT Centre reduced funding with a downscaling of operations would limit the outcomes, but would not compromise the achievement of the PDO.</td></tr>
<tr><td>Resp: Bank/Donors</td><td>Stage: Both</td><td>Due Date : on-going</td><td>Status: NYD</td></tr>
<tr><td rowspan="2">Relations with agribusinesses, potential issues include:
• Insufficient demand (applicants) due to the relatively large grant size and the availability of other funding initiatives (e.g., AECF)
• Mobilizing interest / demand for</td><td colspan="4">Risk Management: The Project design includes an in-depth review of all grant provisions and application processes, including the eligibility criteria and grant size after the first round of applications. At such time the MGF procedures and provision might be revised. The survey conducted as part of project preparation revealed sufficient demand and the Fund Manager's responsibility will be to raise further awareness and demand for the investments.</td></tr>
<tr><td>Resp: Client/Bank</td><td>Stage: Implementation</td><td>Due Date : 6-8 months after</td><td>Status: NYD</td></tr>
</table>

proposals may lead to uncompetitive practices / collusion / conflict of interest with other businesses and/or Fund Manager			effectiveness	
Relations with smallholders, potential issues include: • Misunderstanding of what the project supports; confusion about the differences between the project and the broader SAGCOT Program. • Disputes with agribusinesses about partnership arrangements.	**Risk Management:** The Fund Manager will be required to conduct specific awareness raising and publicity workshops at least twice per year. These workshops will specifically address and raise interests and participation of smallholder groups in the Matching Grant. During these workshops the opportunity to access technical assistance in the preparations of proposals for smallholders will be offered. Monitoring systems will review the status of business partnerships being funded, and as necessary proposed adjustments in fund operations.			
	Resp: Client	**Stage:** Both	**Due Date :** on-going	**Status:** NYD
Others (NGOs, general public), potential issues include: • Misunderstanding of Bank-financed activities within broader context of SAGCOT Program • Critical assessment of TIC, SAGCOT Centre, or Fund, irrespective of whether target activities are actually supported by the Bank-financed project • Allegations of project support to land grabs	**Risk Management:** The project design will include the implementation of a comprehensive communication strategy. The SAGCOT Centre will support improved communication about the SAGCOT Program as one of four main program thrusts. This will be backed by a communication campaign of the PCU.			
	Resp: Client	**Stage:** Both	**Due Date :** on-going	**Status:** NYD
Implementing Agency Risks (including fiduciary)				
Capacity	**Rating:** High			
Description : Project relies on new untested SAGCOT Centre and SAGCOT Catalytic Trust Fund institutions	**Risk Management:** Detailed operational articles (for the SAGCOT Centre) and detailed Trust Deed (for the SAGCOT Catalytic Trust Fund) to define acceptable framework of institutional configuration. Both institutions have strong professional Boards including good private and international participation.			
	Resp: SAGCOT Centre and SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
The fiduciary capacity of the PCU, SAGCOT Centre, SAGCOT Catalytic Trust Fund and TIC is low.	**Risk Management:** Financial management and procurement responsibilities for the SAGCOT Centre, SAGCOT Catalytic Trust Fund and TIC will be initially housed in the PCU. Each agency will receive training and capacity building. Only after the other institutions have financial management and procurement systems judged acceptable by IDA financial management and procurement functions would be transferred.			
The transfer of procurement and financial management responsibilities from the PCU to other implementing agencies during implementation causes interruptions and implementation delays.	**Risk Management:** The Bank's fiduciary staff to provide timely support and advice on reporting requirements and hand-over procedures.			

	Resp: Client	**Stage:** Both	**Due Date :** on-going	**Status:** NYD
The coordination among different implementation agencies has proven difficult during the preparation. Reporting lines and responsibilities are unclear and the PCU is not well accepted as a coordination and project management unit. It is possible that the coordination issues will continue during implementation.	**Risk Management:** The establishment of a high level Project Steering Committee under the authority of the Prime Minister's Office which is chaired by the Permanent Secretary of the PMO.			
	Resp: Client	**Stage:** Both	**Due Date :** appraisal	**Status:** Completed
Governance	**Rating:** Substantial			
Description : Lack of independence of Boards of SAGCOT Centre and SAGCOT Catalytic Trust Fund, or Investment Committee leading to conflicts of interest in the allocation of investment funding	**Risk Management :** Both Boards have been set up outside the Government system and encompass a mix of private sector and international expertise. The Catalytic Fund Trust Deed states that the World Bank will have a no Objection for the first 10 MGF grants and for all grants exceeding the grant amount of US$500,000 thereafter..			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Project Risks				
Design	**Rating:** High			
Description: Putting in place the SAGCOT Catalytic Trust Fund management system (Board, Secretariat, and Fund Manager) constitutes a significant financial up-front commitment. Expenses could be difficult to control and occur irrespective of the success of the MGs. Significant overhead costs.	**Risk Management:** The Project provides a cap for the Board/Secretariat cost of 5 percent and the Fund Manager costs (including TA) of 13 percent of the SAGCOT Catalytic Trust Fund.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
The detailed Matching Grant management arrangements, which include management structure and costs, are open to proposals from the applicants for the Fund Manager position. The procurement of the Fund Manager is largely left to the discretion of the Board of Trustees.	**Risk Management**: The procurement of the Fund manager is being guided by an external professional firm with specialized expertise in investment finance. The task team will closely monitor this process. The Service Contract of the Fund Manager financed by IDA will be subject to clearance by IDA.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Both	**Due Date :** on-going	**Status:** NYD

Limited flexibility to respond to potentially necessary SAGCOT Catalytic Trust Fund design adjustments (e.g. changing Trust Deed, Operational Manuals, procedures applied by the Fund Manager, who reports to the Board). Responding to potential implementation problems or processes, which enjoy co-financing, will be difficult, when agreements need to be reached between Board, IDA and several Donors.	**Risk Management**: Maintaining a close dialogue with the SAGCOT Catalytic Trust Fund Board and a close dialogue with other funders. Joint implementation support missions.			
	Resp: SAGCOT Catalytic Trust Fund, Donors	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Board decides to change or proposes changes to the Trust Deed unilaterally disrupting the project implementation process.	**Risk Management**: If changes are inconsistent with the Project's PDO, key design principles and the Bank's fiduciary and safeguards provisions, IDA would stop funding.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
The imbalance of power between different stakeholders (smallholders and enterprises) carries the risk that project benefits will be captured by enterprises.	**Risk Management :** The Trust Deed and the Operational Manual state that the primary criteria for the allocation of MGF grants is the achievement of specific, defined improvements in smallholder production, productivity and incomes. Smallholder involvement in the partnership will be closely monitored.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
A higher than expected rejection rate and the relatively large size grants addressing a potentially limited number of large investors could result in insufficient demand.	**Risk Management:** The first round advertisement and applications will be used to eventually revise initial provisions of grant size and eligibility criteria of applicants; smaller grants or grants to commercial smallholder producer groups widening the scope of applicants might be considered.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Four different implementing institutions/agencies with a mix of public and private sector institutions makes overall project management complex.	**Risk Management:** A Project Steering Committee has been established under the auspices of the Prime Minister's Office to oversee project implementation.			
	Resp: Government	**Stage:** Both	**Due Date :** on-going	**Status:** NYD
Project's outcome may depend on complementary investments in public infrastructure and resolving of constraints in the enabling environment	**Risk Management :** Diagnostic analysis of the SAGCOT Centre need to be linked with the efforts of the Prime Minister's Office to provide overall leadership for the SAGCOT Program, including leadership in resolving key enabling environment constraints			
	Resp: Government	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Social & Environmental	**Rating:** High			

Description: SAGCOT Program Area includes a number of significant environmentally sensitive areas, including national parks and reserves and important wetland areas.	**Risk Management:** The Letter of Sector Policy on Land confirms the government's commitment to avoid commercial agricultural development within Tanzania's extensive protected areas**.** The SRESA sets out the broader impacts of the program. The allocation and supervision of the MGF will be subject to strict guidelines relating to environmental protection laid out in the ESMF. The project has also prepared an RPF and IPMP.			
	Resp: Government	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Growing uncertainty about the availability and allocation of limited water resources for agriculture and other environmental services	**Risk Management:** Under the terms of the Trust Deed, the MGF will not support irrigation investments.			
	Resp: Government	**Stage:** Both	**Due Date :** Onging	**Status:** NYD
Marginalization of very poor smallholder farmers or other vulnerable groups. This low capacity and low education level of very poor smallholders could result in exclusion of this group to participate in the project.	**Risk Management:** Capacity building of the smallholders and assistance to them for preparation of proposal as well as awareness rising among the smallholders. A Vulnerable Groups Planning Framework has been prepared as a guiding document to ensure that vulnerable groups are adequately benefitting from the project.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
The nature of investments could cumulatively adversely affect pastoralists which in turn can exacerbate land and water conflicts between farmers and pastoralists.	**Risk Management:** Review and analysis of first round experiences with the MGs may result in a redesign of the advertisement, awareness raising, funding percentages for land based versus livestock related investments.			
	Resp: SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Women could be disfavored because customary practices restrict women's property rights in most patrilineal communities (80 percent), where men control land and women are generally allocated small plots for subsistence farming.	**Risk Management:** Review and analysis of first round experiences with the MGs may result in a redesign of the advertisement, awareness raising, or giving higher emphasis to women supporting proposals in the competitive ranking.			
	Resp: SAGCOT Catalytic Trust Fund	Stage: Implementation	Due Date : on-going	Status: NYD
Program & Donor	**Rating:** Substantial			
Description: Competitive and contradictory donor funding in support of key SAGCOT Program institutions and activities. Untimely availability and reliability of donor funds. Coordination with donors and agreements on detailed funding and implementation arrangements.	**Risk Management:** The SAGCOT Centre MOU has been signed to guide funder coordination. These include agreements on joint reviews of budgets, workplans and joint implementation support missions.			
	Resp: Development partners	**Stage:** Both	**Due Date :** on-going	**Status:** NYD

Delivery Monitoring & Sustainability	**Rating:** Substantial			
Description : The SAGCOT Catalytic Trust Fund will not be self-sustaining	**Risk Management:** Public sector funding is expected for a 20 year period. The Fund Manager will organize annual stakeholder meetings presenting results and raising interests of additional funders.			
	Resp: Government/ SAGCOT Catalytic Trust Fund	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
SAGCOT Centre funding cannot be secured after project implementation	**Risk Management:** SAGCOT Centre already receives mixed funding from a number of donors. The Centre expects to attract funding from additional organizations once it is fully operational.			
	Resp: SAGCOT Centre	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Monitoring and evaluation systems will be inadequately monitor project impacts	**Risk Management :** Project Monitoring and Evaluation systems are staffed and well- funded in the PCU. Monitoring and evaluation is one of four key program thrusts of the SAGCOT Centre.			
	Resp: SAGCOT Centre /PCU	**Stage:** Implementation	**Due Date :** on-going	**Status:** NYD
Other	**Rating: High**			
Description: Perceived linkage of the Project to the wider SAGCOT Program. Investments under the Program (as compared to the Project) might not be fully consistent with the Bank's safeguards policies, but could be perceived as associated with the Project (which supports a part of the larger SAGCOT Program). The most important risks related to the wider SAGCOT Program include: (i) the environmental impacts related and accumulation of agricultural development investments in the SAGCOT Program area unrelated to agribusinesses financed by the Project, (ii) land disputes associated with the possible reallocation of Village Land to agribusiness investment under the larger Program , (iii) less than fully transparent business deals packaged by TIC.	**Risk Management:** As indicated in some of the sections above the Project has addressed these risks with an ESMF, a RPF and a 'Letter of Land Sector Policy'. The PCU is resourced to implement a communications strategy which clearly explains and differentiates the project focus, from the Program.			
	Resp: Government	**Stage:** Both	**Due Date :** on-going	**Status:** NYD

Annex 5: Implementation Support Plan

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

Strategy and Approach for Implementation Support

1. The Project will require intensive implementation support and a continuing dialogue with the government, the implementation agencies and Development Partners. It is expected that in particular the early phase implementation will face significant implementation support challenges:

a) *Contracting of service providers:* contracts of significant scope and importance for the implementation and outcome of the project have to be awarded in the early stage. The IS team need to allocate significant time and resources to review all relevant TOR and associated draft contracts, and provide comments as required. The Fund Manager contract will, in addition, include important details for the implementation arrangement of the MG, which need careful review.
b) *Early stage review of the MG:* The processes and procedure applied under the MG will require an early stage review with possible design adjustments. An experienced team is necessary for this process. The Bank team, together with donors, will undertake a review after the initial tranche of MGs, and propose any adjustments to the operating procedures if needed. For the remaining period of the project, periodic reviews will be undertaken to assess the performance of the MGs.
c) *Strengthening of communication between implementation agencies:* The IS team will need to bridge communication gaps and inter-act with the different implementation agencies individually and jointly, since internal communication is weak.
d) *Capacity building of the implementation agencies:* Significant training and hand-on support will be required including fiduciary management. Some of the fiduciary work has been outsourced for the early phase. Hands-over of these tasks to the agencies' own staff needs to be monitored.
e) *Improving on reporting performance of the PCU:* To improve on the reporting performance of the PCU, which has been weak during the implementation of the PPA, the IS team needs to timely interact with the PCU and ensure that the required project reports are provided timely and at acceptable quality.
f) *Monitoring Costs:* Expenses for overhead are expected to be already relatively high. The IS team needs to monitor work programs and budgets carefully to control any additional cost overruns.
g) *Designated accounts:* Four different designated accounts will be set up, which will require additional efforts to assure appropriate and consistent reporting.
h) *Monitoring and Evaluation:* The coordination of M&E and the capturing of project outcomes and results in a joint Results Framework will need guidance from a monitoring expert in the IS team.
i) *Donor coordination.* Donor coordination will need significant time and resources throughout project implementation. Regular meetings will be held to discuss and agree on all implementation issue arising. The budget of the SAGCOT Centre will jointly be agreed on an annual basis. Significant resource and time input will be required for Donor coordination.

Implementation Support Plan

2. The Implementation Support Plan below describes how the Bank will support the implementation of the risk mitigation measures (identified in the ORAF) and provide the technical advice necessary to facilitate achieving the PDO (linked to results/outcomes identified in the result framework). The support plan also identifies the minimum requirements to meet the Bank's fiduciary obligations. The Bank has also worked on a communication plan and the Bank team includes communication specialists who have designed a draft plan for reaching out to stakeholders together with government counterparts.

