

Document: EB 2010/101/R.24/Rev.1  
Agenda: 14(b)(ii)  
Date: 15 December 2010  
Distribution: Public  
Original: English

**E**



Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed loan to the United Republic of Tanzania for the**

### **Marketing Infrastructure, Value Addition and Rural Finance Support Programme**

#### **Note to Executive Board representatives**

##### Focal points:

##### Technical questions:

**Samuel Eremie**  
Country Programme Manager  
Tel.: +39 339 749 6204  
e-mail: [s.eremie@ifad.org](mailto:s.eremie@ifad.org)

**Mwatima Juma**  
Country Programme Officer  
Tel.: +255 754 536 630  
e-mail: [m.juma@ifad.org](mailto:m.juma@ifad.org)

##### Dispatch of documentation:

**Liam F. Chicca**  
Governing Bodies Officer  
Tel.: +39 06 5459 2462  
e-mail: [l.chicca@ifad.org](mailto:l.chicca@ifad.org)

Executive Board — 101<sup>st</sup> Session  
Rome, 14-16 December 2010

---

**For: Approval**

## Contents

<b>Abbreviations and acronyms</b>	<b>i</b>
<b>Map of the programme area</b>	<b>ii</b>
<b>Financing summary</b>	<b>iii</b>
<b>Recommendation for approval</b>	<b>1</b>
<b>I. The programme</b>	<b>1</b>
A. Main development opportunity addressed by the programme	1
B. Proposed financing	1
C. Target group and participation	2
D. Development objectives	3
E. Harmonization and alignment	3
F. Components and expenditure categories	4
G. Management, implementation responsibilities and partnerships	4
H. Benefits and economic and financial justification	4
I. Knowledge management, innovation and scaling up	5
J. Main risks	5
K. Sustainability	5
<b>II. Legal instruments and authority</b>	<b>6</b>
<b>III. Recommendation</b>	<b>6</b>
<b>Annex</b>	
Negotiated financing agreement	7
<b>Appendices</b>	
I. Key reference documents	
II. Logical framework	

## Abbreviations and acronyms

AfDB	African Development Bank
AGRA	Alliance for a Green Revolution in Africa
AMSDP	Agricultural Marketing Systems Development Programme
ASDP	Agricultural Sector Development Programme
RFSP	Rural Financial Services Programme

## Map of the programme area

### The United Republic of Tanzania

Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF).



12-1-2010



IFAD Map compiled by IFAD

The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

## United Republic of Tanzania

### Marketing Infrastructure, Value Addition and Rural Finance Support Programme

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	United Republic of Tanzania
<b>Executing agency:</b>	Prime Minister's Office
<b>Total programme cost:</b>	US\$169.46 million
<b>Amount of IFAD loan:</b>	SDR 59.4 million (equivalent to approximately US\$90.59 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Cofinanciers:</b>	African Development Bank (AfDB) Alliance for a Green Revolution in Africa (AGRA) Other potential cofinanciers
<b>Amount of cofinancing:</b>	AfDB: US\$62.92 million AGRA: US\$6.92 million Other potential cofinanciers: US\$2 million
<b>Terms of cofinancing:</b>	Parallel financing, focused on identified components
<b>Contribution of borrower:</b>	US\$3.75 million
<b>Contribution of beneficiaries:</b>	US\$0.18 million (excluding cash contribution to enterprise activities) Districts US\$3.10 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD, AfDB and AGRA

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed financing to the United Republic of Tanzania for the Marketing Infrastructure, Value Addition and Rural Finance Support Programme, as contained in paragraph 37.

## **Proposed loan to the United Republic of Tanzania for the Marketing Infrastructure, Value Addition and Rural Finance Support Programme**

### **I. The programme**

#### **A. Main development opportunity addressed by the programme**

1. Although agriculture is recognized in the United Republic of Tanzania as a significant driver for growth, its potential is yet to be exploited sufficiently to bring about a significant reduction in poverty, primarily because smallholder producers have limited access to financial services, markets and opportunities for value addition. IFAD supported the implementation of two pilot projects to address rural finance and marketing issues – the Rural Financial Services Programme (RFSP) and the Agricultural Marketing Systems Development Programme (AMSDP). The proposed programme will scale up some of the successful activities implemented under the RFSP and the AMSDP nationwide, based on the interim evaluation by IFAD and the request submitted by the borrower to IFAD and the African Development Bank (AfDB). It will thus further support improved access to financial services and markets, and will also promote private-sector development.

