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Investing in rural people

## President's report

### Proposed loan and grant to the United Republic of Tanzania for the Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme

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For: Approval

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## Abbreviations and acronyms

4Ps	public-private-producer-partnership
AfDB	African Development Bank
ASAP	Adaptation for Smallholder Agriculture Programme
AWP/B	annual workplan and budget
BASIC	Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme
BRN	Big Results Now
M&E	monitoring and evaluation
MAFC	Ministry of Agriculture, Food Security and Cooperatives
O&M	operation and maintenance
PCMU	programme coordination and management unit
SME	small and medium enterprise

# Map of the programme area

## United Republic of Tanzania

### Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme

President's report



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.

Map compiled by IFAD | 11-08-2015

## United Republic of Tanzania

### Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	United Republic of Tanzania
<b>Executing agency:</b>	Ministry of Agriculture, Food Security and Cooperatives
<b>Total programme cost:</b>	US\$136.5 million
<b>Amount of IFAD loan:</b>	SDR 40.35 million (equivalent to approximately US\$ 56.6 million)
<b>Amount of IFAD ASAP grant:</b>	SDR 7.12 million (equivalent to approximately US\$10 million)
<b>Terms of IFAD loan:</b>	Highly concessional: Maturity period of 40 years, including a grace period of 10 years, with a service charge of 0.75 per cent per annum
<b>Amount of cofinancing:</b>	African Development Bank: US\$30.1 million Private banks: US\$19.9 million
<b>Terms of cofinancing:</b>	Loan
<b>Contribution of borrower:</b>	US\$15.4 million
<b>Contribution of beneficiaries:</b>	US\$4.6 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to the United Republic of Tanzania for the Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme, as contained in paragraph 52.

# Proposed loan and grant to the United Republic of Tanzania for the Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme

## I. Strategic context and rationale

### A. Country and rural development and poverty context

1. The United Republic of Tanzania has experienced 6-7 per cent annual economic growth rates over the past decade. With sound macroeconomic policies, the economy has become significantly more open, with a trade-to-GDP ratio of 30 per cent in 2011, the highest rate among East African Community countries. The share of people living in poverty has declined from 33 per cent in 2007 to 28 per cent in 2012. The country will meet targets for three of the seven Millennium Development Goals: reducing infant and under-five mortality, combating HIV/AIDS and malaria, and addressing gender inequality. Tanzania's youth population almost doubled – from 4.4 million in 1990 to 8.1 million in 2010 – and will swell to 11 million by 2020. Young people currently account for 30 per cent of the workforce, mainly in agriculture.
2. Owing to low agricultural productivity, lack of primary processing and weak markets, the country imports foodstuffs and livestock products. Under the Southern Agricultural Growth Corridor of Tanzania, the Government of Tanzania has committed to rapidly developing the region's agricultural potential. Under its Big Results Now (BRN) framework, it has pledged to deliver concrete development results through commercial agriculture/outgrower investments. To sustainably commercialize agriculture and scale up irrigation, the Government needs to implement climate-smart, productivity-enhancing technologies to counterbalance the risks of climate change.
3. Sugarcane is the second largest agricultural crop in the country, contributing almost 4 per cent of the annual gross value of agricultural production. The sugar industry is one of the largest agroprocessing industries and contributes one third of the gross output of the food manufacturing sector and some 5-7 per cent of total manufacturing value added. Nevertheless, the country imports half its sugar needs, at a cost of US\$150-200 million per year. The entire East and Southern Africa region is a sugar deficit area.
4. Bagamoyo sugar project. Agro EcoEnergy Tanzania Ltd. identified an opportunity for direct foreign investment in sugar production in Tanzania in 2005, and has reached broad agreement with the Government on a large-scale production and processing investment. Based on the government policy of including smallholder outgrowers, the company has designed the sugar mill to process 40-60 per cent more cane than could be grown on its nucleus estate, thus creating an opportunity for surrounding villages to grow sugarcane. The overall investment has been conceived as a public-private-producer-partnership (4Ps) to replace imported sugar. It includes development of about 11,000 hectares (ha) of irrigated sugarcane (one third outgrowers and two thirds nucleus estate) and construction of a sugar mill to produce brown sugar, ethanol and electricity for the national grid, all with state-of-

the-art technology and in compliance with Bonsucro social and environmental standards.<sup>1</sup>