Risk Category and Rating (as per ORAF)	Focus of Bank support to implementation	Skills required for efficient support	Fiduciary inputs
Project Stakeholder Risks [High]	Supervision missions will communicate regularly with all implementing agencies and stay in dialogue with the other Development Partners. Closely interact with the PCU and the SAGCOT Centre to assure full implementation and effectiveness of the communications strategy. Pursue and open and pro-active dialogue with TIC	IS team, good interaction with high level government officials, donors and sensitivity for the NGO community perceptions.	n.a.
Implementing Agency Risks [High]	Familiarize the PCU with all relevant administrative and operational aspects of project implementation. Maintain supervision team as much as possible to provide consistent and ongoing support on operational and technical implementation issues. Facilitate the dialogue among development agencies. Provide hands-on guidance on annual work plan, activities, and help with ToRs. Review progress jointly on a regular basis and identify key bottlenecks. Procurement. Implementation support will include: (a) providing training to the implementation agency staff; (b) reviewing procurement documents and providing timely feedback; (c) providing detailed guidance on the Bank's Procurement Guidelines; (d) monitoring procurement progress against the detailed Procurement Plan; and (e) conduct procurement post review assessments at least once a year. Financial Management. Implementation support will include: (a) providing training to the implementation agency staff; (b) assessing the Project's financial management system, including but not limited to, accounting, reporting and internal controls; (c) reviewing the project's financial management reports on a regular basis; and (d) reviewing the annual audit reports and implementation of its recommendations.	IS team Financial Management Procurement Safeguards Monitoring Impact Evaluation	FMS, PS, Safeguard specialist to participate at launch workshop; regular supervision mission including field visits.
Design Risk [Substantial]	Assure that all implementation agencies are familiar with the project approach and the detailed implementation manuals are followed. Interact with the SAGCOT Catalytic Trust Fund secretariat and Fund Manager at least on a quarterly basis. Evaluate the SAGCOT Catalytic Trust Fund progress reports and discuss expenses for fund management versus	Agri-business expert for the SAGCOT Catalytic Trust Fund, M&E specialists, Financial Management specialist,	Particularly in first year: (a) strong oversight on procurement and FM to assure capacity building and fiduciary

Risk Category and Rating (as per ORAF)	Focus of Bank support to implementation	Skills required for efficient support	Fiduciary inputs
	agreed deliverables. Review and adjust implementation manuals as needed; Review selected MG investment proposals and provide comments/No Objection Carry out semi-annual field visits and interact with smallholder farmers and groups to assure outreach and participation. Close cooperation with the PCU and other implementing agencies to ensure that planned activities are promptly implemented and adjustments made if needed.	Procurement specialist, Disbursement Officer	compliance
Social & Environmental Risk [High]	Building the capacity of the PCU on environmental and social management best practices, Bank safeguards policies and safeguards instruments, Organize various safeguards trainings as per ESMF, RPF and IPMP. Closely supervise the implementation of the VGPF and monitor that the project components are implemented in a manner that does not adversely affect the land rights / use of any of the people in the project area, including the disadvantaged communities referred to in the VGPF.	Environmental Safeguards Specialist Social Safeguards Specialist Land Specialist	n.a.
Project & Donor Risk [Moderate]	Close cooperation between DFID, USAID and the Bank on implementation and supervision of the SAGCOT Catalytic Trust Fund and SAGCOT Centre, conduct joint stakeholder meetings, agree on annual budgets for the SAGCOT Centre.	IS team	n.a.
Delivery Quality Risk [Moderate]	Support the PCU in starting up project promptly; conduct project launch workshop and update the Procurement Plan for the first 18 months of implementation; test approaches in preparation period; conduct information sessions in regions; train key implementation partners; provide feed-back and No Objection in a timely manner. Regularly assess progress and results of activities. M& E specialist to assess if system in practice is producing the desired information.	IS team Procurement Specialist Financial Management Specialist Monitoring and Impact Evaluation Specialist	PM, FMS to provide hands-on training to PCU staff, participate in launch workshop and review and advise on fiduciary aspects.

I. Skill Mix

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Task Team Leader	12 SWs annually	Two per year, three in first year	Country office based
Agricultural Business Specialist	8 SWs annually	2 per year, three in first year.	Country office based
Land Specialist	4 SWs annually	Fields trips as required.	HQ based
Social Specialist	4 SWs annually	Fields trips as required.	Country office based
Environment Specialist	3 SWs annually	Fields trips as required.	Country office based
Procurement Specialist	3 SWs annually	Two per year	Country office based
Financial Management Specialist	3 SWs annually	Two per year	Country office based
Monitoring and Evaluation Specialist	3 SWs annually	Two per year, three in first year	Consultant

Economist, Ag. Business Specialist	10 SWs annually	Two per year, three in first year	Consultant(s)

II. Partners

Name	Institution/Country	Role
Program officer	DFID	Co-supervision
Program officer	USAID	Co-supervision

Annex 6. Project Economic and Financial Analysis

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

I. Introduction and Overview of the Analysis

1. An economic and financial analysis of the Project was undertaken in order to assess and answer three main questions related to the proposed project design and expected outcome:

- *What is the Project's expected development impact?* A standard cost-benefit- analysis based on two typical out-grower schemes is used to assess this impact.
- *Is public funding needed and what levels of financing are appropriate?* This part of the analysis identifies the specific market failures preventing desirable levels private investments in agriculture, how these market failures would be addressed by the project, and what level of public interventions are needed.
- *What is the World Bank's value added in the Project?* This part of the analysis examines the value added derived Bank experiences and the commitment of World Bank staff time and implementation support for this project.

II. The Project's Expected Development Impact

Project Benefits

2. Specific benefits expected from the Project include: improved productivity; value-addition, and market opportunities, resulting in increased incomes and employment opportunities, and improved food security.

3. These benefits will primarily result from: (a) adoption of new technology packages which lead to increased production and productivity; (b) reduced post-harvest losses; (c) improved produce processing and/ or packaging; (d) improved access to services, markets, and information; (e) reduced transaction costs; (f) improved product quality and producer (farm-gate) prices; and (g) improved economies of scale. Increased output, income, and employment in the targeted zones will result in increased demand for goods and services, which is expected to generate additional income and employment effects, and increase government tax revenues.

4. Major institutional benefits expected from the project are: (a) strengthening of producer and marketing groups; (b) improving the quality and reducing the costs of linking farmers to defined markets; (c) local communities are managing their physical infrastructure investments in a sustainable way; (d) public and private sector operators are providing quality services that are demanded by smallholder producers and rural entrepreneurs; and (f) new models of contract farming and out-grower schemes are being tested and promoted. In addition, the Project is expected to contribute to improving the "rules of the game" with respect to improved inclusiveness of agri-investment; it is expected that these indirect benefits could be significant.

5. The social benefits expected from the Project result from its focus on rural poverty reduction. The Project will provide additional sources of incomes for poor rural households and serve to diversify rural incomes, thereby contributing to reduced vulnerability. The promotion of

contract farming agreements will help in engaging the target group in the market and reduce its uncertainty.

Financial and Economic Analysis

6. The mode of intervention will be a partnership, with nucleus farmers, warehouse operators, processors or other private entities, who will extend services to smallholder farmers and create market opportunities for their production. The Project will provide grants to the private investors to help them meet the initial costs required to establish out-grower schemes, or other contract farming arrangements.

7. The economic analysis has produced an NPV of US$9.5 million at a discount rate of 12 percent and an EIRR of 14.4 percent. This estimate has been based on a methodology whereby the Project is assumed to trigger private sector initiatives that otherwise would not happen. The increase in outputs and profits associated with the Project is therefore expected not to be realized without the Project. Nonetheless, to simplify the analysis the indirect benefits have been excluded, thus, giving lower results that would have been the case otherwise.

8. Economic Analysis Summary is shown as follows:

Type of benefits considered	**Net Present Value**	**Economic Internal Rate of Return**
Benefits to Smallholder Farmers only	US$8,848,646	15.6 percent
Benefits to smallholder farmers and agribusinesses	US$9,482,121	14.4 percent

Cost-Benefit Analysis

9. Ideally, the effect of project interventions in each of the supported cases would be analyzed with the direct and indirect costs and benefits considered. However, since the exact nature of the sub-projects expected to receive matching grants is not known yet, two representative examples are used instead, and the Net Present Value and Rate of Return for the Matching Grant Component are estimated based on that analysis.

10. The first underlying assumption is that the financial costs and benefits can be equated with the economic costs and benefits of the assisted firms. This assumption has its problems because the financial statement does not always capture economic externalities associated with environmental resource use. Another source of divergence is labor, especially if the shadow wage rate is significantly below the market wage rate. In this case, the financial return understates the economic return. . The Tanzanian agricultural economy is largely open and competitive. Therefore, the analysis assumes that prices in the economy reflect the forces of market supply and demand. The financial and economic values are concurrent.

11. A second assumption is that the Matching Grant Fund will provide matching grants to 30 firms, as follows: in the first year 6 firms; in the second year 13 firms; in the third year 13 firms.

By year four and five the fund is expected to wrap up with few grants disbursed, respectively 6 and 4.

12. It is also assumed that matching rate for agribusiness will vary from 35 percent to 70 percent. For the purpose of this analysis, the average subsidy is assumed to be 50 percent. The average cost of grant is assumed to amount US$875,000.

13. The valuation of the benefits uses a two-stage calculation which first estimates the extra output created by assisted firms, and second estimates the profit associated with that output. Ideally, the additional output is defined as the difference between the level of output achieved by firms assisted by the Project, and the level of output these same firms would have achieved in the absence of the Project. The increase in output is solely attributed to the increased production of smallholder farmers.

14. The analysis is based on two models: an avocado out-grower scheme with packing, storing and exporting facility and rice out-grower scheme. The first project entails participation of 250 farmers, who will be provided with planting material for free by the commercial operator. The company will in addition invest in training, and a packing and storing facility. Farmers will obtain organic certification which will allow them to receive a 30 percent premium on the price of avocado sold in the European Union.

15. The avocado trees only start producing after 3 years, and reach optimal production after 7 years. It is assumed that each farmer participating in the project will cultivate 12 avocado trees as an additional crop. The Net Present Value of the project is US$1,083,875 with the Internal Rate of Return equal to19.5 percent.

16. Rice farm expansion project is created through establishment of rice out-grower scheme. The project will entail land preparation and leasing it out to smallholder farmers: 1,500 farmers on 3,000 acre (average plot 2 acres). Cost of land lease per acre will be $100 including irrigation. The cost of inputs per acre will be another $100 (seeds plus fertilizers). Smallholder farmers not participating in the project will cultivate on average 1 acre of land, deriving annual net income of $75 (reported statistics of average net annual income in Tanzania). The analysis assumes an average yield of 1.5t per acre before the project and 4t per acre as a result of the project investment- building up over a period of 3 years. In addition to profits derived from paddy sold, the smallholders will be granted a 1 percent premium of the amount sold (as a further incentive to sell to commercial operator for processing).

17. It is assumed that the commercial operator will have to run this project profitably in the long term however, the partnership investment would not have occurred without the grant. The initial investment is spread over 2 years, and it is a 50-50 match to the grant amount. After two years the agribusiness will bear an additional recurrent cost of US$40,000 per year to run the project (including paddy processing, storage and transport costs). Project NPV is US$307,592 with an EIRR of 14 percent.

18. Major assumptions used in the analysis: The cash flow is calculated over a 20 year period starting from 2015. All prices are expressed in constant prices of August 2012 and the foreign exchange rate is fixed. Economic farm-gate prices of internationally traded agriculture inputs and

outputs are calculated in the form of export or import parity prices. No shadow prices are assumed. Transfer payments such as tax, duty or subsidy interest are not applied and were excluded in estimating economic benefits and costs. Financial costs equal economic costs.

19. The analysis assumes that without the project, there is no investment in the avocado out-grower scheme, and the packing and warehouse facility is not operational (due to insufficient supply of avocado). For the rice model out-grower, the analysis assumes that smallholders are sowing low yield traditional varieties; they use no mechanization services; there are no warehousing services; no irrigation and the farmer is selling her produce through an intermediary capturing a certain percentage (10 percent) of price.

20. There are no significant distortions in prices used to calculate project costs and benefits. The financial NPV and IRR for the project are essentially equivalent to the economic NPV and IRR. The financial soundness of the project rests principally on the ability of farmers and agribusinesses to match the grants and sustain the project being implemented.

Sensitivity analysis

21. The sensitivity analysis switched values on the matching grants component. The first evaluation was done by elongating the disbursement to 6 years by delaying disbursement of each respective grant by 1 year. The effect on the project was that the NPV was reduced to US$3.5 million and the EIRR to 12.9 percent. This suggested that a slower implementation period would have a significant material effect on the economic impact of the project.

22. The second evaluation was done by modifying the success rate of chosen projects. In this case by increasing the failure rate from 10 percent (the base case) to 20 percent, the NPV remained positive at US$4.8 million with an EIRR of 13.3. Reducing the expected benefits by 10 percent produces an EIRR of 12.3 percent and a NPV of US$1.1 million.

III. Justification of Public Funding and Levels of Financial Support

Public Grants to Overcome Market Failures.

23. This Project focuses on correcting temporary market failures faced by smallholder farmers. Public grants would be provided to address the following market failures:

a. Temporary barriers to entry, such as high transactions costs that prevent the aggregation of product, or demanding quality standards for high value markets: An example of such market failure is given when smallholders can produce products (e.g. fruits for export markets such as avocados, or macadamia nuts) but need certification and guarantee that each individual producer is following the required production standard. Matching Grants can be used to invest in certification, obtains necessary export licenses and assure quality.
b. Stakeholder diversity in agricultural value chains with weak organizational structures: To access markets it is often necessary to provide scale production, which smallholders cannot provide individually. Matching Grants will be used to aggregate production through an investor.

c. Time lags in agricultural production with different stakeholders needed to invest at different times: Matching Grants will provide an opportunity to link producers and investors, when both parties need to invest in a phased manner (e.g. providing initial subsidy for tree crops, which need several years to grow, before processors are required to invest). See Text Box 2 below.
d. Limited access to knowledge about new technologies and institutional structures: One of the most prominent features of partnering with investors in Matching Grant schemes is the injection of knowledge and innovation, which private partners bring to the table. Unlike in public extension systems this innovation is directly market and business relevant.

Text Box 2: Public Funding Helps to Overcome Initial Barriers of Scale, Time Lag and Multiple Partners Involved:

The adoption of innovative agricultural production systems or new products is typically undermined by problems of scale, time and the multitude of partners involved. For example, smallholders may be interested in starting to grow a new product, but cannot find a partner for processing. Potential processors hesitate to invest unless there is already sufficient raw material to start buying and processing the commodity at a scale required by economical and/or technical parameters. Both smallholders and the agribusiness face three typical market failures: (i) the lack of a critical mass of [raw material] production to be produced by many farmers, (ii) the time lag, often involving several years, between establishing a new crop and building a sustainable market for the new product, and (iii) the risks involved with the pursuit of an untested market.

24. Achieving the Maximum Benefit from the Matching Grants Program. Since the funds available under this Project are limited it is not possible to address all market failures for all smallholders. It is therefore important that those sub-projects financed provide the largest benefits to the largest number of farmers (competitive selection). This will be achieved by: (a) prioritizing the types of market failures to be addressed; (b) selecting those sub-projects that are the most innovative and are expected to provide the largest incremental benefit per farmer; (c) ensuring the participation of large numbers of smallholders; and (d) for business investors, ensuring that the sub-projects are financially viable after the grant is disbursed.

25. Avoid Creating Market Distortions through Grants: The most difficult aspect of managing the grant program is determining how much grant funding is required to overcome a particular market failure. If too little grant is given, the market failure may not be overcome, and the objective of the grant would not be met. If too much grant is provided, it could create its own market distortion. In evaluating a grant proposal, an estimate should be made of the minimum grant that would be required to overcome the market failure. This is the amount that should be given as a grant to the beneficiaries. The rest of the investment should be made by the beneficiary. Determination of the minimum grant amount requires both objective and subjective evaluation of the economic benefits and costs of the proposed project. This could include an evaluation of economic rates of return, financial rates of return, short term cash flow

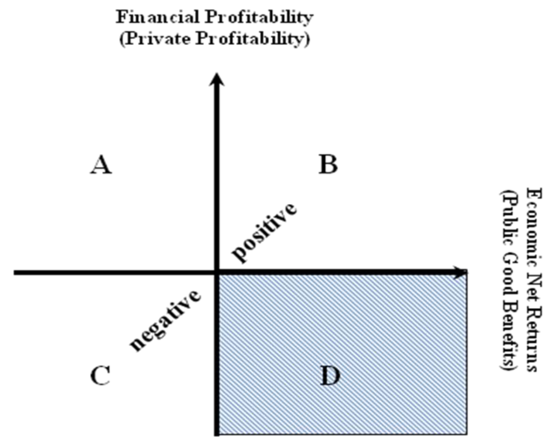
requirements and subjective evaluations of externalities and other market failures. The Fund Manager must have sufficient technical expertise to make such an evaluation. The Bank will, from time to time, verify these calculations.