#### **B. Proposed financing**

##### **Terms and conditions**

2. It is proposed that IFAD provide a loan to the United Republic of Tanzania in the amount of SDR 59.4 million (equivalent to approximately US\$90.59 million), on highly concessional terms, to help finance the Marketing Infrastructure, Value Addition and Rural Finance Support Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum. The borrower has requested that reasonable costs of taxes and duties (estimated at US\$3.7 million) be included in expenditures financed by IFAD. This will promote economy and efficiency for fiduciary and operational purposes, including, but not limited to, matters of the flow of funds and reporting. Experience with IFAD-funded programmes and projects in the country has proved that the borrower lacks the capacity to provide timely, adequate funding to cover taxes and duties, as well as to refund them promptly in the case that the programme/project pays them in advance from the IFAD loan. This is seriously affecting implementation of programmes and projects and posing fiduciary issues for the borrower. The borrower also declares that it is not legally able to exempt the programme from all taxes. IFAD is hereby following the World Bank approach to the financing of taxes. Management has ascertained that World Bank country financing parameters for the United Republic of Tanzania permit the financing of taxes and duties, and in practice these parameters are implemented by the Bank.

##### **Relationship to the IFAD performance-based allocation system (PBAS)**

3. The allocation defined for the United Republic of Tanzania under the PBAS is US\$91.0 million over the 2010-2012 allocation cycle, of which no amount has been

committed. With the approval of this loan, the PBAS allocation for the country will be almost fully used.

#### **Relationship to national medium-term expenditure framework criteria**

4. The medium-term expenditure allocation for the next five years is projected at US\$388,047,301 for the Agricultural Sector Development Programme (ASDP). The 2009/10 allocations are: (i) ASDP, US\$112,171,795; (ii) RFSP, US\$2,816,799; and (iii) AMSDP, US\$3,425,000.

#### **Relationship to national sector-wide approaches or other joint funding instruments**

5. Given its focus on activities that are implemented by the Prime Minister's Office to scale up the rural finance and marketing components of the RFSP and the AMSDP, and to build private-sector capacity, the programme is financed jointly with AfDB and the Alliance for a Green Revolution in Africa (AGRA), outside the ASDP basket fund but within the ASDP framework.

#### **Country debt burden and absorptive capacity of the State**

6. The United Republic of Tanzania's external debt level is modest. As at the end of December 2009, the national debt stock was US\$9.7 billion, with external debt amounting to US\$7.8 billion (80 per cent). The country's external debt to GDP ratio is about 25 per cent and external debt service was one per cent of exports of goods and services during the last quarter of 2009. These figures are significantly below the indicative debt burden thresholds for the United Republic of Tanzania.

#### **Flow of funds**

7. Funds from IFAD, AfDB and AGRA will be deposited into three separate designated accounts at the Bank of Tanzania. From the designated accounts, IFAD funds will flow into the treasury account and then to programme accounts at the national and local levels. IFAD's contribution to the risk-sharing facility will be disbursed as an advance to the facility following an agreement between the Government and AGRA.

#### **Supervision arrangements**

8. IFAD, AfDB and AGRA will directly supervise the programme. The supervision framework will be discussed during the upcoming loan negotiations.

#### **Exceptions to IFAD General Conditions for Agricultural Development Financing and operational policies**

9. No exceptions are foreseen.

#### **Governance**

10. The reduction in the score for the United Republic of Tanzania on the transparency international corruption perceptions index from 3.0 in 2008 to 2.6 in 2009 triggers the need for mitigation measures to be formulated at the programme design stage. The governance framework to be agreed with the borrower during negotiations is expected to contain the following measures: (i) intensive efforts to develop awareness among stakeholders at the start of the programme; (ii) complaint mechanisms; (iii) strong local stakeholders' participation in programme planning and beneficiary selection committees, awarding of contracts, monitoring and evaluation, thereby stimulating demand for accountability; and (iv) where necessary, forensic and technical audits to minimize potential for corruption. The measures will be closely monitored during supervision missions and the mid-term reviews.

### **C. Target group and participation**

#### **Target group**

11. Targeting under the programme is in accordance with IFAD Policy on Targeting and is designed to reach: smallholder farmers, herders and fishers; small-scale rural entrepreneurs, traders and artisans; grass-roots microfinance institutions;

processing and marketing groups; women. The programme is expected to benefit directly close to 500,000 rural households in the above categories.

