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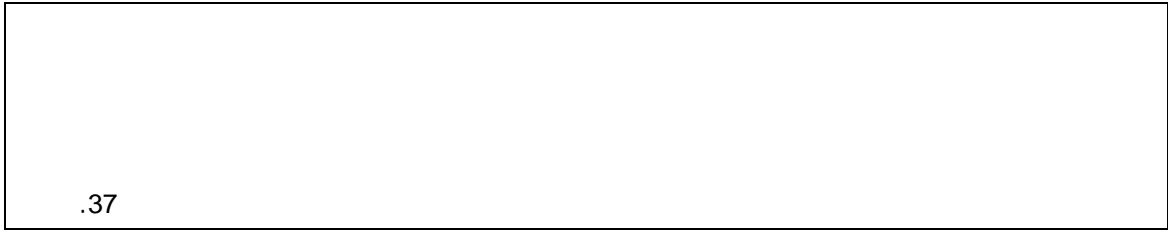
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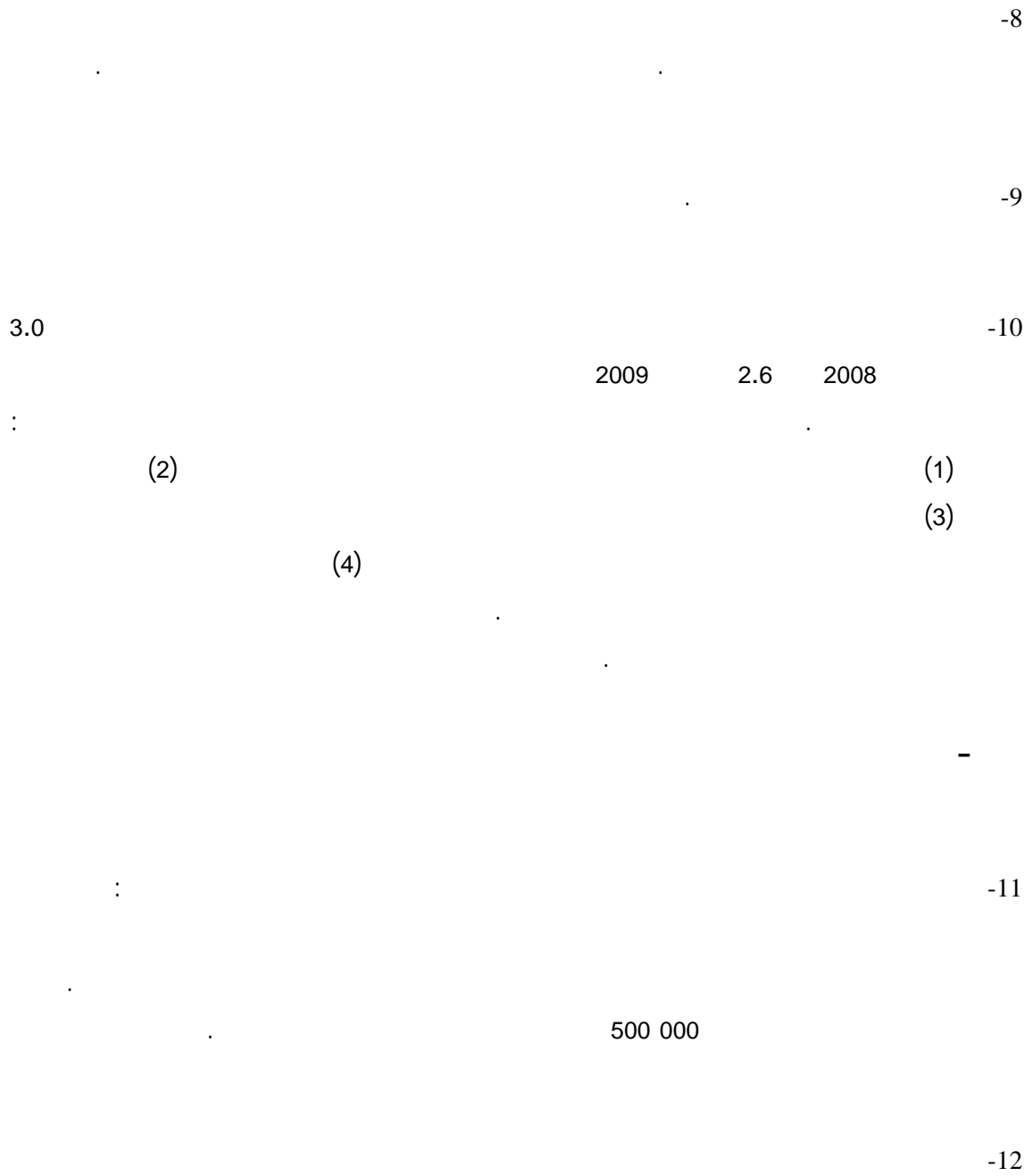
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## **Negotiated financing agreement: "Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF)"**

(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 FSĐT 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	
TOTAL	59 400 000	

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 (MKUZAII)*, 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>