5. The Bagamoyo Sugar Infrastructure and Sustainable Community Development (BASIC) Programme will support: (i) the outgrower programme of the Bagamoyo 4Ps investment, by enabling smallholders to engage in commercial agriculture and take advantage of the market opportunity created by the private-sector sugar investment; and (ii) development of sustainable livelihood diversification in the wider community of those farmers, pastoralists and other rural groups residing within a 40-km radius of the nucleus estate, who otherwise would have been bypassed by the sugar investment. BASIC's enabling investments and its attention to the cultural and material impacts of the programme on surrounding communities not directly participating in the outgrower programme are expected to generate enabling conditions for rural communities in Bagamoyo to respond to the demand created by direct foreign investment and to support their economic transformation.

## B. Rationale and alignment with government priorities and RB-COSOP

6. The financing of BASIC represents an evolution in the way IFAD, the African Development Bank (AfDB) and the Government will promote smallholder rural development in Tanzania. The programme will use a private-sector-driven approach based on efficient and timely delivery of goods and services and on performance-based management. One of the "big ideas" for agriculture under the BRN is delivery of 25 commercial and outgrower investments. BASIC will be the model for the next 24 BRN investments. Thus IFAD will be supporting the Government in delivering a pro-poor inclusive business model for outgrower development, together with an expanded focus on sustainable livelihood diversification and the climate resilience of the wider community. IFAD brings many lessons learned from its experience designing and supporting implementation of the Lower Usuthu Smallholder Irrigation Project in Swaziland and the Vegetable Oil Development Project in Uganda.

## II. Programme description

### A. Programme area and target group

7. BASIC is geographically targeted to respond to the social, environmental and commercial incentives that will be created by the sugar investment. The programme area covers 27 villages, containing 20,200 poor rural households (91,500 people), within a radius of 40 km of the sugar mill. This represents about half the district land area and 30 per cent of its population. The programme area is subject to flooding, drought, declining annual rainfall and increasing temperatures.
8. BASIC's direct target groups comprise:
  - Sugarcane outgrower households, estimated at 1,500-2,000 households participating in cane outgrower companies;
  - About 9,000 households producing other crops and/or engaged in non-farm activities to provide food and other services to the nucleus estate and outgrower households;
  - Women, youth, and resettled households will be explicit target groups for inclusion in all activities; and
  - Workforce for nucleus and outgrower companies, which is an indirect target group, estimated at 2,300 people for the nucleus estate and at 200-400 people for the outgrower companies.

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<sup>1</sup> [www.bonsucro.com](http://www.bonsucro.com).

## B. Programme development objective

9. BASIC's overall goal is to contribute to inclusive growth and rural transformation of Bagamoyo District by empowering villages to respond to the opportunities created by the sugar investment. The effects of this response will include raising incomes, improving livelihoods and sustainably transforming the rural economy, while reducing national dependence on imported sugar. Using a private-sector-driven approach, the programme will enable participating villages to develop irrigated sugarcane farms and agribusinesses and to achieve higher stable yields for rainfed cropping and livestock-keeping. All investments will be underpinned by participatory village land-use planning and tenure security to promote sustainable land and range management. Using a pro-poor business model, BASIC will provide expertise and leverage incremental financing for investment in climate-smart production systems.<sup>2</sup> Intensive capacity-building and mentoring will enable farmers and livestock keepers to become members of modern commercial businesses – producing sugarcane, crops, fodder, livestock products, and providing services.