### **Targeting approach**

12. Self-targeting strategies will be combined with transparent eligibility criteria for beneficiaries to ensure that the programme benefits the rural productive poor. Eligibility criteria have been developed for the selection of regions and districts, with level of poverty being one of the factors taken into account, and rural economic interest groups, with an emphasis being placed on ownership and contribution to the cost of programme activities.

### **Participation**

13. The focus will remain on empowering producer groups and microfinance institutions to enhance the access of farmers to financial services and markets.

## **D. Development objectives**

### **Key programme objectives**

14. The development objective is to enhance the incomes and food security of the target group on a sustainable basis through increased access to financial services and markets.

### **Policy and institutional objectives**

15. The programme will support the implementation of the Agricultural Sector Development Strategy, which envisaged an agricultural sector that, by 2025, is “modernized, commercial, highly productive and profitable.” The institutional outcomes expected from the programme include: systemic changes in participating commercial banks with enhanced capacity for sustained lending to agriculture; strengthened rural microfinance institutions with improved governance and management systems; effective producer and marketing groups obtaining higher revenues from improved access to markets; and increased synergies in agricultural marketing and rural finance activities financed by different partners.

### **IFAD policy and strategy alignment**

16. The programme supports three of the strategic objectives set out in the IFAD Strategic Framework 2007–2010, namely increasing the access of poor rural men and women to: (i) financial services, (ii) agricultural markets, and (iii) opportunities for off-farm employment and enterprise development. It is also aligned with the principle underlying the strategic objectives of pursuing innovation, learning and scaling up, alongside effective partnerships for rural poverty reduction. The programme is a natural follow-up to the US\$92 million IFAD has invested in the ASDP basket fund for improved agricultural technologies and services. It will also implement the remaining two objectives of the 2007-2013 country strategic opportunities programme for the United Republic of Tanzania: increased access to (i) a wider range of sustainable financial services, and (ii) agricultural input and output markets and opportunities for rural enterprises.

## **E. Harmonization and alignment**

### **Alignment with national priorities**

17. *Kilimo Kwanza* (Agriculture First) is the Government’s multi-sectoral framework for an agricultural revolution in the United Republic of Tanzania. The proposed programme is aligned with the four pillars of *Kilimo Kwanza* – financing, incentives for private-sector investment, industrialization, and infrastructure development – which cannot be fully implemented within the framework of the ASDP basket fund.

### **Harmonization with development partners**

18. The programme will strengthen IFAD’s partnership with AfDB and AGRA based on the memorandums of understanding between the agencies. IFAD Senior Management has agreed that, in line with the Government’s preference, the loan

will support *Kilimo Kwanza*, and complement the substantial contribution IFAD has already made to the ASDP basket fund.

## **F. Components and expenditure categories**

### **Main components**

19. The programme has three components: (i) marketing infrastructure and systems; (ii) rural finance; and (iii) programme coordination.

### **Expenditure categories**

20. Programme design reports will be updated to reflect the associated changes in terms of programme financing and cost categories. The taxes and duties to be incorporated within the IFAD financing amount to US\$3.7 million, or 4 per cent of the loan. There are five expenditure categories for IFAD: (i) vehicles and equipment, US\$3.55 million; (ii) rural finance funds, US\$25.66 million; (iii) service provision, training and capacity-building, US\$26.22 million; (iv) technical assistance and studies, US\$24.44 million; and (v) recurrent costs, US\$10.72 million.

## **G. Management, implementation responsibilities and partnerships**

### **Key implementing partners**

21. The key implementing partner will be: the Prime Minister's Office as the lead agency. The following designated as additional programme parties/implementing partners include, but are not limited to: regional and district level coordinators, the Bank of Tanzania (BoT), the Financial Sector Deepening Trust (FSDT) and AGRA.

### **Implementation responsibilities**

22. The programme coordination team in the Prime Minister's Office is responsible for overall programme coordination, while the regional and district administrations coordinate and monitor activities at their respective levels. The Fund Manager manages the risk-sharing facility, while the FSDT implements the innovation fund.

### **Role of technical assistance**

23. AGRA will provide technical backstopping for the risk-sharing facility. Considerable local technical assistance will be recruited using national procedures.

### **Status of key implementation agreements**

24. The programme implementation manual will guide key aspects of implementation. The programme steering committee will provide policy guidance, while the programme coordination team will finalize agreements with the implementation partners and coordinate implementation.