Applying the 'Additionality Principle' under the Project

26. Two questions need to be answered to allocate public funding through matching grants: (a) is public financing to be provided to private sector entities justified; and (b) what level of financing are justified.

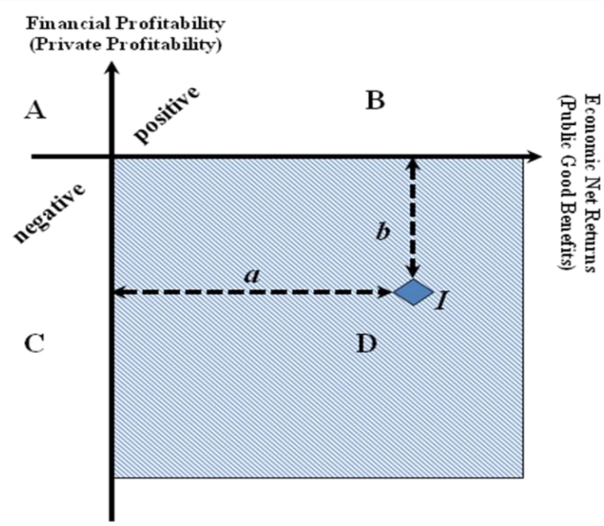
27. To justify the use of public funds to support private sector investment such public funds need to generate **additional** positive net economic returns. To approach this problem the Project distinguishes four different types of investment according to their financial and economic profitability (see Figure 1)[27]. Investment proposals in the quadrants A and C would be 'undesirable' investments for which net benefits to society are negative. Nevertheless, investors may invest in activities in Quadrant A, because they can generate profits while externalizing social and/or environmental costs. Investments in quadrant C are not profitable for the private investors and have negative net-returns for the society. They will not be funded. Investments in quadrant B are profitable and get the necessary input from the private sector, so there is no need for public financial support. Investments in quadrant D, will not be funded by the private sector, because they are not profitable. However, they do have positive net benefits for society. Such investments would be the exclusive focus of the MG under the Project[28].

Figure 1: Private and Public Investment Decision Making



Adopted from: Biggs, T. (1999) *"A Microeconomic Evaluation of the Mauritius Technology Diffusion Scheme (TDS)",* World Bank: Regional Program on Enterprise Development, Discussion Paper

Figure 2: Appropriate Public Funds



[27] The coordinates refer to positive or negative net present values, which could relate to different opportunity costs of capital under financial or economic considerations.

[28] Category B type investors might argue for public support, because they are providing public goods or other positive externalities, which they are not paid for. However, this is not a sufficient justification for the use of public

28. It is not appropriate, however, for the Project to pay for the full value of all public goods generated by the proposed sub-project investment. The level of public funding should only be high enough to change investment decisions by the potential investor. In Figure 2 this is shown by the gap represented by *b*, and not the positive economic returns shown by *a*. In other words the Project will not pay for the public good itself, but for the incentive needed to trigger an investment, which has an economic net return above an agreed benchmark of 12 percent.

29. What does this involve in terms of analytical work needed for each of the investments under the MGs? Each grant application will need to provide the Investment Committee with the results of both an *economic* and a *financial* analysis. These analyses, provided by the applicant, will need to be verified by the Fund Manager. The economic analysis would determine whether an investment falls into categories B and D. The financial analysis would show whether public funds are required and determines the level or amount of public funds needed. Practically both types of analyses will be demanding and will need support from skilled agricultural economists and/or agri-business experts. The Fund Manager will be required to allocate sufficient resources to support such analytical work.

Demand for MG investments

30. During project preparation a demand assessment was carried out encompassing: a) an inventory of agribusiness companies in Tanzania registered with the Tanzania Investment Centre, The Agricultural Council of Tanzania and the SAGCOT Centre; b) formal interviews with a cross-section of these companies that could be easily located; c) a summary of the interview result, and d) a discussion of these results with key stakeholders. More than 80 agribusiness companies were quickly identified, and 55 firms were interviewed. Ninety-five percent of the companies expressed interests in the funding, and only five percent argued the minimum threshold for the matching grant was too high. Forty-two percent of the companies expressed an interest of applying for grants over US$1 million, and 21 percent sought a grant between US$500,000 and US$ one million. Thirty-seven percent sought a smaller grant of between US$250,000 and US$500,000. A wide range of investment proposals were identified with the most common being to fund extension support for smallholders (26%), facilitation of improved input supply and technology adoption (21%), small scale market infrastructure for improved commodity assembly (18%); and processing infrastructure (11%). Only 4 percent of the companies argued the minimum match size was too high. By comparison, 58 percent said they would more than meet the minimum match. Ninety-five percent of the respondents claimed no difficulty with receiving the grants on a reimbursement basis.

31. It is estimated, on this basis, that there are at least 120 to 140 agribusiness firms in the SAGCOT Program area that may initially apply for the grants. Over time, this number is expected to increase as investors come down from northern parts of the country, and as word spreads to neighboring countries about agribusiness investment opportunities in the southern corridor.

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funds assuming that the private (financial) profitability is already high enough for them to invest. Public funds would not generate additional economic benefits and would therefore be 'wasted'.

32. Assuming an average grant size of US$ 0.9 million the allocated funds of US$38.5 million would be sufficient to serve some 40-45 successful applicants. The initial applicant pool of 140 would be more than adequate to make full use of the MGF, assuming a proposal success rate of 1 to 3.

IV. World Bank's Value Added in the Project

33. The World Bank's value added under this Project will be in three main areas: (a) helping to understand the roles of stakeholders and the rational of using public funds for private business investments; (b) optimizing the use of funds; (c) ensuring sustainability; and (d) maximizing effectiveness by taking a macro view under the Project.

34. *Understanding the role of stakeholders:* The Bank involvement will be instrumental in helping to define the public-private partnerships needed to promote the sustainable integration of larger numbers of smallholders into competitive agricultural supply chains. The private sector is most efficient and effective in bringing about market driven innovation (technical and institutional), application of new technologies, developing new products and production opportunities and accessing new markets both national and international. The Government's role remains important: (a) in providing a conducive business environment, for which the investments in the TIC and the SAGCOT Centre will be crucial under the Project; and (b) in providing the necessary public infrastructure for the corridor, which is part of the wider SAGCOT Program.

35. The Bank has conducted a significant amount of analytical work in understanding the role of private businesses in Innovative Partnerships with the private sector becoming a key partner in development. This Bank expertise has already contributed to defining the terms of reference and work plans for the SAGCOT Catalytic Trust Fund and the SAGCOT Centre.

36. *Optimizing the use of Funds:* Making best use of public finance has two major dimensions under the Project: (a) understanding what to finance and at what levels (see above justification of public financing); and (b) making sure that the funds are fully used for the purpose intended. In both dimensions this Bank team will provide a significant level of expertise and implementation support, which funding under other development assistance would normally not provide. This includes the Bank's analytical expertise and the Bank's fiduciary procedures.

37. *Long-term Sustainability:* For long-term sustainability the project needs to ensure that the matching grant investments: (a) involve a fair benefit sharing between business investors and smallholder farmers; (b) are based on sound business planning (assuring that the financial net returns are sufficient and sustainable); and (c) operate in a predictable macro-economic environment needed for sound business planning, investment decisions and cash-flow prediction. This Project offers a design, which gives due consideration to all of these aspects. The Bank is expected to have sufficient leverage to address all three of the above sustainability dimensions, which bilateral donor or NGO funded projects normally would not have. The project not only provides support at the micro-investment level, but provides also a platform for investment environment analysis and a policy dialogue at the macro-level through its support for the SAGCOT Centre.

38. *Increasing Effectiveness by Maximizing Positive Impacts and Minimizing Negative Impacts:* The Bank's experiences and recent analytical work offers a significant learning opportunity to enhance positive and reduce negative impacts of the Project. Appendix Table 1 below shows the findings from a field-based survey on the conduct of agricultural investment at 38 large-scale, mature agribusinesses in sub-Saharan Africa and South East Asia, focusing in particular on their approaches to social, economic and environmental responsibility. The proposed policies and improved practices at the Government and Investor levels will provide further guidance for project implementation.

Appendix Table 1: Main Positive and Negative Impacts of Agricultural Investments with Investors and Local Communities

MAIN POSITIVE IMPACTS	POLICIES AND PRACTICES TO REDUCE NEGATIVE AND ENHANCE POSITIVE IMPACTS	
	GOVERNMENT	**INVESTOR**
DIRECT EMPLOYMENT CREATION • Job creation main benefit of investments. • Most employees satisfied with pay and conditions.	• Seek job creation and training commitments from potential investors. • Consider business models or crops that create most jobs per hectare of land allocated.	• Ensure adequate living wages are paid. • Train local communities to assist integration into workforce. • Consider gender balance and employment-related gender issues.
ACCESS TO MARKETS FOR OUTGROWERS • Reliable market for farmers' produce contributed to improving livelihoods. • Out-growers appreciated technical support, access to finance, and higher prices as compared to other buyers.	• Prefer investors with out-grower schemes which have a proven business model.	• Consider how schemes can be designed to reach most marginalized farmers. • Ensure transparent and inclusive price determination. • Resolve the business model before introducing out-growers.
SOCIALLY INCLUSIVE BUSINESS MODELS • Trend toward more socially-inclusive business models. • Social or rural development initiatives include social services (e.g. education, health, water), rural infrastructure, or improving access to finance.	• Consider investors' social and rural development commitments when pre-screening and selecting investors. • Negotiate with investors on the benefits to be provided to the host country.	• Consult on and discuss local development visions when designing social and rural development programs. • Formally committed arrangements. • If financially feasible, set up a dedicated development fund.
FINANCIALLY INCLUSIVE BUSINESS MODELS • Explicit sharing of financial gains with local communities, (e.g. revenue-sharing) effective in forging genuine partnerships.	• Promote financially inclusive business models.	• Consider whether financially inclusive business model can be employed.
FOOD SECURITY • Income effect of direct employment and access to markets for out-growers. • Some investors have community food programs.	• Consider all food security implications of investment. • Ensure investments are not detrimental to existing sources of food security e.g. through reduced land access.	• Ensure adequate living wages are paid and out-grower produce is sufficiently remunerated. • Ensure sufficient land with suitable potential for food crop production is available to local people.
TECHNOLOGY TRANSFER AND INNOVATION	• Encourage investors with schemes or intention to introduce improved technology or farming practices in	• New business models, crops or techniques should be piloted and only

• Foreign investors can be instrumental in introducing and encouraging the adoption of new technology and farming practices. • In rare instances, foreign technology transfer had a catalytic effect which generated benefits far beyond the investor.	an economical and sustainable manner. • Encourage innovation, but not on a large scale.	employed at large scale once the model is proved and stable.
INFRASTRUCTURE PROVISION • Development of roads, electricity and telecommunications open up new areas and improves market access.	• Consider infrastructure provision and potential spillovers when selecting investors.	• Allow benefits of infrastructure development to accrue to others.
MAIN NEGATIVE IMPACTS	**POLICIES AND PRACTICES TO REDUCE NEGATIVE AND ENHANCE POSITIVE IMPACTS**	
	GOVERNMENT	**INVESTOR**
DISPUTES OVER ACCESS TO LAND • Range of disputes from coerced displacement to uncertainty about investor intentions. • Common conflict between formal rights provided to investor and informal rights of previous users of the land.	• Clear regulatory framework for land acquisition approvals. • Consider formalizing local communities' tenure rights under proper registry system. • Encourage business models with low land needs.	• Early engagement with local communities and all land users. • Understand the historical and current use of and rights to land based on own assessments and verification of government assessments.
LACK OF CLARITY OVER LAND ACQUISTION PROCESS • Lack of public information disempowered local communities and hindered ability to hold investors to account.	• Publicize land applications under review and approved, including on investment registry website.	• Consider what information on operations can be made publicly available.
RESETTLEMENT • Despite well-handled cases, negative experiences of displacement without sufficient consultation, negotiation or compensation.	• Develop required procedures to follow and standard valuations for compensation purposes.	• Consider leaving communities in situ as first option. • Follow a transparent, formal, inclusive, monitored process for resettlement.
INSUFFICIENTCONSULTATION AND INCLUSION • Insufficient involvement of local communities in decision-making and planning led to a sense of exclusion and precluded mutually beneficial solutions.	• Clear regulatory framework on consultation procedures. • Monitor consultations conducted by investors; do not conduct on them on investors' behalf.	• Consultations with local communities, including informal users of the land. • Develop continuous dialogue with local communities. • Document all meetings and agreements.
FAILURE TO USE LAND AS EXPECTED • Some investors used a low portion of allocated land, creating tension with local communities and	• Pre-screen investors to ensure they have capacity to develop land as expected. • Seek commitments for pace of development and retain	• Acquire land in accordance with ability to develop it. • Set expectations about the pace of

host countries.	authority to repossess land not put to use.	development through consultations.
FINANCIAL OR OPERATIONAL FAILURE OF INVESTOR • Many investors in operational or financial difficulty. • Most obstacles encountered could have been identified by adequate pre-investment due diligence. • Failure of investment created lose-lose situation for investors, host countries and local communities.	• Pre-screen investors' financial strength, technical abilities, approach to SEIAs and consultations, and commitments for benefits to the host country. • Only approve investments at a pace that matches capacity to pre-screen and monitor. • Monitor investors and prepare for failure. • Create an enabling environment for successful investments.	• Consider staging the investment i.e. obtaining a small land allocation initially, only requesting more once the first allocation is running successfully. • Create own business plan and conduct due diligence. • Incorporate findings from consultations and impact assessments into planning.
LACK OF GRIEVANCE AND REDRESS MECHANISMS • Those affected by an investment often did not have sufficient means to raise grievances and seek redress.	• Facilitate and ensure establishment of formal grievance procedures.	• Establish formal grievance procedures open to both staff and external stakeholders.
ENVIRONMENTAL IMPACTS Assessment, monitoring and mitigation of environmental impact, especially impact on water, was generally inadequate.	• Require and monitor the conduct of SEIAs, rather than carry out on behalf of the investor. • Monitor and enforce adherence to environmental and water regulation.	• Undertake appropriate SEIAs. Translate those into EMPs which are enforced through ongoing reporting and monitoring. • Adhere to environmental and water regulation.

Source: World Bank/UNCTAD (2013): Field Survey of the application of principles of responsible agricultural investment with Investors and Local Communities, Hafiz Mirza, Will Speller & Grahame Dixie, 2013, Joint UNCTAD World Bank report, (to be published).

Annex 7: Environmental and Social Safeguards

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

1. This Annex on environmental and social safeguards differentiates between potential impacts associated with the SAGCOT Program as a whole, including investments of the Government of Tanzania and other partners, and those of the Bank-financed SAGCOT Project ("the Project").

2. The Project primarily funds a set of matching grants allocated by the SAGCOT Catalytic Trust Fund The procedures laid out in the Project Environmental and Social Management Framework (ESMF), the Integrated Pest Management Plan (IPMP), the Resettlement Policy Framework (RFP) and the Vulnerable Groups Planning Framework (VGPF), all described in more detail below, highlight obligations for investors receiving matching grants from the SAGCOT Catalytic Trust Fund.

3. More significantly cumulative set of environmental and social impacts may accrue to the 20 year SAGCOT Program. Recognizing this risk, the Project also provides technical assistance to support the SAGCOT Centre in improving its environmental information base for improved decision making. This work is primarily based on two analytical outputs – a Strategic Regional Environmental and Social Assessment (SRESA) and a strategic review of land policies and regulations.