## C. Components/outcomes

10. Component 1. Sugarcane outgrower development. This component aims to support farmers in establishing and operating 24 profitable outgrower companies. These will produce irrigated sugarcane and other crops on approximately 3,000 ha of land across five villages, in line with environmental standards and best practices for company sustainability. BASIC's approach to sugarcane development is based on knowledge and experience gained in the region. The companies will sell cane that has been harvested green (rather than burned) to Agro EcoEnergy under long-term supply agreements negotiated at advantageous terms.
11. The outgrower programme has been designed to make sugarcane growing in Bagamoyo resilient to the climatic variations in rainfall that characterize the area. Farmers will be assisted through an inclusive business model to adopt the same modern crop, irrigation and green harvesting technologies as those applied on the nucleus estate. They will choose how to organize themselves and will be trained in financial reporting, collection of weather data and water monitoring, so as to ensure the rational and economic application of irrigation water, fertilizer and other agricultural inputs.
12. The component will finance: (i) development of bulk infrastructure to supply irrigation water and electricity to five outgrower villages to ensure year-round availability of water, as well as flood-protection dykes to climate-proof the investments that outgrower companies will undertake (AfDB funding); (ii) creation of an entity for the operation and maintenance (O&M) of bulk infrastructure and substantial capacity-building towards establishment of outgrower companies; and (iii) on-farm development of irrigated sugarcane farms and their equipping with suitable irrigation and farm equipment.
13. Component 2. Climate-resilient community development. This component aims to support sustainable livelihood diversification for the wider community of farmers, pastoralists and other rural groups. The investment by Agro EcoEnergy and the sugarcane outgrowers will create a new dynamic in the Bagamoyo economy, generating increased demand for food and livestock products and services. Key enabling investments in village land-use planning, land tenure security and sustainable natural resource management will ensure that the broader population of the district can benefit from planned infrastructure investments while receiving support in forming agribusinesses and small and medium enterprises (SMEs). Members of farmers' groups will be mentored either to run their own farm businesses or organize themselves into agribusiness companies operating on a fully commercial basis. All initiatives supported under the programme will employ

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<sup>2</sup> Climate-smart production systems use timely climate information in decision-making processes.



climate-smart enhanced technologies to sustainably increase productivity and create value added.

14. The component will: (a) finance village land-use planning and titling to enable all 27 programme villages to obtain village land certificates and establish land offices authorized to issue certificates of customary right of occupancy to villagers and to outgrower and agribusiness groups; (b) support climate-smart village investments in infrastructure, household technologies and field demonstrations; (c) provide business advisory services and capacity-building for agribusinesses and SME development; (d) leverage financing to establish an estimated 22 profitable agribusinesses and 500 SMEs that use climate-smart techniques to achieve increased stable production and incomes in the wider community; and (e) support institutional strengthening at the district level. Together, these investments will trigger the rural transformation process required to support economic development of the rural population while enhancing incomes, assets and wealth creation in the district.

### III. Programme implementation

#### A. Approach

15. In line with government agricultural policies, BASIC has been designed as a private-sector-driven programme to ensure the long-term financial viability and sustainability of programme investments. Companies will be the vehicle for scaling up knowledge, technology and environmental sustainability. The key success factor for companies is their people, so BASIC plans to invest significant resources in capacity-building for skills development and the inclusion of youth, as well as close monitoring and mentoring for group formation and company development.
16. A web of business relationships underpins successful enterprises. As an incentive to initiate enterprise relationships with commercial banks from the outset, BASIC will provide backstopping for the development of credible business proposals for financing by the banking system, along with financing to cover the incremental costs of machinery and technologies for climate-smart conservation agriculture. The financing strategy is to use programme resources to leverage lending from the banking system to finance bankable investments by outgrower companies and agribusinesses – ensuring that climate-proofing is covered in the investment component of all business plans. This will help the financial sector gradually cover the full cost of climate-smart investments, which will contribute to long-term sustainability of the initiatives supported.

#### B. Organizational framework

17. Programme oversight. The BRN Agricultural Steering Committee (BRN-ASC), in the BRN Presidential Delivery Bureau, will be the coordination mechanism for working across ministries to deliver results for the objectives already set under the Government's development policies. Given its key leading role and existing capacity, the ASC will be responsible for overseeing programme execution. It has the authority to call on all government ministries and departments in resolving bottlenecks. The Ministry of Agriculture, Food Security and Cooperatives (MAFC) regularly reports to the BRN through the ASC on its implementation progress for this flagship programme. The ASC will review progress of the programme annually through progress reports and the achievement of the annual workplan and budget (AWP/B).
18. Programme execution. The programme will be executed by MAFC through an autonomous programme coordination and management unit (PCMU), established in Bagamoyo District. Implementation arrangements for each activity have been developed in line with in-country institutional responsibility and capacity, while aiming to build knowledge on climate-smart practices and service delivery at the district level. For business activities, intensive capacity-building by experienced

service providers contracted regionally is foreseen. The PCMU will be responsible for financial management of the AfDB and IFAD development loans and the Adaptation for Smallholder Agriculture Programme (ASAP) grant through a unified monitoring, accounting, procurement and reporting system.