### **Key financing partners and amounts committed**

25. The total programme cost is US\$169.46 million over seven years. The sources of financing are IFAD (53.5 per cent), AfDB (37.1 per cent), AGRA (4.1 per cent), Government, districts and beneficiaries (4.1 per cent), and other potential cofinanciers (1.2 per cent).

## **H. Benefits and economic and financial justification**

### **Main categories of benefits generated**

26. The programme will improve the outputs and incomes of farmers through better market prices, storage facilities and value addition for their commodities. The capacity-building activities and improved access to financial services will lead to better management of household and microenterprise finances by farmers, and increased investments in productive activities. Institutional benefits will include functioning farmer groups and greater capacity of private-sector actors to manage the warehouse receipt system for the benefit of farmers.



### **Economic and financial viability**

27. The programme is justified on economic grounds with an estimated economic internal rate of return of 20 per cent and a net present value of US\$103.5 million. The sensitivity analysis indicates a robust economic viability for the programme. The programme will still remain viable with an increase in costs of up to 81 per cent and a decrease in incremental benefits of up to 45 per cent. A two-year delay will lower the economic rate of return to 17 per cent.

## **I. Knowledge management, innovation and scaling up**

### **Knowledge management arrangements**

28. A knowledge management and communication subcomponent fully linked with the planning, monitoring and evaluation system has been built into the design of the programme, informed by an assessment of the performance of the United Republic of Tanzania country programme team in knowledge management. The knowledge management subcomponent aims at systematic generation, analysis, documentation, use and sharing of knowledge to improve programme performance. The knowledge management system will be developed in consultation with the ASDP thematic working group on communication to ensure complementarity with the ASDP and facilitate the scaling up of lessons in the context of the ASDP.

### **Development innovations that the programme will promote**

29. The programme will promote beneficiary ownership of and contribution to programme activity costs, and the use of transparent eligibility criteria for selecting beneficiaries. It will also promote the use of district-based graduates as service providers to their communities to reduce the cost of service delivery by service providers located in the major cities of the United Republic of Tanzania and far away from the target beneficiaries.

### **Scaling-up approach**

30. The programme will scale up the successful results of the RFSP and the AMSDP beyond the eight regions covered by each of the programmes, but participation of additional districts will be based on compliance with the eligibility criteria.

## **J. Main risks**

### **Main risks and mitigation measures**

31. The programme faces three main risks: (i) poor governance and corruption; (ii) limited markets; and (iii) weak response of commercial banks to the risk-sharing facility. The planned mitigation measures include: (i) development of a governance framework as described in paragraph 10 above; (ii) capacity-building for farmers to bring production more into line with market demand and dialogue with the Government regarding trade restrictions, especially in view of the effectiveness of the East African Common Market; and (iii) capacity-building and other incentive mechanisms for participating commercial banks.

### **Environmental classification**

32. Pursuant to IFAD's environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant negative environmental impact.

## **K. Sustainability**

33. Commercial viability is a key selection criterion for subprojects to be financed through the risk-sharing facility. The linking of the agroprocessing and marketing activities to improved access to financial services is also intended to strengthen commercial sustainability. To ensure organizational sustainability, producer groups will be reinforced so that they can continue with their production and collective marketing roles and take on new market opportunities when these arise. Proven exit strategies, profitability, impact and sustainability constitute selection criteria for financial institutions that are to be supported. The robust estimated economic rates

of return also make the sustainability of programme activities a reasonable assumption.

## **II. Legal instruments and authority**

34. A programme financing agreement between the United Republic of Tanzania and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
35. The United Republic of Tanzania is empowered under its laws to receive financing from IFAD.
36. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.

## **III. Recommendation**

37. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall make a loan on highly concessional terms to the United Republic of Tanzania in an amount equivalent to fifty-nine million four hundred thousand special drawing rights (SDR 59,400,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein. The Fund shall not require the United Republic of Tanzania to make counterpart funds available for financing the reasonable costs of taxes and duties that the programme may incur.