Context and Approach to Safeguards

4. ***Environmental and Social Context and Key Challenges***: The SAGCOT Program covers a wide variety of landscapes, agro-ecological zones and soil types, from the Tanzania's central highlands, home to many tea estates, to the coastal lowlands, suitable for rice and sugarcane. A major feature of the "SAGCOT Program area" is the Eastern Arc forest mountain massif. These mountains are globally significant due to their unique biodiversity and locally significant as water sources for the region's rivers. A second major feature of the corridor is the many wetlands, including rivers and seasonally-flooded areas which are also highly biodiverse (including freshwater species) and extremely important for their other ecosystem and economic services – including flow regulation, fisheries, dry-season grazing, tourism and hunting. The third major feature in the area is the dry "miombo" woodland ecosystem, which serves as the source of livelihoods and energy for many rural Tanzanians, and provides important habitat for numerous species. The region's exceptional ecological values have been recognized by the establishment of many protected areas in different categories, which cover a large proportion of the corridor area and include the Selous Game Reserve, Ruaha and Mikumi National Parks, Udzungwa National Park, Kitulo National Park forest reserves and wetlands, a Ramsar site in the Kilombero Valley, and various Wildlife Management Areas.

5. More generally, population growth and increased development in Tanzania's urban, peri-urban, and rural areas contribute to increased pressure on natural resources and land. Consistent with global trends, resources face competing demands, such as water resources within the same

catchment area allocated for hydropower, irrigation, conservation, industrial and household use. In some protected areas there is extreme pressure on certain habitats due to degradation, fragmentation and conversion to other uses (especially wetlands, but also woodlands and forests), and on some forms of wildlife due to hunting. In addition, critical wildlife corridors are becoming increasingly blocked, resulting in increased human-wildlife conflict.

6. The population density in the SAGCOT Program area is low, but increasing consistent with Tanzania's high population growth rates. Livelihoods are largely agricultural, with few urban job opportunities. There is a high dependency on natural resources, especially fuelwood and charcoal for cooking. In certain areas such as the Kilombero Valley, in-migration by job seekers is creating population pressure hot-spots. These are compounded by the arrival of agro-pastoralists from other areas, resulting in accelerated environmental degradation and farmer-herder conflicts. With regard to land tenure, the definition and protection of land rights is generally clear in Tanzanian law. However, implementation of land tenure and administration systems from national to local level is sometimes inconsistent and constrained by low capacity.

7. ***Potential Environmental and Social Impacts***: The SAGCOT Program aims to promote agribusiness investment which integrates larger numbers of smallholder farmers into internationally competitive supply chains. Agricultural growth and agribusiness investment is to be promoted in order to raise smallholder incomes and food security – and do it in a sustainable manner.

8. Much of the effort will concentrate on the commercialization of smallholder production systems. This is to be achieved, in large part, by linking smallholders with agribusinesses seeking commodity products for trade and processing. These agribusinesses may include traders and agro-processors. The SAGCOT Program design assumes many will have nucleus estates linked with out-grower operations in priority geographic clusters. If not carefully managed, the expansion of commercial agribusiness operations by smallholders and by nucleus estates could potentially have significant cumulative and induced environmental and social impacts primarily on: (i) water, (ii) land, (iii) biodiversity and (iv) community systems. The challenge is to support the pursuit of income and employment gains linked with the development of commercial agriculture, while protecting, and fairly allocating, environmental services.

9. In addition, more site-specific impacts are possible on a project-by-project basis due to construction and/or operation of facilities. Support to the SAGCOT Catalytic Trust Fund will provide opportunities for smallholder producers to engage in profitable agriculture, support agribusiness investment and development along the value chain, and build supply chains which include smallholder and emergent farmers and benefit rural communities. While the specific investments are unknown at the present time, the types of investments are expected to include activities such as extension support, the provision of agricultural inputs, the provision of new technologies (such as new seed or plant or animal varieties), improved grades and standards, and improved commodity assembly systems. There may also be investments in small-scale infrastructure, such as rural road upgrading or small warehouse to ease bottlenecks in the supply chain.

10. Potential impacts of the Project include air, soil and water pollution associated with the construction and operation of facilities, environmental and human health risks associated with increased pesticide use, typical construction impacts (e.g. dust, noise and construction waste management), limited resettlement, and potential marginalization of some occupational groups such as pastoralists in favor of farmer groups. As specific sub-projects that will receive matching grants from the SAGCOT Catalytic Trust Fund are unknown at this time, the Bank-financed Project uses a framework approach where environmental and social management guidelines are prepared and will apply to all investments.

11. ***Environmental Categorization and Safeguard Policies Triggered:*** While direct impacts of subprojects financed through the SAGCOT Catalytic Trust Fund are mostly expected to be modest and site-specific, the Project is classified as a "Category A" operation. The categorization stems less from direct impacts – though some of the investments in the project could have high environmental and social impacts – and more from the Project's relationship with the overall SAGCOT Program, which may entail large-scale, cumulative impacts across the SAGCOT Program area as a whole, and which includes environmentally sensitive locations including areas of high biodiversity and proximity to Critical Natural Habitats. The following safeguard policies have been triggered: OP/BP 4.01 for Environmental Assessment; OP/BP 4.04 for Natural Habitats; OP/BP 4.09 for Pest Management; OP/BP 4.11 Physical Cultural Resources; OP/BP 4.12 for Involuntary Resettlement; OP/BP 4.36 for Forestry, and OP/BP 4.37 on Safety of Dams.

Approach to Environmental and Social Sustainability in the SAGCOT Program:

12. While the risks of subprojects financed by the SAGCOT Catalytic Trust Fund's matching grants program are likely to be modest, in order to strengthen awareness and understanding of the broader environmental and social risks of the overall SAGCOT Program in the SAGCOT Program area, and build capacity to address these risks, the client and the Bank has undertaken two pieces of in-depth analysis:

- A *Strategic Regional Environmental and Social Assessment (SRESA)* was prepared to broadly assess environmental and social impacts of the Program and Project's activities across the entire Corridor, and to develop a methodology—using the Kilombero Valley as a pilot area –to undertake more in-depth Cluster-level analyses based upon likely potential development scenarios;

- A detailed *Land Tenure and Administration Study* for the overall Program was carried out to evaluate risks and opportunities associated with the legal and institutional frameworks governing land investment. Findings of this study were shared with civil society participants during a workshop in Dar es Salaam in June 2012, and the report was completed in September 2012.

13. The SRESA is described in more detail below. The land tenure study is summarized in Annex 8.

14. ***Approach to Environmental and Social Safeguards for SAGCOT Investment Project Subprojects***: For the Project, several safeguard instruments and associated due diligence products have been prepared. The approach was designed to assess and address the cumulative

and induced impacts of the SAGCOT Program, and also to identify and mitigate impacts of specific investments. Each of these instruments is described in more detail in below:

- An *Environmental and Social Management Framework (ESMF)* that builds on the impact analysis of the SRESA, and lays out the procedures for ensuring the appropriate due diligence for SAGCOT Catalytic Trust Fund subprojects, including screening, designing mitigation measures, necessary approvals, and monitoring;

- An *Integrated Pest Management Plan:* that sets out the specific pest management safeguard measures and advisory support expected to be included in Matching Grant Sub-Projects assisted under the Project's Component 2, for (i) integrated pest management (which involves working to control pests in ways that minimize the need for pesticides) and (ii) when pesticides are still used, the measures to ensure their safe use, storage, handling, and disposal;

- A *Resettlement Policy Framework (RPF)* which includes principles and procedures for resettlement and compensation for project affected people, and establishes standards for identifying, assessing and mitigating negative impacts;

15. In addition a Vulnerable Groups Planning Framework (VGPF) will guide the preparation of project specific social assessments for vulnerable groups, and in turn the preparation of the Vulnerable Groups Plans (VGPs). Sub-project specific social assessments will identify those who could be positively or negative impacted by Project activities and ensures that subprojects are prepared in a participatory fashion and respond to the demands of local people, that free, prior and informed consultation has taken place with the affected vulnerable groups and that their social circumstances and situations are considered in the subproject design. Vulnerable Groups include women-headed households, children, youth, elderly, disabled, people with HIV/AIDS and disadvantaged communities.

16. ***Project Stakeholders and Institutions***: While the Project primarily supports the SAGCOT Catalytic Trust Fund, it also provides support to the TIC, and the SAGCOT Centre in their efforts to encourage agribusiness investment and mitigate environmental and social risks. These, in turn, are expected to interact with several other coordinating and oversight agencies, including the Prime Minister's Office, the Vice President's Office and National Environmental Management Council (NEMC) and the Ministry of Lands, Housing and Human Settlement Development (MLHHSD). It is important to note that the SAGCOT Catalytic Trust Fund is a new entity and the administrative structures for environmental and social management will require confirmation and approval in order to ensure that safeguard instruments are properly implemented. While the exact nature of technical assistance that will be financed under the Project to these institutions is still being finalized, it will focus on improving the environmental information base as an input to improved decision-making.

17. ***Public Consultation and Disclosure*:** The preparation of the safeguard documents (i.e., ESMF, IPMP, RPF and SRSEA) has followed a broad-based and in-depth consultation approach

including interviews with relevant stakeholder groups in the public and private sectors and civil society. These included producer organizations, cooperatives and out-growers, key ministries and government agencies, District officials, agriculturists, fishers, wildlife and tourism stakeholders, pastoralists and active development agencies and conservation organizations. In addition, the SAGCOT Centre has led numerous efforts at multiple stakeholder meetings and in the media to convey the program objectives and benefits. A large effort is also supported through the specific producer organizations among their members and associated out growers.

18. The Environmental and Social Management Framework has been prepared, consulted upon and disclosed in August 2013. The Resettlement Policy Framework has been prepared, consulted upon and disclosed in November 2013 after integrating comments following public consultations. The Strategic Regional Environmental Assessment has been prepared, consulted upon and disclosed in February 2014 after integrating comments following public consultations. An Integrated Pest Management Plan was prepared and disclosed in May 2014. A Letter of Sector Policy on Land has been completed. A Vulnerable Groups Planning Framework (VGPF) has been prepared by the GoT.

Environmental Safeguards

19. The following section describes the environmental due diligence conducted for project preparation.

Strategic Regional Environmental and Social Assessment

20. The overarching objective of the SAGCOT SRESA was to improve the investment decisions of all the different stakeholders by identifying environmental and social issues (both opportunities and constraints) and integrating them into SAGCOT Program planning process. The SRESA established baseline environmental and social data in the Corridor and also assessed the potential environmental and social issues associated with the Broader SAGCOT Program.

21. The SRESA includes a scenario analysis of more detailed environmental and social issues in one prominent cluster, Kilombero, which was selected due to the strategic importance of the cluster to the SAGCOT Program mandate, together with the high level of environmental and social complexities and pressures on natural resources. The cluster-level analysis was designed in order to: (a) identify potential cumulative and indirect project impacts; (b) define a monitoring strategy methodology; and (c) develop an initial associated database for monitoring project-related agribusiness investment impacts in the Corridor. The scenario assessment and monitoring approaches will serve as the model for scoping the technical assistance provided to the SAGCOT Centre to improve environmental decision-making in the other SAGCOT Program areas.

22. A key feature of the SRESA is the Kilombero Cluster scenario analysis. This analysis evaluated a typical range of potential impacts through a set of scenarios, including: (a) the "no-action" or "no-project" scenario, i.e. what will probably happen without the SAGCOT Program over the next 20 years; (b) an "accelerated agribusiness" scenario, i.e. what could happen with the SAGCOT Program but without any specific environmental or social conditionality or mitigation; and (c) a "green SAGCOT Program" scenario, i.e., accelerated agribusiness

investment in the cluster with comprehensive environmental and social planning and management.

23. The SRESA's key findings about the potential impacts of the broader SAGCOT Program were as follows:

- The short-term economic impacts of SAGCOT Program investments are anticipated to be significant and positive. However, a clear mechanisms for ensuring fair compensation and sustained smallholder and community benefits needs to be in place to ensure that the, the benefits will accrue equitably to the various stakeholders and interest groups.
- The impacts of the SAGCOT Program on the Corridor will likely vary from cluster to cluster, but potentially with a disproportionate negative impact on wetlands since these are actively targeted by investors for irrigation development and they currently have little effective protection.
- Land conversion and related in-migration is likely to accelerate and intensify existing trends of habitat degradation, fragmentation and loss, with negative consequences for biodiversity including severance of strategic wildlife corridors and an increase in the risk of local extinctions. Critical Natural Habitats may be affected. Unless properly planned and managed, irrigation schemes are likely to have negative consequences downstream. Without suitable mitigation and control measures, these processes would affect the sustainability of the SAGCOT Program benefits.
- If the SAGCOT Program is implemented using a "green growth" approach, and with positive actions to promote gender equality and climate change mainstreaming, the SAGCOT Program has the potential to unlock significant economic development with limited negative environmental and social impacts.

Environmental and Social Management Framework (for the Project)

24. The objective of the ESMF is to provide a framework for effective management of environmental and social issues for subprojects receiving finance from the SAGCOT Catalytic Trust Fund. It seeks to both enhance environmental and social development benefits of the Project and mitigate any adverse impacts, in line with GoT and World Bank policies and guidelines on environmental and social impact management. Since the precise locations and potential impacts of future subprojects cannot be identified prior to project start, the ESMF provides the basis for the environmental and social preparation needed for the subproject investments. The ESMF will only apply to SAGCOT Catalytic Trust Fund investments supported with World Bank financing, including the Matching Grant Facility (which is funded by IDA). Other development partners (notably USAID and British DFID) have expressed interest in using the ESMF to govern all SAGCOT Catalytic Trust Fund investments (including the Social Capital Venture Fund (which is not funded by IDA) to promote harmonization and consistency of environmental and social management procedures.

25. Since the SAGCOT Catalytic Trust Fund is the mechanism by which subprojects will be appraised and implemented, the ESMF sets forth the mandatory environmental and social due diligence procedures for the Fund Manager(s) to use in the screening, appraisal, monitoring and reporting process. The design of this assessment system complies with both the World Bank's

safeguard policies and Tanzanian EIA regulations and related guidelines. It is also consistent with the Investment Policies and Operating Guidelines for the Matching Grants Facility and Social Venture Capital Fund outlined in the Trust Deed of the SAGCOT Catalytic Trust Fund (which includes Environmental and Social Review Procedures).

26. The ESMF (a) establishes clear procedures and methodologies for the environmental and social assessment, review, approval and implementation of World Bank-financed investments to be financed under the SAGCOT Catalytic Trust Fund; (b) specifies appropriate roles and responsibilities and outlines the necessary reporting procedures for managing and monitoring environmental and social concerns related to Project investments; (c) determines the training, capacity building and technical assistance needed to successfully implement the provisions of the ESMF; and (d) proposes a budget to implement the recommendations outlined in this document.

27. A key feature of the ESMF is the CF Subproject E&S Screening Checklists that provide guidance on environmental and social impacts, risks and proposed mitigation and management measures associated with subproject activities. The Checklists provide reference to good practice measures from the WBG EHS Guidelines and from EBRD Sub-Sectoral Environmental and Social Guidelines which apply to the pollution prevention and abatement and occupational, health and safety during construction and operation. These Checklists will assist the SAGCOT Catalytic Trust Fund Manager identify the type, nature and significance of impacts associated with each subproject. During project implementation, more detailed sector-specific guidance on environmental and social management may be developed. The process involves six steps and is integrated into the sub-project review procedure for applicants to the MGF:

(1) Application Preparation and Screening;
(2) Preparation of Environmental and Social Requirements;
(3) Sub-project Appraisal and Selection;
(4) Agreement on Environmental and Social Action Plan;
(5) Sub-project Approval; and
(6) Monitoring and Reporting.

Step 1: Sub-project Application Preparation and Screening

a. Screening: All sub-projects will be subject to a process of environmental classification and site sensitivity screening.

