PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA646

Project Name	Southern Agricultural Growth Corridor of Tanzania Investment Project (P125728)
Region	AFRICA
Country	Tanzania
Sector(s)	Agricultural extension and research (75%), General agriculture, fishing and forestry sector (25%)
Theme(s)	Rural markets (30%), Rural services and infrastructure (20%), Micro, Small and Medium Enterprise support (50%)
Lending Instrument	Investment Project Financing
Project ID	P125728
Borrower(s)	Ministry of Finance & Planning
Implementing Agency	Office of the Prime Minister
Environmental Category	A-Full Assessment
Date PID Prepared/Updated	19-Jan-2016
Date PID Approved/Disclosed	20-Jan-2016
Estimated Date of Appraisal Completion	22-Jan-2016
Estimated Date of Board Approval	03-Mar-2016
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Tanzania has been experiencing high rates of economic growth. 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 2011. 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.

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, communication, 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.
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.
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.

Sectoral and institutional Context

Tanzania has witnessed an expansion in agribusiness investment with supply chain links with smallholder farming. A growing number of these agribusinesses are pursuing contract or out-grower farming with smallholders. These include investments in out-grower sugar, tobacco cotton, sorghum, barley, cocoa, dairy and horticultural crops. Agribusinesses are experimenting with alternative strategies for strengthening this co-investment.

The Government of Tanzania (GoT) recognizes that the private sector is a critical partner in delivering development benefits. Particularly when it is linked to smallholder production potential, it can provide an important engine of agricultural growth. In 2001, the government adopted a new Agricultural Sector Development Strategy (ASDS) targeting achievement of a green revolution in agriculture. To better implement this strategy, the government then prepared the Agricultural Sector Development Program (ASDP), highlighting the need for stronger public-private partnership to promote the commercialization of smallholder production. This commitment was reinforced in 2009 with the signing of the Kilimo Kwanza (Agriculture First) resolution calling for greater investment in agriculture, and inclusive commercialization.

The Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Program was developed by the GoT to operationalize the Kilimo Kwanza. The SAGCOT Program, as articulated in its core document, the Investment Blueprint, highlights commitment to a strategy of joint public-private investment targeting the development of agribusiness value chains across the country's southern corridor. In aggregate, the Blueprint proposes that a public investment of USD1.3bn can leverage an additional USD2.1bn in private investment in order to bring 350,000ha of agricultural land into commercial production over the next twenty years. Tens of thousands of smallholders are expected to become successful commercial farmers, more than two million people are to be lifted out of poverty and food security will improve. The primary emphasis of the SAGCOT Program is to expand partnerships between agribusinesses and smallholder farmers in building larger and more competitive value chains. Agribusiness investors are sought who are willing to work collaboratively with smallholder communities to raise productivity and incomes. Early successes have been highlighted for sugar and rice, where out-growers have achieved higher levels of productivity and income compared with smallholders in neighboring regions. Similar examples are cited for tea and horticultural crop farmers.

II. Proposed Development Objectives

To support the adoption of new technologies and improved market access by small-holder farmers through expanding and creating partnerships between small-holder farmers and agribusinesses in the Southern Corridor of Tanzania.

III. Project Description

Component Name

Strengthening of SAGCOT Support Institutions (total USD14.33 million, IDA USD5.95 million)

Comments (optional)

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
(ii) Tanzania Investment Centre (Government institution)

Component Name

Strengthening Smallholder Business Linkages (total USD85.76 million, IDA USD55.65 million)

Comments (optional)

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 and employment. This component will comprise two sub-components:

(i) Fund Management
(ii) Matching Grants

Component Name

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Project Management and Monitoring and Evaluation (total USD8.41 million of which USD3.80 million were provided by two Project Preparation Advances, IDA USD8.41 million)

Comments (optional)

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.

IV. Financing *(in USD Million)*

Total Project Cost:	75.00	Total Bank Financing:	70.00
Financing Gap:	0.00		
For Loans/Credits/Others			**Amount**
BORROWER/RECIPIENT			5.00
International Development Association (IDA)			70.00
Total			75.00

V. Implementation

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.

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. All participating institutions will prepare annual work plans and budgets to be submitted to the PCU for approval by the PSC.

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.

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) has been 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.

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.

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.

The grant application process under the Matching Grant Fund (MGF) 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, 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 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 may be allocated to the agribusiness investor, smallholders or some combination thereof, as requested in the application, and set out in the grant agreement.

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VI. Safeguard Policies (including public consultation)

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

Comments (optional)

VII. Contact point

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