Kanayo F. Nwanze  
President

## **Negotiated financing agreement: "Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF)"**

(Negotiations concluded on 7 December 2010)

Loan Number: \_\_\_\_\_

Programme Title: Marketing Infrastructure, Value Addition and Rural Finance Support Programme

(the "Programme")

The International Fund for Agricultural Development (the "Fund")

and

The United Republic of Tanzania (the "Borrower")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

WHEREAS, the Borrower and the African Development Bank ("AfDB") shall enter into a Financing Agreement (the "AfDB Financing Agreement") to provide financing for the Programme;

WHEREAS, the Borrower and the Alliance for a Green Revolution in Africa ("AGRA") shall enter into a Financing Agreement (the "AGRA Financing Agreement") to provide financing for the Programme; and

WHEREAS, the Borrower has requested the Fund to provide financing for the Programme.

### **Section A**

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

### **Section B**

1. The amount of the Loan is fifty-nine million, four hundred thousand Special Drawing Rights (SDR 59 400 000).

2. The Loan is granted on highly concessional terms.
3. The Loan Service Payment Currency shall be the United States Dollar.
4. The first day of the applicable Fiscal Year shall be 1 July.
5. Payments of principal and service charge shall be payable on each 15 February and 15 August.
6. One designated account shall be opened in the Bank of Tanzania by the Borrower for the purpose of receiving the Financing.
7. There shall be a Programme Account (the "TIRSAL Programme Account") managed by AGRA in a reputable commercial bank in Tanzania for the implementation of the Tanzanian Incentive-Based Risk Sharing System for Agricultural Lending (TIRSAL).

### **Section C**

1. The Lead Programme Agency shall be the Prime Minister's Office ("PMO").
2. The following designated as additional Programme Parties/Implementing Partners, include but are not limited to, Regional and district level coordinators, Bank of Tanzania (BoT), Financial Sector Deepening Trust (FSDT), and AGRA.
3. The Programme Completion Date shall be the seventh anniversary of the date of entry into force of this Agreement.

### **Section D**

The Loan shall be administered by the Fund and the Programme shall be supervised jointly by the Fund, AfDB and AGRA.

### **Section E**

1. The following are designated as additional conditions precedent to withdrawal:
  - (a) Recruitment of key staff for the Programme Coordinating Team (PCT);
  - (b) With respect to TIRSAL, a signed copy of the memorandum of understanding between the Borrower and AGRA shall have been provided to the Fund for the purposes of withdrawals in respect of related eligible expenditures against Categories II and IV of the allocation table in Schedule 2.
2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Fund:

The President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Recipient:

The Minister of Finance  
Madaraka Avenue  
P.O. Box 9111  
Dar es Salaam, Tanzania

This agreement, dated \_\_\_\_\_, has been prepared in the (English) language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

\_\_\_\_\_  
For the Fund

\_\_\_\_\_  
For the Borrower

## **Schedule 1**

### *Programme Description and Implementation Arrangements*

#### **I. Programme Description**

1. Target Population. The Programme shall benefit about 500 000 households of smallholder farmers, livestock farmers and fishers, small rural entrepreneurs, traders and artisans, processing and marketing groups, grassroots microfinance institutions, with a special focus on women in the rural areas of mainland Tanzania and Zanzibar.

2. Goal. The goal of the Programme is to contribute to the reduction of poverty in the rural areas of Tanzania.

3. Objectives. The objective of the Programme is to enhance the incomes and food security of the target group on a sustainable basis through increased access to financial services and markets.

4. Components. The Programme shall consist of the following three Components and their associated subcomponents:

##### 4.1 Marketing Infrastructure and Systems Component

(a) Marketing infrastructure subcomponent (financed by AfDB) aims at providing improved marketing infrastructure and building the capacity of government staff and community infrastructure committees for sustainable management of the facilities.

(b) Value addition subcomponent (financed by AfDB) is designed to demonstrate and disseminate post-harvest processing technologies for food crops, to promote entrepreneurship and link processors with finance providers for value addition investments.

(c) Producer empowerment and market linkages subcomponent (financed by the Fund and AGRA) aims at expanding the warehouse receipt system, building the capacity of producer and marketing groups, facilitating linkages between farmer groups and markets, and supporting market information systems.

##### 4.2 Rural Finance Component

(a) Grassroots financial services subcomponent (financed by the Fund) aims at building the capacity of informal financial institutions and Savings and Credit Cooperative Societies (SACCOS) to consolidate them into viable, sustainable entities, supporting selected Micro Finance Institutions (MFIs) to expand their rural outreach, and supporting selected community banks as alternative rural financial service providers. The subcomponent also aims at supporting the Tanzania Cooperative Development Commission and the Department of Cooperatives in Zanzibar to enhance the implementation of the Cooperative Reform and Modernization Programme.