### C. Planning, monitoring and evaluation, and learning and knowledge management

19. Planning. BASIC's main planning tools will be the logframe, the monitoring and evaluation (M&E) framework (to be developed during the first six months of implementation) and the results-based AWP/B (RB-AWP/B). The execution of the RB-AWP/B will be reflected in the M&E framework and reported back at regular intervals. The cycle of planning, monitoring and reporting will promote efficient management and achievement of the agreed-on outcomes.
  20. Monitoring and evaluation. BASIC's M&E system will provide analysed information for results-based management and decision-making. The system will be participatory, and will include inputs from Bagamoyo District departments, capacity-building service providers, outgrower and agribusiness companies, and an external and independent monitoring programme. BASIC will comply with IFAD's Results and Impact Management System (RIMS), including completing baseline studies and regular reporting to IFAD on progress. It will pilot the new Multidimensional Poverty Assessment Tool.
  21. Learning and knowledge management. BASIC will introduce a number of innovative approaches that will be disseminated through diverse knowledge and communication products. For sugarcane production, knowledge management will be supported through the existing sugar institutions and will focus on experience gained in helping farmers combine their land assets and install irrigation, introduce mechanization, practice climate-smart cane husbandry, implement green harvesting, prepare business plans and obtain commercial financing. The same approach will be followed in sharing experiences gained and the challenges to agribusinesses and other groups in the wider community.
  22. External monitoring and multi-stakeholder dialogue. The Stockholm Environmental Institute (SEI) and the Tanzanian Agricultural Non-State Actors Forum (ANSAF) will undertake long-term external environmental and social monitoring to assess the impact of commercial agriculture/outgrower investment on the communities concerned and the surrounding areas, and will audit the performance of the 4Ps. Monitoring will focus on four key areas of sustainability – livelihoods, energy and greenhouse gas balance, water resources and biodiversity – and will include assessment of the environmental and socioeconomic impacts of the entire programme. The information generated will provide evidence-based social and environmental analysis in support of the decision-making and policy processes for this and similar investments.
  23. The support provided by BASIC will be complemented by three IFAD grants designed to (i) support MAFC in achieving implementation readiness for start-up of the programme, including carrying out field sensitization jointly with the district government, initiating participatory land-use planning activities, and preparing detailed implementation guidelines for the programme; (ii) enable SEI and ANSAF to establish the environmental and social baselines, and develop the full programme for the life of the investment; and (iii) improve land governance for inclusive agricultural development and sustainable rangeland management, with the involvement of local partner organizations, academic and civil society groups in sharing knowledge through multi-stakeholder dialogue and learning.
- ### D. Financial management, procurement and governance
24. The PCMU will be staffed by technical, financial and procurement expertise to implement the planned activities. It will manage both IFAD and AfDB funds, which

will be disbursed on a parallel basis. For both accounting and budgeting, the unit will have its own dedicated computerized accounting system, able to attribute costs by component and financier. For those activities implemented through the district, accounting will be handled through the district level, government financial management system and will undergo internal audits.

25. External audits. Audits will be performed by the Auditor-General directly or contracted to private firms satisfactory to IFAD. Current audits are assessed as satisfactory. Audit will be performed in line with IFAD guidelines and will provide opinions on programme financial statements, operation of the designated account and use of the statement of expenditure procedure.
26. Governance and anti-corruption. Specific measures to mitigate identified fiduciary risks include: (a) a computerized accounting system at the PCMU; (b) checks and balances through activity-tagged quarterly releases to the district, using the computerized government accounting system's control features; (c) inclusion in the internal audits of MAFC and Bagamoyo District; and (d) annual external audits, with IFAD engaging with the Auditor-General on expectations.
27. Procurement. IFAD, AfDB and the Government have agreed to delegate Agro EcoEnergy as agent for the procurement of design services, equipment purchase and construction of civil works for the outgrower programme, which Agro EcoEnergy will undertake in accordance with IFAD/AfDB guidelines. This will ensure land preparation and construction standards equal to those of the nucleus estate (for the dyke and haulage roads), as well as compatibility with the irrigation equipment and timely sequencing and completion of infrastructure works. It will also facilitate shared-spares stockholding<sup>3</sup> and O&M for pumps and other equipment. All other procurement under the programme will be undertaken by MAFC with technical backstopping from the PCMU. A summary three-year procurement plan has been prepared.