The initial MGF funding application should include basic information on the environmental and social characteristics of the proposed project, potential environmental and social impacts (including land issues), any existing environmental and social management systems used by the Applicant, and the Applicant's proposed approach to addressing potential impacts.

The Fund Manager (FM) will undertake a preliminary screening of proposed sub-projects based on the inherent environmental and social risks associated with the sub-project type and requirements (location, size, etc.). The results of the preliminary screening form exercise will be used to determine (i) the eligibility of the sub-project for further processing, (ii) the environmental category of the proposed sub-project, and (iii) the environmental and social due diligence work required in order to prepare a detailed application (including preparation of instruments such as Resettlement Action Plans and/or Vulnerable Groups Plans). It will also flag those sub-projects with potential significant environmental or social impacts. This flagging will ensure that particularly high risk projects receive closer World Bank supervision (such as prior review of TORs and final drafts of EAs, resettlement plans, etc.).

Note that eligible lands are only those parcels already in agricultural use or defined as suitable for agricultural use in official land use plans.

b. Environmental Categories

The following environmental categories will be applied to MGF sub-projects, as established by World Bank OP 4.01:

- **Category A**: defined as those that pose significant environmental and social impacts (due to the scale, type and location of the investment) and will require the preparation of a site specific EIA for approval;
- **Category B:** have moderate or limited environmental and social impacts, which can be mitigated and managed through application of a set of mitigation and management measures and other safeguard plans included in the ESAP;
- **Category C**: have minimal or no negative environmental and social impacts and do not require any further E&S measures.

The Tanzanian EIA screening procedure has similar categorization: proposals are screened into projects not requiring EIA, projects meriting a preliminary EIA, and projects requiring full EIA. The screening process takes the following criteria into account:

- Affected area;
- Importance and scale of impacts on the environment; and
- The likely degree of public concern i.e. controversial issues which raise public concern as a result of type and scale of the undertaking, sensitivity of the site location, technology used, conflict of interest in land issues and any other factor related to a particular project may require detailed scrutiny and assessment.

Nevertheless, there are some differences between World Bank OP 4.01 environmental categorization and associated procedures and Tanzanian EIA law and regulations, specifically that the Tanzanian EMA classifies projects based on the type of activity proposed, but the Bank bases the need for a full Environmental Assessment on the results of project-based screening. Consequently, in Tanzania mandatory EIA may be required for some projects that the World Bank might place in Environmental Category B and which therefore would not qualify for a full-scale assessment (such as irrigation projects in non-sensitive areas). Similarly, in other cases the World Bank might require a full EIA while the Tanzanian EMA would require only a Preliminary Environmental Assessment (for example, upgrading of roads in sensitive areas).

This ESMF has been developed to ensure that the requirements of both Tanzanian law and World Bank safeguard policies are met.

c. *Environmental Risk Levels*

To assist in categorizing the proposed sub-projects, they will be screened and classified according to their **environmental risk level**. The risk level is to be estimated based on the intrinsic environmental and social risk associated with (i) the type of intervention to be carried out (e.g., maintenance, expansion, upgrading, new infrastructure); and (ii) the specific type of infrastructure proposed. Where a single sub-project includes multiple types of activities/interventions or infrastructure, the risk rating is assigned based on the highest level of risk applicable for any component of the sub-project.[29]

The environmental risk levels are defined as follows:

- **Risk level III-A:** sub-projects with particularly high environmental, vulnerable peoples, cultural heritage, or resettlement risks, as determined by an analysis of the nature and scope of civil works proposed and the ecological and socio-cultural sensitivity of the project site.

- **Risk level III-B:** sub-projects with moderately high environmental or social risk. The proposal presents some risks due to the sensitivity of the setting and the nature and scope of civil works planned. However, mitigation measures are readily available and the sub-project will not have a major impact that places the natural environment, its biodiversity, society, or its cultural property at risk.

- **Risk level II:** sub-projects with moderate environmental, vulnerable peoples, cultural heritage, or resettlement risks. The proposal presents some risks given the civil works planned, but its potential adverse impacts are less adverse than those of Risk level IIII projects. These impacts are site-specific[30]; few if any of them are irreversible; and in most cases mitigation measures can be designed more readily than for Risk level III projects.

- **Risk level I:** sub-projects likely to have minimal or no adverse environmental or social impacts.

  These risk levels and their equivalent World Bank environmental categories are shown in Table A.7.1.

[29] In cases where the typological definitions for a sector conflict with existing state classifications, the state may include in its proposal a description of a rating system based on the alternative classifications, along with an explanation of why it is necessary to use the alternative system.
[30] If projects impacts are site-specific, but result in significant social impact (i.e., involving land acquisition that affects more than 200 persons, or significantly affects vulnerable peoples either positively or negatively), projects are considered to be Type III.

Table A.7.1 Environmental Categories and Environmental Risk Levels

Environmental Risk Level	Environmental Category
III-A	A
III-B	B
II	B
I	C

d. *Site Sensitivity and Environmental Risk Levels*
As noted above, the environmental and social risks of a particular proposal are a function of the type and scale of the sub-project's activities and the natural and socio-cultural sensitivity of the sub-project site.

A system designating three possible degrees of sensitivity for a setting (i.e., low, medium or high) is presented in Table A.7.2, using the World Bank policies most likely to be activated by MGF sub-projects. This can be used to differentiate between Risk level III-A and Risk level III-B, as shown in Table A.7.3.

Table A.7.2 Determination of Sub-project Site Sensitivity Levels

Policy	Sensitivity Level		
	Low	**Moderate**	**High**
Natural Habitats (OP 4.04)	No critical natural habitats; absence of natural habitats.	No critical natural habitats; presence of other natural habitats.	Presence of critical natural habitats and natural forests.[31]
Involuntary Resettlement (OD 4.12)	Low population density; disperse populations, little or no activity or well-established enterprises in the project's area of influence.	Moderate population density; some activities along the trajectory; mixed property and landholdings along the trajectory.	High population density; cities and major towns; intense activities in the project's area of influence; low-income population and squatters; communal properties. Landholdings that are not very well defined.
Vulnerable Groups	No vulnerable population.	Dispersed, mixed vulnerable peoples; vulnerable populations with a high degree of acculturation.	vulnerable populations.
Physical Cultural Resources (OP 4.11)	No sites of importance known or suspected.	The presence of sites of cultural interest is suspected; there are significant sites in the area of influence.	Sites of cultural importance known in the area of influence.

Based on the highest level of sensitivity identified for any aspect of the proposal, the sub-project is designated as either Risk level III-A or Risk level III-B, in accordance with the matrix below (Table A.7.3).

[31] Critical natural habitats are defined as existing and proposed protected areas, along with unprotected natural habitats of known high importance for biodiversity conservation. For details see OP 4.04 *Natural Habitats*.

Table A.7.3 Site Sensitivity and Environmental Risk Levels

Project Type	Sensitivity of the Setting		
	Low	Moderate	High
Risk Level III	III-B	III-A	III-A

For the SAGCOT Investment Project the environmental category of MGF-financed sub-projects will reflect the types of inherent risks associated with each proposal, and will be confirmed based on the E&S screening outcome and any follow up field visits. It is expected that this task will be performed by contracted qualified environmental and social experts, under the oversight of the CF Fund Manager.

The following table (Table A.7.4) presents a preliminary environmental classification of the likely sub-projects for financing by the MGF.

Table A.7.4 Preliminary Environmental Categories for MGF Sub-projects

Type of Matching Grant Facility Sub-project	Likely Environmental Category*	Potential Significant Environmental and Social Concerns
Animal Production		
• Large scale livestock production (e.g. > 500 head of livestock)	A/B	• Direct discharge or run-off of inadequately treated wastewater may cause contamination and eutrophication decline of aquatic resources
• Medium scale Livestock production		• Disposal or use of untreated wastewater for irrigation can affect soil quality and create water pollution. • Potential health issues associated with bird flu and other diseases.
• Small scale animal husbandry	B/C	• Proper siting of animal sheds/pens regarding drinking water supply, homestead heath issues related to animals
Crop Production and Horticulture		
Water management projects for agriculture (drainage, irrigation)	A/B	• ·Construction issues such as spoil disposal management.
		• Water pollution and water quality, water; extraction and water rights, land loss and resettlement, natural habitats, species loss, land degradation, dam safety.
		• Threat to water ecosystem services across numerous critical natural habitats
Large scale monoculture (e.g. >200 ha) (cash and food crops)	A	• Water pollution and water quality, water; extraction and water rights, land loss and resettlement, natural habitats, species loss, land degradation
Small scale monoculture (cash and food crops)	B/C	
Field production of flowers and vegetables • Organic production	C	• No biophysical risks

Type of Matching Grant Facility Sub-project	Likely Environmental Category*	Potential Significant Environmental and Social Concerns
Field production of flowers and vegetables • Conventional production	B	• Contamination due to disposal of pesticides/insecticides containers, Health and Safety, uncontrolled cultivation of genetically modified varieties, crop residual disposal, caste generation and disposal including plastics and non-biodegradables
Fertilizer supply	B	• Eutrophication, water quality impacts, soil acidification, salinity changes
		• Threat to water ecosystem services across numerous critical natural habitats
Large-scale commercial forestry including plantations (e.g., >200 ha)	A	• Loss of biodiversity, converted land cover may impact wildlife migration and foraging habitats, disruption to fragmented wildlife corridors • Threat to ground water supply associated with certain plantation crop selection
Small-scale commercial forestry including plantations (e.g., <200 ha)	B	
Agro-processing		
Rice/wheat mills, cotton gins	B	• General good housekeeping standards and best practice, EMS for large organizations, worker safety, proper emissions and discharge control, potential air, surface and groundwater contamination, processing and solid waste disposal
Manufacture of vegetable and animal oils and fats	A/B	
Manufacture of dairy products	B	
Processing fruits & vegetables, and sources, oil seed crushing	B	
Storage facilities	B	
Grain & seed storage facilities, cold storage, grain elevators		
Beekeeping, honey processing	C	
Slaughterhouses	A/B	• General good housekeeping standards and EMS program, product contamination, worker safety, proper emissions and discharge control, potential air, surface and groundwater contamination, processing and solid waste disposal, odours
Agro-energy		
Biomass biogas, biofuel power development	A/B	• Sustainable supply of energy sources, degradation of natural vegetation, pressure to convert more land to energy crops, food security
Wind turbines	A/B	• Proper siting, noise, bird and bat mortality, access roads
Solar	B/C	• Proper siting
Infrastructure		
Farm roads	B/C	• Proper siting, construction safety, traffic safety, interference with hydrology, drainage on adjacent farmlands.
Bridges and culverts	B/C	

Type of Matching Grant Facility Sub-project	Likely Environmental Category*	Potential Significant Environmental and Social Concerns
Micro/pico hydro	B/C	• Hydrology of flows, water quality, maintenance of ecosystem services
Farm Support		
Field machinery	B/C	• Safety, disposal of lubricants, oils etc, if large operation with many machines need proper storage and disposal of all hazardous wastes
Seeds, seed stock	B/C	• Agrobiodiversity; seed dressings
Technical support	C	• None

*Preliminary classification is subject to verification based on site visits, to assess the sensitivity of the specific site.

e. *Screening Checklists*

The CF Sub-project E&S Screening Checklists (Part 2 of Annex 8: ESMF Operational Tools and Guidelines) provide sector-specific guidance on environmental and social impacts, risks and proposed mitigation and management measures associated with sub-project activities. The Checklists provide reference to good practice measures from the World Bank Group Environment, Health and Safety Guidelines and from EBRD Sub-sectoral Environmental and Social Guidelines which apply to the pollution prevention and abatement and occupational, health and safety during construction and operation. These Checklists will assist the FM in identifying the type, nature and significance of impacts associated with each sub-project.

Step 2: Preparation of Required Environmental and Social Actions

Depending on the type of environmental and social impacts, the applicant will be required to undertake environmental and social due diligence according to the guidance in the SAGCOT Investment Project ESMF, the SAGCOT Integrated Pest Management Plan[32], the SAGCOT Investment Project Resettlement Policy Framework, and the SAGCOT Investment Project Vulnerable Peoples Plan.

Specifically, for sub-projects preliminarily determined to be a Category A or B, the FM will arrange a visit to the site to obtain more information on the key environmental and social concerns including site sensitivity, and on how the applicant intends to address them. Depending on the category and types of potential impacts, the FM will inform the CF applicant of the following E&S requirements. The resulting documentation should be submitted with the detailed project application.

[32] The ASDP Integrated Pest Management Plan (IPMP) will be re-banded as the SAGCOT IPMP.

- **Environmental Assessment**:
  - **For Category C sub-projects:** application of Standard Environmental Rules for Contractors**.**[33]
  - **For Category B sub-projects and those of Environmental risk level III-B**: a set of E&S measures for **mitigation** and management of impacts will be attached in the Applicant's proposal in the form of an Environmental and Social Action Plan (ESAP) and attached to the investment agreement as an E&S covenant. The ESAP must be disclosed and consulted. Application of Standard Environmental Rules for Contractors.
  - **For Category A sub-projects**: the CF Applicant is required to undertake an EIA in order to obtain an environmental permit from NEMC and to get World Bank No Objection to EIA TOR/Inception Report and draft EIA. The CF Applicant will prepare the EIA and submit it to NEMC and the World Bank for review and approval/no objection. The EIA TOR/Inception Report and draft must be disclosed and consulted. Application of Standard Environmental Rules for Contractors.

- **For land acquisition and/or resettlement**: verification of land tenure will be attached to the Detailed Application. Any sub-projects that would cause any other form of resettlement as defined in the MG Operational Manual will require a Resettlement Action Plan as part of the Detailed Application.

  - **Pest Management**: if pest management will be introduced into a sub-project application (e.g. through an irrigation investment), then the sub-project will follow the principles of the IPM and prepare a Pest Management Plan.

  - **Vulnerable Groups**: if project screening indicates that Vulnerable Groups would be affected by the sub-project (positively or negatively), the Applicant should prepare a Vulnerable Groups Plan.

It is expected that the majority of proposed investments will be categorized as B and C although it is possible that there will be some Category A sub-projects.

Step 3: Sub-project Appraisal and Selection

The Fund Manager is required to review all detailed applications to ensure compliance with the MGF investment policy, which includes E&S standards. The Applicant should submit any required environmental and social due diligence with the Detailed Application. In order to appraise the sub-project, the FM will ensure that the CF applicant has completed the following, as relevant to the sub-project:

a) **Environmental Impact Assessment scoping**: Approval of EIA scoping report for Category A sub-projects by NEMC (if required), and No Objection by the World Bank following review of EIA scoping report (if required) or TOR (if no scoping report is required). Note that the World Bank cannot give a No Objection to any final EIA without evidence of public consultation on TOR (or EIA scoping report).