(b) Rural financial systems development subcomponent (financed by the Fund and AGRA) aims at increasing the access of rural producers and entrepreneurs to financial services by commercial banks, testing new approaches, methods and services in rural areas for the benefit of the target group, improving the legal and policy framework for rural micro finance, and integrating knowledge management into the programme.

4.3 Programme Coordination Component (financed by the Fund and AfDB) is designed to ensure efficient and effective programme management to achieve the development objective.

## **II. Implementation Arrangements**

5. The PCT in the PMO is responsible for overall programme coordination, while the regional and district administrations coordinate and monitor activities at their respective levels. The PCT shall be responsible for coordinating the preparation of the joint annual work plan and budget (AWPB), collection of baseline information, progress monitoring, financial management, including the processing of withdrawal applications, technical facilitation of implementation, ensuring synergy and coordination with relevant projects, especially the Agricultural Sector Development Programme (ASDP) and knowledge management. To facilitate smooth take off of implementation, it is agreed that some key staff of the PCT will be competitively selected from the ongoing projects and be in place before programme disbursement effectiveness. The Programme Steering Committee (PSC) will provide policy-related guidance while in Zanzibar, the Inter-Sectoral Steering Committee (ISSC) chaired by the Principal Secretary of the Ministry of Agriculture, and Natural Resources (MANRE) will have oversight over programme implementation. The ISSC will be represented in the PSC to ensure effective coordination of programme activities in Zanzibar and the Mainland. A smaller PCT will be established under MANRE in Zanzibar.

6. The implementation arrangements for the components shall be as follows:

6.1 Marketing Infrastructure and Systems Component – the three subcomponents will have the following implementation arrangements:

(a) The Marketing Infrastructure subcomponent and the Value Addition subcomponent (financed by AfDB) shall be managed by the PCT which shall be responsible for the procurement of the works, goods and services based on AfDB's Standard Bidding Documents.

(b) The Producer Empowerment and Market Linkages subcomponent will be implemented mainly by farmer groups, warehouse managers, collaborating commercial banks and SACCOS, and private sector partner agencies recruited through a competitive bidding process by the PCT and the districts.

6.2 Rural Finance Component – the two subcomponents will be implemented as follows:

(a) Under the Grassroots Financial Services subcomponent, training support to informal groups, SACCOS and MFIs will be through informal finance promoters, NGOs and other contracted service providers. The support to existing community banks will be given through providers recruited by the Community Bank Association (CBA) on the basis of proposals by the community banks. Support to the CBA secretariat will be through a grant expressed as a percentage of its three year business plan and on a declining basis since it is expected to generate additional income through increased membership. Support to the cooperative departments in the Mainland and Zanzibar will be through requests approved in the AWPB.

(b) For the Rural Financial Systems Development subcomponent, the funds for TIRSAL will be disbursed directly by the Fund to the TIRSAL Programme Account, which is managed by AGRA, in accordance with the provisions laid out in the memorandum of understanding entered into between the Borrower and AGRA. The FSMT will manage the rural innovation fund and the financial literacy activities based on its experience in

screening applications for innovations and its mandate, along with the BoT for financial literacy and consumer protection. Support for the legal and policy framework for rural finance will be provided to the relevant institutions on the basis of approved AWPBs. The research activities will be coordinated by the PCT and funding for the activities will be based on successful proposals screened by a consortium that also includes representatives of the financial sector. All programme implementers will be responsible for documentation, knowledge sharing and networking supported by the PCT and the regional knowledge management officers. The annual stakeholder workshop in Zanzibar will be conducted by the President Office, Finance, Economy and Development Planning.

7. Programme Implementation Manual. The PCT shall review the draft Programme Implementation Manual (PIM), including a Financial Management Manual, and will forward it to the Fund for comments and no objection.



## Schedule 2

### *Allocation Table*

1. *Allocation of Loan Proceeds.* The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage
I. Equipment, Vehicles and Motor Cycles	3 320 000	100%
II. Rural Finance Funds	14 570 000	100% net of AGRA and other Financier Contribution
III. Service Providers, Training and Capacity Building	14 720 000	100% net of AGRA Contribution
IV. Technical Assistance and Studies	15 160 000	100% net of AGRA Contribution
V. Recurrent costs		
(a) Salaries and allowances	2 880 000	100%
(b) General Operating costs	2 530 000	100%
Unallocated	6 220 000	
<b>TOTAL</b>	<b>59 400 000</b>	

2. *Start up Costs.* Withdrawals in respect of expenditures for start-up costs (in Categories III and V) incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of SDR 255 000.

### **Schedule 3**

#### *Special Covenants*

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme:

**Governance Framework.** A governance framework to minimize the potential for corruption shall be included in the Programme Implementation Manual and maintained during programme implementation. The framework shall incorporate important transparency measures, participation of civil society, complaint mechanisms and accountability measures, and additional measures such as forensic and technical audits when necessary.

## Key reference documents

### Country reference documents

- Bank of Tanzania. *Economic Bulletin for the quarter ending March 2009*, 2009
- Bank of Tanzania. *Economic Bulletin for the quarter ending December 2009*, 2010
- International Monetary Fund (IMF). *Country Report No. 09/336*, December 2009
- Ministry of Finance and Economic Affairs. *Poverty and Human Development Report 2009*, December 2009
- Ministry of Finance and Economic Affairs. *National Strategy for Growth and Reduction of Poverty (NSGRPII)*, March 2010 (Draft)
- Ministry of Industry, Trade and Marketing. *Agricultural Marketing Policy*, December 2008
- National Bureau of Statistics. *Agricultural Sample Survey 2003*. 2007
- National Bureau of Statistics. *Household Budget Survey 2007, 2009*
- Planning Commission. *The Tanzania Development Vision 2025*
- Revolutionary Government of Zanzibar. *Food Security and Nutrition Situational Analysis*, 2006
- Revolutionary Government of Zanzibar. *Household Budget Survey 2004/05*
- Revolutionary Government of Zanzibar. Office of the Chief Government Statistician, *Socioeconomic Survey 2008*
- Revolutionary Government of Zanzibar. *Successor Strategy for Growth and Reduction of Poverty (MKUZAZII)*, May 2010 (draft)
- Revolutionary Government of Zanzibar. *Zanzibar Strategy for Growth and Reduction of Poverty*, January 2007
- Tanzania. *Agricultural Sector Development Strategy*, October 2001
- Tanzania Development Partners Group. *Tanzania Joint Programme Document*, December 2006
- Tanzania National Business Council (TNBC). *Kilimo Kwanza: Towards Tanzanian Green Revolution*, June 2009
- Tanzania. *Vulnerability and resilience to poverty 2002/03, Tanzania Participatory Poverty Assessment: Main Report*, 2004
- Vice President's Office. *National Strategy for Growth and Reduction of Poverty (NSGRP)*, June 2005

### IFAD reference documents

- IFAD. *Country Programme Evaluation, Tanzania*. 2003
- IFAD. *Country Strategic Opportunities Programme for Tanzania 2007-13*, September 2007
- IFAD. *Lessons of Experience of IFAD Assisted Projects/Programmes in Tanzania*, March 2007
- IFAD Office of Evaluation. United Republic of Tanzania, *Rural Financial Services Programme and Agricultural Marketing Systems Development Programme Interim Evaluation*, Report No. 2256-TZ, September 2010

### Other miscellaneous reference documents

- AfDB and IFAD. *Memorandum of understanding between the International Fund for Agricultural Development and the African Development Bank and the African Development Fund*, February 2008
- AfDB and IFAD. *Towards purposeful partnerships in African agriculture: a joint evaluation of the agriculture and rural development policies and operations*. April 2010
- FAO, IFAD, WFP and AGRA. *Memorandum of understanding between the Food and Agriculture Organization (FAO), the International Fund for Agricultural Development (IFAD), the World Food Programme (WFP) and the Alliance for a Green Revolution in Africa (AGRA)*, June 2008
- Financial Sector Deepening Trust (FSDT). *FinScope 2009*, 2010
- International Monetary Fund (IMF). *Tanzania: the story of an African transition*, 2009
- Mo Ibrahim Foundation. *2009 Ibrahim Index of African Governance*, 2009
- United Nations Development Programme. *Human Development Report 2009*, 2009
- USAID and FEWSNET. *Tanzania Food Security Update*, July 2010