[33] Standard Environmental Rules for Contractors outline the mandatory environmental clauses to be incorporated into project-supported civil works contracts.

b) **Acceptance and clearance of the EIA** for Category A sub-projects by the VPO and No Objection of the World Bank following review of the EIA will serve as a sufficient environmental clearance to proceed with further consideration for approval of the sub-project by the Fund Manager. Note that the World Bank cannot give a No Objection to any final EIA without evidence of public consultation on the draft EIA report. Once the EIA has been cleared and accepted (by VPO) and has the World Bank's No Objection, the CF Applicant will submit the approval along with the Final Business Plan to the Fund Manager for review by the Investment Committee.

c) **Verification of land tenure and Resettlement Action Plan**: In cases where sub-projects require verification of land tenure and proof of undisputed land, the CF applicant will submit required documentation to the Fund Manager together with the application. Further details about this process are described in the MGF OM. If a Resettlement Action Plan (RAP) is required, the applicant should submit the RAP with the detailed application for review by the FM. Please note that the RAP will also require No Objection by the World Bank.

d) **Pest Management**: If the sub-project intends to introduce or expand the use of pesticides or other agrochemicals, and an Integrated Pest Management Plan is required (as determined by screening, scoping and/or the EIA), the CF applicant will have to include (in the text or in an annex): a list of pesticide products authorized for procurement under the sub-project, or an indication of when and how this list will be developed and agreed on. This authorized list will be referenced in the ESAP. The ESAP will also outline the subprojects' specific provisions to ensure safe handling, use, disposal of chemicals, and provisions to supply necessary safety equipment and training for their use, which will be reviewed and approved by the FM.

e) **Vulnerable Groups Rapid Social Assessment and Vulnerable Groups Plan**: When potential adverse effects on vulnerable groups are identified, a Vulnerable Groups Plan will be developed which includes measures to avoid, minimize, mitigate, or compensate for these adverse effects. A social assessment will be conducted at the subproject level to collect relevant information such as livelihood means, and social practices and activities, among others, which could be affected by a given subproject. In addition, free, prior and informed consultation will be undertaken with the vulnerable groups. All of these will be the basis for preparation of the VGPs.

f) **Cultural Heritage:** all sub-projects involving earthworks must include an approved Chance Finds procedure in construction contracts, to cover the possibility of discovering physical cultural heritage in the course of excavation. The key elements of the contractual provisions are: (i) that as soon as suspected cultural heritage is discovered during any aspect of construction works, the contractor shall take steps to safeguard the item or feature and shall notify the concerned authority; (ii) the responsible authority shall then direct the contractor as to his subsequent actions; and (iii) the contract should also refer to the relevant national law and regulations concerning compensation (if any) for any delays or expenses incurred.

g) **Environmental and Social Action Plan**: For all projects that would entail environmental and/or social impacts, the applicant should prepare a draft Environmental and Social Action Plan that outlines the proposed approach and actions for mitigating and monitoring impacts.

Step 4: Agreement on Environmental and Social Action Plan

The Fund Manager is responsible for the preparation and negotiation of the agreement with the MGF Applicant, which includes the Environmental and Social Action Plan (ESAP) prepared by the Applicant. The ESAP will outline E&S actions to be implemented by the CF Applicant against a proposed timeframe, and this will be reviewed by the Fund Manager and discussed with the Applicant to ensure the adequacy of the ESAP. The ESAP should consolidate actions from all instruments prepared with the application (e.g. EIA, RAP, PMP, VGP).

The Fund Manager will (i) attach the finalized and agreed ESAP to the Investment Agreement, and (ii) will incorporate E&S covenants in MGF Grant Agreements requiring that the ESAP is implemented in full.

Step 5: Sub-project Approval Process

Tanzanian environmental authorization: Tanzanian EIA regulations require full EIAs to be approved by the VPO and the EIA Certificate to be signed by the Minister responsible for Environment. For the purpose of the SAGCOT Investment Project, all Category A and B sub-projects will also have to be reviewed and approved by the World Bank.

World Bank No Objection: all MGF Category A and B sub-projects recommended for Investment Committee approval require a World Bank No Objection. The Fund Manager will submit all such sub-projects to the World Bank Task Team Leader and Environmental and Social Specialists for review. The World Bank will review and reply to the request within ten (10) business days of receipt of documents from the Fund Manager.

Presentation to Investment Committee: the Fund Manager presents sub-projects to the Investment Committee (IC) and includes in its submission to the Committee how the Applicant complies with the MGF Investment Policy – the Fund Manager should ensure that the E&S management principles in the MGF Investment Policy are discussed in the submission and presentation to the IC.

Preparation of Grant Agreement/Financing Agreement: The Fund Manager prepares and negotiates the final MGF Grant Agreement. Per the previous step, the Fund Manager should ensure that the ESAP and Application of Standard Environmental Rules for Contractors are included in the Agreement and includes monitoring requirements for environmental and social management as well as reporting requirements to the Fund Manager (including E&S benchmarks and indicators as relevant to the project's ESAP).

Step 6: Monitoring and Reporting

Based on the monitoring system agreed with the Applicant in the Grant Agreement, the Applicant (now the project implementing entity) will submit regular reports to the Fund Manager. The Fund Manager will collect this information and prepare an annual consolidated report on E&S performance of all CF MGF projects. This report should be submitted to the SAGCOT Centre and World Bank.

The Fund Manager is responsible for carrying out compliance monitoring by visiting selected sub-projects on a regular basis and reviewing the effectiveness of implementation of the activities specified in the sub-project ESAP. This task could be outsourced to an independent consultant with experience in undertaking similar audits.

In addition to collecting information from sub-projects under implementation, and sub-project monitoring, every year the Fund Manager will undertake an audit of 20 percent of MGF-supported projects using the CF Annual E&S Audit Form.

The audit should include all projects assessed as Category A and a representative sample of projects in other Categories.

The audit will measure whether the sub-project:

- Is complying with the ESAP;
- Has encountered unanticipated impacts (environmental and/or social) and how the CF applicant has or is addressing them;
- Has resulted in any significant impact on highly sensitive biodiversity or critical habitats and protected areas, and/or cultural property; or
- Has addressed any grievances arising from the sub-project activities.

In addition, the annual audit will outline results of the preliminary and final classification of all sub-projects, together with copies of environmental and social preparation undertaken and the audit forms. The table of contents for the annual audit should include the following.

(1) List of sub-projects visited, environmental categories, and date of visits.
(2) List of stakeholders consulted in relation to the sub-project (private owner, operator, farmers and other groups involved in related activities, including semi-pastoralist and pastoralists, villagers, government, etc.).
(3) Summary of main issues identified in the sub-project audits for that period (annual).
(4) Overall sub-projects' compliance with ESAPs.
(5) Recommendations for improvements to the select sub-project ESAPs, or identification for corrective measures, if necessary.
(6) An assessment of any cumulative impacts resulting from the SAGCOT Project.
(7) Recommendations for improvements to ESMF based on issues identified, with specific corrective actions to be implemented by sub-projects failing to comply with ESAP.

The Fund Manager will report to the SAGCOT Centre and the World Bank on the outcome of the audit.

Integrated Pest Management Plan (IPMP)

28. The GOT is preparing an IPMP outlining the mandatory steps to be followed where MGF sub-projects intend to introduce or expand the use of pesticides or other agrochemicals. In such cases, which would be determined through the ESMF screening, scoping and assessment process outlined above, a specific Pest Management Plan is required and the CF applicant will have to include (in the text or in an annex): a list of pesticide products authorized for procurement under the sub-project, or an indication of when and how this list will be developed and agreed on. This authorized list will be referenced in the ESAP. The ESAP will also outline the subprojects' specific provisions to ensure safe handling, use, disposal of chemicals, and provisions to supply necessary safety equipment and training for their use, which will be reviewed and approved by the Fund Manager.

29. Implementation of the IPMP provisions are the responsibility of the Sub-project sponsors, and monitoring of IPMP implementation will be the responsibility of the CF.

More Specific Social Issues

30. There are three main urban centres in the corridor, Morogoro, Iringa (both hosting universities) and Mbeya. Urbanisation is a continuing process, but the large majority of the population in the southern corridor lives in rural areas and is engaged in agriculture, pastoralism and/or fishing. There is a significant commercial agricultural sector including successful smallholder schemes, e.g. in tea, but the majority of farms are small, rainfed, and use traditional techniques. Yields are generally low and post-harvest losses high.

31. Since the 1970s cattle herders from the north have entered and settled in the area. Most are agro-pastoralists, but the migrants include also pure pastoralists. Increased pressure on land has led to conflicts between resident crop farmers and incoming pastoralists and agro-pastoralists.

32. The population is young and increasing rapidly, but education levels are low, with few people reaching secondary education. Physical and financial access to health services is limited and the services available are constrained by low budgets. As a result, in the project area there are vulnerable groups which include, among others, vulnerable pastoralists and farmers. Gender relations are generally unequal, with women having less access to, control over and decision-making power compared to men with respect to many livelihood resources. In addition to the above two groups, the vulnerable groups in the area include farmers, female headed households, children, youth, the elderly, the disabled and people with long-lasting/chronic illnesses, such as HIV/AIDS.

33. Stakeholder consultation has been carried out with all relevant parties including unemployed youth, female laborers, employees in the targeted industries, CEOs of businesses, unions, community based organizations, civil society etc. The Bank-financed Project activities

will provide wider social benefits from increased growth and employment, opportunities that could cascade outwards from the primary beneficiaries. This consultation approach will be sustained throughout project implementation and beyond.

Gender Inclusion

34. The Project seeks particularly to assure that women farmers are integrated into internationally competitive supply chains. One of the main criteria for the allocation of matching grants from the SAGCOT Catalytic Trust Fund is the number of women participating. The Fund Manager is expected to actively solicit proposals that incorporate more women beneficiaries. This target is also codified in the PDO level indicator for an increase in the number of women out-growers linked with agribusinesses funded through SAGCOT Investment Project.

Vulnerable Groups

35. As noted above, vulnerable groups are present in the SAGCOT area. Determination of which groups in Tanzania are recognized as vulnerable will be done on a subproject by subproject basis, and will be identified according to the following criteria: those that may be below the food poverty line, lack access to basic social services (including those that are geographically isolated), and are not integrated with society at large and its institutions due to physical or social factors. Based on a rapid social assessment undertaken for this project, some groups in SAGCOT area meet this definition including vulnerable pastoralists, farmers and other groups, such a women-headed households, the elderly, disabled, youth, children, refugees, persons with HIV/AIDs and disadvantaged communities. The Social Assessment identifies measures to ensure that: such groups have been involved in a process of free, prior and informed consultation leading to broad community support for the project; any adverse impacts on such groups are mitigated; the groups obtain appropriate benefits specific to their needs from the project; there is a process for grievance redress; and, the project includes monitoring and evaluation to assess the project's impacts on and benefits for vulnerable groups. Where necessary, Vulnerable Group Plans (VGPs) will be prepared, consulted upon and disclosed.

36. The VGPF prescribes the screening for the presence of Vulnerable Groups who may be affected positively or negatively by each subproject. For those subprojects that are found to affect vulnerable groups, the PIU will prepare a VGP based on the principles of the VGPF. The VGPF will ensure that subprojects are prepared in a participatory fashion and respond to the demands of local people. To facilitate operations, separate VGPs could be prepared for the identified Vulnerable Groups, which could be applicable to several subprojects in the area.

37. The VGP describes the following elements that would be included in the VGP as needed:

- A summary of the social assessment.
- A summary of results of the free, prior, and informed consultation with the affected Vulnerable Groups' communities that was carried out during subproject project preparation and that led to broad community support for the subproject.
- A framework for ensuring free, prior, and informed consultation with the affected Vulnerable Groups during subproject implementation.

- An action plan of measures to ensure that the Vulnerable Groups receive social and economic benefits that are appropriate, including, if necessary, measures to enhance the capacity of the subproject implementing agencies.
- When potential adverse effects on vulnerable groups are identified, an appropriate action plan which includes measures to avoid, minimize, mitigate, or compensate for these adverse effects.
- The cost estimates and financing the mitigation measures for the VGPs.
- Accessible procedures appropriate to the subproject to address grievances by the affected Vulnerable Groups arising from subproject implementation. When designing the grievance procedures, the borrower takes into account the availability of judicial recourse and customary dispute settlement mechanisms among the Vulnerable Groups.
- Mechanisms and benchmarks appropriate to the subproject for monitoring, evaluating, and reporting on the implementation of the VGPs. The monitoring and evaluation mechanisms should include arrangements for the free, prior, and informed consultation with the affected Vulnerable Groups.

Involuntary Resettlement

38. Despite the social and economic benefits expected to accrue to the local communities and the country at large, as a result of project activities, it is anticipated that the various infrastructure development and productive investments may entail land acquisition, impact access to common assets/resources and/or livelihoods of the surrounding communities. These impacts cannot be fully determined until applications are submitted by investors to the SAGCOT Catalytic Trust Fund for specific subprojects, and the ESMF includes screening criteria for these types of impacts. For those projects where screening indicates resettlement impacts, procedures in the Project Resettlement Policy Framework (RPF) will apply. It is the investor's responsibility to ensure that the RPF is followed for their investment, and meeting the RPF requirements will be a condition of investment approval by the SAGCOT Catalytic Trust Fund.

39. The RPF outlines the principles and procedures for resettlement and/or compensation of subproject-affected people and establishes standards for identifying, assessing and mitigating negative impacts of program supported activities. The RPF applies to activities in sub-projects (or components) affecting those who would be physically displaced or who would lose some or all of their assets or access to resources, regardless of the total number affected, the severity of impact, and their legal status (e.g. the RPF guidelines apply also to those with ill-defined, customary or no title to the land). The process of resettlement and compensation is in line with the Tanzanian legislative requirements (as described in *Section 4* of the RPF), and augmented in certain areas to bring it in line with the World Bank Safeguard Policy OP4.12.

Annex 8: Land Issues Related to the GoT's SAGCOT Program

TANZANIA: Southern Agricultural Growth Corridor Investment Project (P125728)

Introduction

1. The central objective of the Government's SAGCOT Program is to foster inclusive models of agricultural investment in the SAGCOT Program area, linking smallholders with commercial agri-businesses into nationally and internationally competitive value chains. By promoting the development of out-grower schemes and other collaborative arrangements with smallholders, the SAGCOT Program seeks to ensure that growing commercial interest in Tanzanian agriculture is channeled into investment models that bring sustainable benefits both to local communities and to the nation.

2. The Project will not provide direct support for the acquisition or transfer of land to investors, nor will it assist in the assembling of land for investment purposes. Instead, the Project will provide two basic types of support to the SAGCOT Program:

- First, approximately 75 percent of Project finances will be directed to the SAGCOT Catalytic Trust Fund, which through its "matching grants" window will support the development and strengthening of out-grower or contract farming linkages between investors and local farmers. Only established enterprises able to demonstrate undisputed title to land will be eligible for matching grants, and no activities requiring land acquisition will be supported. Assessment of land issues related to the application will be a key factor in determining eligibility. The Fund Manager will be expected to develop and apply a land due diligence protocol, including document review and local-level inquiries. This will enable the Fund Manager to determine *inter alia* that the applicant has clean and properly registered rights to the land; that the land is free of conflicting claims in the form of formally-lodged complaints with courts or government agencies; that there is no indication, based on community-level consultations, of significant ongoing disputes concerning the land; that where relevant, consent of village institutions or other local bodies was properly secured for the acquisition and use of the land; and that the land in question is not land that has been converted from village to General Land within the three years preceding the application.

- Second, funds will be provided to two institutions that play key roles in the SAGCOT Program: the SAGCOT Centre and the TIC, for capacity building activities. Support for SAGCOT Centre will focus on development of communication strategies and partnerships, diagnostic work concerning the enabling environment and enhancement of monitoring and evaluation. Support for the TIC will seek to strengthen Tanzania's capacity to attract high quality investors through improved planning, robust due diligence and strengthened social and environmental safeguards.

3. Although the Project will not be directly involved in supporting or facilitating specific land investments, it is acknowledged that efficient access to land for investors is central to the overall SAGCOT Program agenda and considered key to its success. According to the SAGCOT *Blueprint*, it is expected that 350,000 hectares of farmland could be brought into commercial

production for regional and international markets over the next 20 years. This increase would comprise a mix of land devoted to commercially-oriented smallholder cultivation, along with new commercial farming operations initiated by domestic and foreign investors.

4. The design and inception of the Government's SAGCOT Program has taken place against the backdrop of considerable attention – both globally and domestically – to the phenomenon of rising commercial interest in African agricultural land[34]. It is widely acknowledged that increased private sector investment in agriculture, if done correctly, represents a very important opportunity for unlocking the economic potential of rural Africa. There is also evidence, however, that poorly managed and regulated investment could result in "land grabs" that undermine local land rights, disrupt livelihoods, weaken food security and diminish the long-term prospects for investment by exacerbating tensions between investors and host communities.

5. As in many other countries that have attracted growing investor interest, concerns about the potential risks of large-scale agricultural investment have been aired in Tanzania. Such concerns have been heightened in part by reports of enquiries by investors about possible access to very large tracts of land, in some instances in excess of 100,000 hectares (although to date no such large-scale requests have actually been granted). Increasing attention has been drawn to questions such as:

- How will investments affect the land rights of host communities?
- What types of compensation can communities expect, both in the short term and in the form of longer-term, continuing benefits?
- How can community interests be protected if an investment fails?
- Are there sufficient regulatory tools to deter bad investments, and to ensure that deals are made fairly, transparently and consensually? Is there sufficient capacity within government and at village level to deploy such tools successfully?

6. In short, it is recognized that enhanced land access for investors carries with it risks that, if not diligently addressed, could undermine the very opportunities the SAGCOT Program is intended to leverage. The Bank-financed Project has been designed in such a way that most of these risks are outside its scope and beyond its influence and control. Matching Grants under the Project will focus on established enterprises located on undisputed lands, and will not be used for the acquisition of land for new investment. Nevertheless, by operating in the SAGCOT area and by supporting some of the key SAGCOT implementing institutions, the Project could be perceived as associated with possible negative outcomes related to the wider SAGCOT Program. In light of these concerns, project preparation has included a detailed assessment, and discussion with various stakeholders, of the land rights and governance context in which the SAGCOT Program has been initiated, with the aim of identifying land-related challenges for the SAGCOT

[34] K. Deininger, D. Byerlee et. al. 2011. *Rising Global Interest in Farmland: Can It Yield Sustainable and Equitable Benefits?* (World Bank, Washington DC). The extent of the phenomenon is difficult to quantify reliably. World Bank research suggests that up to 46.6 million hectares of agricultural land worldwide were the subject of large-scale investment transactions in the period from October 2008 to August 2009 alone. A more recent study published in 2012 by the International Land Coalition and partners reports that between 2000 and 2010, deals approved or under negotiation may comprise up to 203 million hectares of which 143 million hectares are in Africa.

Program as a whole.[35] More importantly, the Government has articulated its position with respect to a number of these risks in a *Letter of Sector Policy on Land*, which is presented in the final section of this Annex.

The Tanzanian Legal Framework for Land

Land Rights

7. In Tanzania the legal framework for land rights is provided primarily by two laws: the Land Act No. 4 of 1999 and the Village Land Act No. 5 of 1999. All land is public land and as such it is held by the state. However, private land tenure rights over public land are recognized. The highest form of private land tenure is known as the Right of Occupancy. This may take the form of Granted Rights of Occupancy – i.e., land is granted by the President to individuals or groups for a period of time and under certain conditions relating to land use and rights of disposition. For the vast majority of citizens, however, land is acquired through customary channels, and such holders are recognized by the law as having Customary Rights of Occupancy. Granted Rights of Occupancy differ from Customary Rights of Occupancy in that while the former is held under a Certificate of Title the later does not necessarily require a Certificate of Title in order for it to be recognized and protected by the law (although the law does provide a mechanism for the issuance of Certificates of Customary Rights of Occupancy as a measure to enhance tenure security and clarity of rights).

8. Three categories of land are recognized i.e. General Land; Village Land and Reserved Land. Seventy percent of mainland Tanzania, accommodating over 30 million people, is Village Land under the jurisdiction and management of registered villages, and governed by the Village Land Act. Reserved Land, which covers 28 percent of the mainland, comprises forestland, conservation areas, national parks, and game reserves. General Land, about 2 percent of the mainland area, consists of all land that is neither Village Land nor reserved land. All land in urban areas, with an estimated population of some 10 million, falls under this type, except areas that are covered by laws constituting reserved land or that are considered hazardous land. General Land is governed by the Land Act and is under the control and jurisdiction of the President, as represented by the Commissioner of Lands.

9. Some rural land that Government considers appropriate for commercial agricultural investment is General Land. This is land that has been under the control of the state for various purposes, such as large state farms or other state enterprises that are no longer viable and hence potentially available for investment. A number of such land holdings have been identified within the SAGCOT Program area. However, as the above percentages indicate, the vast majority of rural land is Village Land. Hence, the Government's strategy for attracting significant new investment in agricultural land will necessarily involve facilitating access to some portion of Village Land.

[35] This Annex draws in substantial part from a World Bank-funded consultancy report "Study of Policy, Legal and Institutional Issues Related to Land in the SAGCOT Project Area," by Dr. R. Willy Tenga and Prof. J.M Lusugga Kironde (July 2012)

10. The Village Land Act provides a detailed framework for the governance of Village Land, as well as the process by which it may be transferred. An essential first step under the Village Land Act is the demarcation of Village Land boundaries. A village then receives a village land certificate. Roughly 85 percent of villages in the country now have their boundaries surveyed, including virtually all villages within the SAGCOT Program area. However, the government has been slow in completing the issuance of Village Land Certificates.

11. A next step is to prepare a Village Land use plan. This is a participatory process of demarcating land for various uses such as for residences, arable farming, grazing, forestry, wildlife management, and possibly also for lease to agribusinesses. The land use planning process is theoretically guided by a cascade of national, regional, district and village plans. But there is limited articulation in this process, and often limited correspondence between neighboring village plans. Only about 10 percent of villages now have village plans registered with district and national authorities.

12. After a Village Land use plan is agreed, farmers may pay to obtain surveys of their individual holdings, and be issued certificates of rights of occupancy (CCRO). It appears that in areas of higher population density, and more conflict, there is greater interest in obtaining CCROs than in areas of low population density. In less populated areas, interest is considerably lower. A second main incentive to obtain a CCRO is to use this as collateral for a loan, though banks are generally reluctant to accept these because there is no active land market in most villages. The evolution of land markets seems to be lagging behind the progress of land demarcation.

Land Transfer to Investors

13. There are a variety of ways in which investors can gain access to agricultural land, depending on whether the investor is foreign or national, and the legal categorization of the land.

14. Foreign investors can only hold a granted right of occupancy on General Land. Hence, access for such investors is most straightforward for land that is already in the General Land category. In some situations, such rights of occupancy can be granted for investment on land under the administration of the Commissioner of Lands. In other situations, investors present proposals to the TIC, which, after various processes are completed, may grant a so-called "derivative right of occupancy" to the investor for land to which TIC has acquired the title.

15. Foreign investors cannot directly acquire rights to Village Land. It is possible under the Tanzanian Investment Act, 1997, for a "partial transfer of interest" in Village Land to be given by a citizen to a foreigner for purposes of a joint venture, though this modality to date has been little used. More direct access to Village Land for non-national investors can only be accomplished through the "transfer," or conversion, of such land from the Village Land category to the General Land category by the President. According to the law, such conversion involves a detailed process in which the village agrees to give up the land, the district land authorities sanction the agreement, and the national Commissioner of Lands agrees. Compensation is paid to the village, usually on the basis of an agreement struck between the village, the investor and the Commissioner. At the end of this process, the investor again receives a derivative right of

occupancy on what is now General Land. The village itself retains no residual interest in the land.

16. National investors (which can include Tanzanian companies with minority foreign shareholders) can access Village Land through a lease directly from the village or the holder of a CCRO. Under the Village Land Act, villages have the right to lease up to 250 hectares to a non-foreign outside business. They can grant rights to investors to larger areas but only with approval higher levels of government.

Issues arising from the review of law and practice

17. As the above review demonstrates, there are a number of positive features of the Tanzanian legal framework that make it among the strongest in Africa in terms of the protection of rural land rights. These features include:

- Legal recognition of customary rights of occupancy, which confirms as a matter of law the rights of millions of Tanzanian farmers over land they use and occupy. *By comparison,* in some countries, such rights remain poorly defined or uncertain.
- Vesting of management authority in village governments over more than 80 percent of rural land ("Village Land"), along with mechanisms for the demarcation of borders and certification of village jurisdiction. *By comparison,* in numerous other countries, land in the "customary" sector may remain under central control or undefined legal status.
- Vesting democratic village level bodies with the power to undertake participatory village land use planning, including the designation of common areas and areas reserved for future expansion.
- Linking land use planning to the identification of land for investment, hence ensuring (at least in principle) that the location of investments is preceded by and shaped by a community-based planning exercise.
- Village concurrence required for any transfer of land to an investor, prior to conversion of Village Land to General Land.

18. Despite these notable strengths, there are however a number of gaps and loopholes in the legal framework with respect to investment in farmland. Some of these weaknesses result from ambiguities in the laws themselves; more significantly, however, they stem from problems related to the implementation of the laws. As a result, provisions and processes that aim to safeguard the interests of local people are weaker than intended. At the same time, some critics argue that the cumbersome nature of procedures put in place by the Land Acts actually weakens the effectiveness of the safeguards those procedures are intended to provide, by putting pressure on institutional actors to cut corners in implementation.

19. It should be noted that there is a relative dearth of robust and easily accessible data about current and proposed agricultural investments in Tanzania. This is true both in terms of statistical data (size, type and location) as well as qualitative information (benefit sharing arrangements, social impacts, investor behavior, etc.). There have been press reports of large deals of more than 300,000 hectares, but none of these larger deals have come to fruition. According to the Tanzania Investment Centre, less than 120,000 hectares of land is currently leased by foreigners. As a result, debate about the opportunities and risks associated with

promoting large-scale agricultural investment in Tanzania (as elsewhere) tends to be less evidence-based than is optimal, colored to a significant extent by partial or mis-information, media reports and unsubstantiated assertions by both proponents and critics alike. This in turn makes it difficult to assess with confidence the practical significance of the risks described below and to prioritize mitigation strategies. This does not diminish the potential importance of these risks, but does suggest a need going forward for more systematic attention to the collection and analysis of information across multiple dimensions, and ensuring that such information is available in a transparent fashion.

20. Despite the lack of clarity about the incidence of large-scale investment thus far, the continued relevance of the challenges discussed below is underscored by the emphasis the Government itself has, at various times, placed on the development benefits of encouraging greater agribusiness investment, particularly in the SAGCOT Program area. Potential investors have recently been invited by the TIC to bid on parcels of a 63,000 ha farm in Mkulazi. This is General Land, and the land rights are is held by the TIC. One international company has recently signed a land for equity contract for a 6,000 hectare state farm in Bagamoyo. The Government's recently initiated *Big Results Now* initiative includes proposals to competitively allocate up to 25 new large farms to agribusiness investors. Much of this land is currently classified as Village Land. Local approvals are in the process of being negotiated. Draft proposals have been discussed – though not officially adopted – suggesting that 17.8 percent of Village Land might ultimately be suitable for such investment. The Bank intends to follow the evolution of this initiative as a matter of overall policy dialogue with the Government and to observe whether Government actions are consistent with the Sector Policy Letter on Land.

21. Key risks evident from analysis of the Tanzanian legal framework (as written and as implemented) and experience with commercial agricultural investment are summarized below. The Letter of Land Sector Policy, presented in the Section V, sets forth the Government's acknowledgement of key land risks within the context of SAGCOT, and confirms the measures it has or intends to take to address them.

- ***a. Challenges in identifying "unused" land for investment.*** It is often asserted that there are large expanses of empty rural land in the SAGCOT Program area, which could easily be made available for investors without significant implications for local people. As applied to any particular area of land, however, such assertions need to be examined critically. As experience in Tanzania and elsewhere in Africa confirms, the presumption by "outsiders" that apparently "empty" land is unutilized may not reflect the essential role such land plays in the livelihoods and agricultural systems of village communities – as a common property resource, as fallows, as reserve land for future community expansion, and as a locus for the exercise of customary rights by pastoralists and others. There may well be "enough land to go around" in a particular locality, including for investment, but over-reliance on technical criteria and remote observation to make that determination, without verification through careful and informed consultation and social analysis, can result in misleading conclusions.

- ***b. Legal ambiguities concerning the classification of "unused" land.*** The above challenges acquire legal significance because of an apparent inconsistency between the Land Act and the Village Land Act concerning the President's power to transfer Village

Land to General Land. The Land Act appears to provide the President with the power to designate "unused" land within village boundaries as General Land, without having to go through the steps otherwise required for the conversion of Village Land to General Land. This appears to contradict provisions in the Village Land Act, but there are differing opinions as to how this contradiction should be interpreted or reconciled. Until this ambiguity is resolved, there is the potential risk that land perceived by outsiders to be "unused" may be considered available for the government to transfer to investors, bypassing the consultation and planning process required for Village Land (The Letter of Sector Policy on Land (see Attachment) presents the Government's reconciliation of this apparent inconsistency).

c. Incomplete planning processes at village level. As described above, the Village Land Act and the Land Use Planning Act put in place systematic processes for land management at the village level, including participatory decision-making concerning the location of land uses and the confirmation of land rights. A pre-condition for villages to assume responsibility for land management is the demarcation of village boundaries and the issuance of a certificate of village land to the village council. This process remains incomplete in parts of the country, though progress is being made in accelerating the process in the SAGCOT Program area, where up to 90 percent of villages have now been surveyed (although formal certification lags behind).

Within registered villages, the participatory land use planning process spelled out in the Village Land Act and the Land Use Planning Act provides a framework for defining and protecting community land use priorities and for identifying land for investment that respects those priorities. In practice, however, few village land use plans have been prepared so far. Despite some promising piloting of village land use planning, in general the process is not well-understood, is expensive and is constrained by low capacity at village levels or amongst supporting institutions. In order to speed access to land, some agribusinesses have sought the support of political and local elites to guide a less formal land use planning and negotiation process. There is more generally a risk that land use planning may be carried out in a perfunctory way in response to pressure from outside as investors identify specific land that meets their needs.

d. Individual land rights within villages are often not clearly defined. Within villages, the process of issuance of certificates to holders of customary rights of occupancy has taken place only on a pilot basis in a few villages. There are valid questions about whether and when priority should be given to the systematic adjudication of individual customary rights, given the costs involved and the relatively limited demand for such certificates in some parts of the country. However, in areas subject to growing land pressure and investor interest, the absence of a reliable inventory of existing rights of occupancy can render current occupants vulnerable to their rights being overlooked or manipulated in the process of identifying available land, and creates uncertainty on the part of potential investors.

e. Transfer mechanisms in the Land Acts limit potential involvement of villages as partners with investors. As described above, current law and practice provide limited opportunities for village communities to enter directly into large-scale transactions with non-national investors. Villages may not lease areas of more than 250 hectares to an investor without approvals from higher levels of government and may not lease land at all to foreign investors (though options do exist for joint ventures in some circumstances). Instead, the prevailing model calls for land to be shifted from village to government control, through a conversion of Village Land to General Land (although in practice few such proposed conversions have in fact been given final approval). In this arrangement, the Government assumes the role of lessor. While some sort of benefits package is likely to have been negotiated with the village, the village does not retain a legal interest in the land and hence is less likely to be perceived as an active partner in an ongoing enterprise as opposed to a passive recipient of compensation.