## Logical framework

NARRATIVE SUMMARY	VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	ASSUMPTIONS AND RISKS
<b>Overall Goal</b> Contribute to poverty reduction and accelerated economic growth on a sustainable basis in rural Tanzania	<ul style="list-style-type: none"> <li>- 7% reduction in income poverty in rural areas* (MKUKUTA II expects 17% reduction from 37.6% in 2007 to 20.4% in 2015*</li> <li>- 5% reduction in the prevalence of child malnutrition from the 2005 baseline* (MKUKUTAI targets proportion of underweight children to reduce from 22% in 2004/05 to 14% by 2015, and for stunted children from 38% to 22%)</li> </ul>	<ul style="list-style-type: none"> <li>- MKUKUTA/MKUZA and MDG Progress and Monitoring Reports</li> <li>- Demographic and Health Surveys conducted by the National Bureau of Statistics.</li> </ul>	
<b>Programme Development Objective</b> To enhance incomes and food security of the target group on a sustainable basis	<ul style="list-style-type: none"> <li>- 7% of households in programme area with improvement in assets ownership index at programme completion*</li> <li>- 5% reduction in the prevalence of child malnutrition from the 2005 baseline</li> </ul>	<ul style="list-style-type: none"> <li>- National statistics (e.g. HBS)</li> <li>- Poverty Surveys</li> </ul>	<ul style="list-style-type: none"> <li>- Stable political, policy and macro-economic environment</li> <li>- Conducive monetary and fiscal policies for agricultural activities</li> <li>- Favourable climatic conditions</li> </ul>
<b>Component 1: Marketing Infrastructure and Systems</b>			
<b>OUTCOME 1.3</b> Producer empowerment and market linkages result in improved access to markets for male and female producers	<ul style="list-style-type: none"> <li>- Number of farmers having sale contracts with buyers*</li> <li>- Number of farmers with increased value of traded produce*</li> <li>- Number of functioning warehouses/storage facilities*</li> <li>- Number of functioning market centres*</li> <li>- Marketing facilities likely to be sustainable*</li> <li>- Volume of produce going through WRS</li> <li>- Amount of loans provided to farmers through WRS</li> </ul>	<ul style="list-style-type: none"> <li>- Programme progress reports</li> <li>- Annual reporting for all indicators, and update for first five annually after MTR</li> </ul>	<ul style="list-style-type: none"> <li>- Favourable environment for agricultural development and no major trade restrictions</li> <li>- sufficient effective demand for agricultural commodities that can be produced in Tanzania</li> </ul>
<b>Component 2: Rural Finance</b>			
<b>OUTCOME 2.1.1:</b> Informal grassroots associations, SACCOS and other MFIs have improved their financial and operational performance on a sustainable basis	<ul style="list-style-type: none"> <li>- Number of informal associations transformed to MFIs</li> <li>- At least 50% of supported MFIs have established sustained linkages with formal FIs</li> <li>- Operating Self-Sufficiency of supported MFIs &gt; 1</li> <li>- Portfolio at risk (90 days +) below 5%</li> </ul>	<ul style="list-style-type: none"> <li>- Quarterly reports of service providers and promotion institutions</li> <li>- Annual independent survey of sample MFIs</li> </ul>	<ul style="list-style-type: none"> <li>- Capable service providers</li> </ul>
<b>OUTCOME 2.2.1:</b> Improved access to financial services on a sustainable basis for rural small and medium scale entrepreneurs	<ul style="list-style-type: none"> <li>- 10% reduction in population (by gender) that is excluded from access to financial services in rural areas from the 2009 baseline by programme completion*</li> <li>- Increase in number of farmers and SMEs obtaining loans from financial institutions</li> <li>- PAR (+90 days) &lt; 5%</li> </ul>	<ul style="list-style-type: none"> <li>- Finscope survey by FSDT</li> <li>- Programme monitoring reports</li> <li>- Annual reports by TIRSAL</li> </ul>	<ul style="list-style-type: none"> <li>- Financial sector interested in expanding rural financial services</li> <li>- Rural economic activities sufficiently profitable to take and repay loans</li> </ul>
<b>Component 3: Programme Coordination</b>			
<b>OUTCOME 3</b> Efficient use of programme and complementary donor resources to achieve the development objective	<ul style="list-style-type: none"> <li>- 70% of programme targets achieved in planned timeframe.</li> <li>- IFAD loan more than 50% disbursed at mid-term and 100% at the end of project period</li> <li>- Timely procurement of all goods and services</li> </ul>	<ul style="list-style-type: none"> <li>- Programme progress reports.</li> <li>- Supervision, periodic and completion reports</li> </ul>	<ul style="list-style-type: none"> <li>- Timely availability of funding from all sources</li> </ul>