The central role of government in the leasing of land to investors is explained by some officials as essential to protect the interests of both local communities and investors – in this view, government intervention helps ensure that low-capacity village institutions are not victimized by unscrupulous and more sophisticated investors, while at the same time providing greater legal security and lowering transaction costs for investors. However a model of land allocation that first involves removal of land from the direct authority of affected communities may limit opportunities for communities to enter into negotiations with potential investors from a position of strength and for the crafting of transactions in which communities are genuine partners, sharing in a benefit stream over the long term. As the Letter of Sector Policy on Land indicates, the Government is consequently exploring greater reliance on models (such as joint ventures or leases of Village Land) in which land conversion would not be necessary.

f. Converted Village Land does not revert to village control if an investment falls through or is terminated. Villages retain no automatic right to regain control of converted land in the event an investment is not consummated or fails. Once converted or acquired by Government, formerly Village Land remains in the General Land category, absent a specific decision by the President to restore the land to its previous status. Hence a decision to convert Village Land is likely to be permanent.

g. The Government's proposed "Land for Equity" approach is at present unclear and requires further study. Ongoing discussions of a "Land for Equity" approach have been guided by a recognition that there is both a tangible national and local stake associated with any investment from outside. In some of the options under review, it is not envisaged that local communities would have an equity stake in the investment in return for giving up land; equity shares would be acquired by government institutions, while others would be available to domestic investors, and villages would be compensated according to existing regulations. More recent pronouncements suggest that Land for Equity arrangements would include an equity share for communities. In such a scenario, it will still require consideration whether villages would be giving up other opportunities for more immediate returns from land (as might transpire, for example, in a leasehold or revenue sharing arrangement) in exchange for more speculative and uncertain future returns. The Government, with donor support, has engaged international experts to help further study the options related to Land for Equity before finalizing any policy on the subject.

h. ***Benefit arrangements may be vaguely defined and constrained by weak village capacity to negotiate.*** There is no explicit requirement that investors provide or share benefits with local communities in exchange for land being made available, beyond the compensation required by law as described below. The Village Land Act does provide villages some important leverage in this regard, as village assemblies are empowered to approve or disapprove the allocation of land to different uses. Nevertheless, evidence suggests that village institutions often lack the capacity to make informed decisions – and to negotiate on the basis of those decisions – about the value of the rights they are ceding, the potential impacts of specific investments and how to define what benefits they should legitimately expect to receive. Limited experience in Tanzania – as well as more extensive experience elsewhere – suggests that benefit agreements between local communities and investors are often vaguely defined and have weak legal status, leaving communities with limited recourse if and when investors fail to provide promised benefits (which, as noted above, some villages have alleged has happened in a number of instances).

i. ***Weaknesses in the compensation framework.*** The emphasis on land conversion as the preferred model in making Village Land available to large investors also highlights insufficiencies in current laws and practice when it comes to compensating the types of losses villagers may incur. The law is clear that villagers must be fully compensated for any used lands and land improvements, including crops. If a farmer has to be resettled, she must be given a similar sized plot, and the funding for dwellings of equal or higher value. What is less clear is whether there is any obligation to compensate in the event that the Village Land in question is not actively farmed or resided upon. It appears, for example, that conversion of village common land or pasture land to General Land may not require provision of compensation to villages, whether in-kind or monetary, despite the fact that such resources may have considerable livelihood importance, as noted above.

j. ***Uncertainties about the availability of General Land.*** Given the sensitivity of reallocating Village Land to General Land, some authorities argue that there are substantial amounts of General Land already available for agribusiness investment. There are uncertainties, however, about both the extent of such holdings and their legal status. There appears to be even less certainty about the extent of privately owned farmland in the country.

   While transactions involving existing government land have the potential to be more efficient and less socially contentious than transfers of Village Land, there are also in many instances complicating factors that will need to be addressed before packaging such land for investment. Disused or underused government farms, for example, are frequently subject to long-term informal settlement, as well as lingering uncertainty related to how the land was acquired by government in the first place.

Government Response

22. The Government of Tanzania is aware of the above risks and has indicated in various ways its commitment to address them, in parallel with its continued efforts to promote inclusive commercial investment in agriculture. Of most specific relevance to the Bank-supported Project, project agreements make it clear (as noted above and in Section A of the Main Text) that only investments on uncontested land will be eligible for Matching Grants, and Matching Grants will not be used for the acquisition of land.

23. In addition, the Government has provided to the Bank a Letter of Sector Policy on Land in which it confirms and elaborates its position on key issues related to land governance in the SAGCOT area generally. The Letter of Sector Policy – which is attached in its entirety below – confirms *inter alia* that:

- Land selection for investment in the SAGCOT Program will be guided by the principle that it should reflect genuine and informed choices by involved communities;
- The utilization of General Land will be given priority to meet investor demand, to help reduce pressures to convert Village Land for investment purposes;
- Where Village Land is utilized, emphasis will be given to investment modalities that limit the need to convert that land to General Land (such as joint ventures).
- Village consent is required for allocation of land within village boundaries even when such land appears to be "unused", thus addressing perceived ambiguities in the Land Act
- Investment agreements will be promoted that ensure affected communities are involved in selecting specific investments, fairly compensated, receive sustained and well-defined benefits and have the legal ability to hold investors accountable to their commitments.
- The Government is committed to ensuring that the process is transparent throughout, including making available the terms and conditions of investment agreements.
- Government does not intend to exercise its powers of compulsory acquisition (eminent domain) for purposes of assembling land for commercial agriculture investments in the SAGCOT Program.
- While displacement is expected to be minimal, where it occurs, compensation will be provided in accordance with international best practice.
- Investment decisions in the SAGCOT Program will be accompanied by appropriate environmental and social assessments, and agricultural investment will not take place in protected areas.

24. It must be acknowledged that there are capacity constraints within the Ministry of Lands, District and Village Governments, and other relevant parts of government concerned with land administration in Tanzania. These will pose challenges to the proper application of the generally favorable policies and laws guiding land governance within the SAGCOT Program. Various efforts are underway to address the constraints. Under the Bank-financed Project, for example, capacity-strengthening is being supported for TIC and SAGCOT Centre. The Ministry of Lands is supporting the establishment of District Land Tribunals to improve the process of dispute resolution, and hopes to undertake collateral efforts to better educate rural communities about their land rights and land rights. The Ministry is also pursuing, with donor support, a variety of analytical exercises to help better define appropriate models for agribusiness partnership,

including the proposed land-for-equity approach. Critical issues being examined include several which are relevant to implementation of the principles in the Letter of Sector Policy: (a) how will rural communities giving up land be involved in the selection of agribusinesses with whom they partner; (b) how will these communities ultimately be compensated for land given for agribusiness development; and (c) how will these communities craft partnerships with these agribusinesses that offer income and food security gains.

Attachment to Annex 8: Letter of Sector Policy on Land

(November, 2013)

INTRODUCTION

1. The Government of Tanzania has drafted this Letter of Sector Policy in connection with the proposed World Bank-financed Southern Agricultural Growth Corridor (SAGCOT) Investment Project (the "Project"). The purpose of this Letter is to confirm and elaborate the Government's position on key issues related to land governance in the SAGCOT Program area generally. It addresses issues and questions arising from the complex and sensitive nature of land issues related to expanded levels of commercial agribusiness investment sought under the Government's wider SAGCOT Program (the "Program").

2. This Letter has been prepared in the context of Tanzania's overall commitment to establishing a more transparent, efficient and better resourced land sector to ensure that current and future demand for land leads to beneficial and equitable outcomes for rural populations, and continues to attract and support high quality investment. This Letter reflects and is consistent with the Government's commitment under a number of key inter-related initiatives and instruments, including:

   - The Land Transparency Partnership, which brings together the Government of Tanzania, the G8 and other Development Partners, farmers, private sector and civil society to work together to create greater transparency in all aspects of land administration and management;
   - Implementation of the Voluntary Guidelines for Responsible Governance of Land Tenure (VGGTs) agreed by the Committee on World Food Security (CFS) in 2012 and the African Union's Framework and Guidelines on Land Policy, adopted in 2009.
   - Respecting the spirit of the Open Government Partnership to which the government of Tanzania signed up in September 2011.
   - The principles of the SAGCOT Partnership.
   - Tanzania's National Land Policy.
   - The existing national legal framework, including the Land Act, 1999, the Village Land Act, 1999, the Courts (Land Disputes Settlements) Act, 2002 (Act No. 2), and the Land Use Planning Act No 6 of 2007.

1. Selecting land for agribusiness Investment in the SAGCOT Program area

3. ***Prioritizing the use of General Land.*** There are significant sections of unutilized or under-utilized land in SAGCOT Program area that are already classified as General Land, and that are currently under the control of various public institutions. It is the Government's intention to give first priority to the use of this land to meet investor demand, in order to help reduce pressures to convert Village Land for investment purposes. In order to facilitate this approach, the Government intends to undertake systematic inventories of

General Land on a district-by-district basis, and to identify land that may be most suitable for different types of investments.

4. ***Conversion of Village Land and securing village level consent.*** Despite the priority that will be given to locating investment on General Land, a large percentage of the potentially arable land in the SAGCOT Program area is currently classified as Village Land. In the Government's view there are considerable opportunities for investment on such land that benefits both local communities and the country as a whole. However, it is also recognized that allocation of Village Land to outside investors is a sensitive issue that could give rise to controversy if not handled in a transparent manner that reflects the interests of local communities and respects the rights of current land users.

5. The Government is committed to the overarching principle that land selection for investment should reflect genuine choices made by involved communities. Consistent with this principle, Village Land Act No 5 provides that Village Land cannot be reclassified as General Land or otherwise made available to investors without the full, informed consent of the Village Assembly. This includes completion of a land use plan that identifies land that villagers themselves wish to make available.

6. The Government is committed to ensuring that Village Land use plans are completed in accordance with relevant law and procedures in all SAGCOT Program area villages in a manner that is transparent, informed and free of undue influence. This will require scrupulous use of tools such as the Participatory Land Use Planning and Management Guidelines and capacity building for participating communities to enable them to understand their rights, to participate meaningfully and to take into account the concerns of vulnerable or marginalized land users, including pastoralists. Planning will entail, among other things, the identification and legal recognition (per the Village Land Act) of land used in common by villagers, as well as land projected to be needed for village use over the next fifty years.

7. Clarification ***of interpretation of Land Act provisions concerning unused land.*** The Government confirms that Section 2 of the Land Act No. 4 does not negate the requirement under the Village Land Act No. 5 to secure village consent before the classification of land within Village boundaries as General Land, even where such land may appear to be "unused."

2. Mechanisms for land allocation to agribusiness

8. ***Overarching principles governing land allocation.*** The Government's approach to encouraging investment in the SAGCOT Program area will be to promote investment agreements that ensure that local communities have the opportunity and responsibility:

    - To decide whether or not to make land available for investments, based on informed choices,
    - To secure sustained and well-defined benefits,

- To receive fair compensation for the land (including common areas) and natural resources that they make available to investment,
- To engage in ongoing partnerships with investors and Government,
- To be able to hold investors accountable to their commitments, and
- To respect and abide by their own commitments.

9. ***Alternative investment models.*** The Government is considering a variety of investment models that are consistent with these overarching principles. Where possible, the Government will promote mechanisms that already exist under law whereby villagers can in some circumstances enter into joint ventures directly with investors, without the need to convert the land from Village Land to General Land. In the case of national investors of a certain maximum size, village councils are empowered to issue CCRO's, again without land reclassification.

10. In cases where conversion of Village Land to General Land is pursued, the process of land allocation will also observe the above principles. In this respect, the Government notes that various options for creation of a "land bank" are being considered, whereby General Land already under the control of the Government along with converted Village Land may be retained by the Government for onward allocation to investors at an appropriate time. Even in such cases, where land conversion precedes the identification and negotiation of specific investments, the Government is committed to ensuring that the eventual allocation of the land in question will remain consistent with the above principles, including, inter alia, that affected villages will be fully engaged in the identification and negotiation of specific investments.

11. The Government is currently considering the appropriate design of a Land-for-Equity approach. While there are a variety of options for designing this model, an underlying objective is to ensure that communities making land available for investment will receive a stake in the enterprise in exchange, and will remain active partners and beneficiaries of the investment going forward.

12. Government ***guidance and oversight.*** The Government notes that government has an essential oversight role in this process. There have been instances where villages have lost large tracts of land through dubious deals or through uninformed decisions. Consultation with district authorities and the Commissioner of Lands, as currently required, will continue to be important to guard against such outcomes

13. The Government does not intend to exercise its powers of compulsory acquisition for purposes of assembling land for commercial farms in the SAGCOT Program area. Where investments do not go forward or fail and as a result the allocated land is unused, the Government will seek to facilitate the return of the converted land to affected villages, or seek to agree the village, in line with the above principles, on the identification and selection of alternative investments.

3. Avoiding displacement and Compensation

14. Displacement of villagers and other stakeholders due to agricultural investment in the SAGCOT Program area is expected to be minimal, given the Government's commitment to an approach that builds upon participatory land use planning, democratic decision making by village institutions, and other features of the process set forth in current law. Nevertheless, the potential for displacement exists, particularly where rights to land are informal or poorly defined, as is apparently the case on some General Land which is under occupation by long-term informal settlers, or where village institutions seek to make land available that is used by vulnerable or marginalized segments of the population or by pastoralists.

15. The Government is committed in the SAGCOT Program to avoiding displacement to as great an extent possible, using the tools and principles described in 1. Where physical or economic displacement is unavoidable, fair and prompt alternative land and compensation will be provided to those affected in accordance with international best practice to ensure that their livelihoods are at a minimum restored and that lost assets can be replaced.

16. In this connection, the Government recognizes that in some instances, General Land under the control of state institutions may be occupied or used in part by individual households or communities either with explicit permission of the relevant agency or informally, some of whom have been long-term settlers while others have arrived more recently. Where investment requires the displacement of such people, either by requiring their resettlement elsewhere or by restricting their use of the land in questions, such displacement will be handled in accordance with the principles spelled out above.

4. Transparency and Monitoring

17. The Government recognizes that transparent provision of key information about investments is essential to informed decision-making by communities and relevant government institutions. Transparency is valuable as well as for responsible investors who benefit from improved relations with other stakeholders. The need for transparency continues as the investment itself is implemented and the enterprise undertakes operation, and is key to ensuring that investor performance and compliance with obligations is monitored and that all parties to an agreement are held accountable.

18. The Government is committed to pursuing transparency in the SAGCOT Program in line with the Tanzania G-8 Partnership Initiative, by publishing data on allocated land. It is the Government's intention to ensure that information about land holdings and the terms of land allocations to investors in the SAGCOT Program is publically available. The ongoing development of the Integrated Land Management Information System (ILMIS) is intended to support this objective.

19. The Government is likewise committed to ensuring that the SAGCOT Program includes an effective mechanism for monitoring investments within the corridor. In support of this undertaking, TIC will monitor the performance of investors and their compliance with the

terms and conditions of their investment agreements. The Ministry of Lands, Housing and Human Settlements will monitor compliance and adherence to the Land Acts and Regulations.

5. Social and Environmental Impacts

20. The Government recognizes that a clear understanding of the cumulative environmental and social impacts of increased commercial agriculture in the SAGCOT Program are , as well as improved linkages between local-level planning and higher level strategic planning, are essential in helping inform better village-level choices and in shaping the Government's investment promotion activities in the SAGCOT Program.

21. The Government has accordingly undertaken a Strategic Regional Environmental and Social Assessment (SRESA) aimed at improving the investment decisions of all different stakeholders by identifying environmental and social issues (both opportunities and constraints). Building upon information and insights provided by the SRESA, all investment decisions in the SAGCOT Program will be accompanied by appropriate environmental and social impact assessments, with necessary mitigation measures identified and implemented.

22. In this respect, the Government is specifically committed to ensuring the prevention of incompatible uses, including agriculture-related investments, within existing or officially proposed protected areas.

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TANZANIA
SOUTHERN AGRICULTURAL GROWTH CORRIDOR OF TANZANIA INVESTMENT PROJECT (SAGCOT)

PROJECT PROVINCES AND DISTRICTS

CITIES AND TOWNS

PROVINCE CAPITALS

NATIONAL CAPITAL

RIVERS

MAIN ROADS

RAILROADS

PROVINCE BOUNDARIES

INTERNATIONAL BOUNDARIES

GSDPM
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