#### E. Supervision

28. BASIC will be directly supervised by IFAD twice a year and closely followed by the IFAD Country Management Team. Supervision and implementation support will initially focus on: (a) ensuring that the two capacity-building service providers for outgrower development and agribusiness and enterprises are recruited within nine months of loan signature; (b) providing direct technical backstopping to the PCMU during the first year of implementation; (c) ensuring that the programme adjusts its interventions to adapt to exogenous factors; (d) resolving constraints on programme operations; and (e) providing knowledge-based support on best practices and success stories.

### IV. Programme costs, financing, and benefits

#### A. Programme costs

29. Total investment and recurrent costs, including contingencies, are estimated at US\$136.5 million, with a foreign exchange content of US\$35.3 million. The AfDB loan implementation period is five years. Given the time needed to finance infrastructure development and to build human capacity, the IFAD loan and ASAP grant period is nine years. The sugarcane outgrower development component accounts for US\$88.7 million, representing 65 per cent of base costs, and the climate-resilient community development component for US\$34.4 million, representing 25 per cent of base costs. Programme coordination and management accounts for US\$13.4 million, representing 10 per cent of base costs.

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<sup>3</sup> Agro EcoEnergy will stock spare parts, and outgrower companies and the bulk infrastructure operation agency will be able to buy them.

## B. Programme financing

30. Private-sector financing. The total financing package for the private-sector portion of the investment is about US\$542 million. A consortium of banks led by AfDB's private-sector department will finance US\$320 million in commercial and blended lending to Agro EcoEnergy. Agro EcoEnergy has spent about US\$41 million in preparatory and design work, and received a bridging loan of US\$56 million from Stanbic Bank in 2014.
31. As part of a "land for equity" agreement with Agro EcoEnergy, the Government has provided public land for the nucleus estate under a certificate of occupancy (CO) as its contribution to the programme. Under the CO, Agro EcoEnergy will pay some US\$31,000 in rent per year for the duration of the lease period, subject to periodic review by the Commissioner of Lands. The CO provides that the Government will receive a 10 per cent equity share of the company once commercial operations have been initiated. The equity share of the Government will rise to 25 per cent 18 years after the start of commercial operations by the sugar mill.
32. Programme financing. An AfDB loan of US\$30.1 million will cover the cost of the design and construction of bulk infrastructure. An IFAD loan of US\$56.6 million will finance outgrower development, climate-resilient community development and programme coordination. An ASAP grant of US\$10 million will support climate-smart development, training and capacity-building activities under component 2. About US\$19.9 million will be leveraged from commercial banks to provide financing to outgrower companies and rural businesses in the wider community. The Government will provide some US\$15.4 million as counterpart financing. The beneficiary contribution is estimated at US\$4.6, but once farmers have fully repaid their commercial loans to the banking system, their contribution to the programme will be almost US\$24.5 million, representing 17.7 per cent of total costs.
33. Table 1 shows programme costs by component and financier and table 2 programme costs by expenditure category and financier.

Table 1  
**Programme costs by component and financier**  
 (Thousands of United States dollars)

<i>Component</i>	<i>IFAD loan</i>	<i>ASAP</i>	<i>AfDB</i>	<i>Government</i>	<i>Banks and companies</i>	<i>Farmers and companies</i>	<i>Total</i>
<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>	<i>Amount</i>
1. Sugarcane outgrower development	27 800		29 800	11 200	16 000	3 800	88 700
2. Climate-resilient community development	16 500	10 000		3 300	3 800	800	34 400
3. Programme coordination and management	12 400		200	800			13 400
<b>Total</b>	<b>56 600</b>	<b>10 000</b>	<b>30 100</b>	<b>15 400</b>	<b>19 900</b>	<b>4 600</b>	<b>136 500</b>

Table 2  
**Programme costs by expenditure category and financier**  
(Millions of United States dollars)

	Government		AfDB		IFAD loan		IFAD ASAP grant		Banks & companies		Farmers & companies		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
I. Investment costs														
A. Civil works	7.1	14.5	22.7	46.5	15.5	31.8	3.5	7.1	-	-	-	-	48.7	35.7
B. Vehicles	0.6	17.8	-	-	1.9	60.1	0.7	22.1	-	-	-	-	3.1	2.3
C. Equipment & materials	6.1	17.9	4.8	14.0	1.0	2.9	0.3	0.8	19.9	58.1	2.2	6.3	34.2	25.1
D. Grants & subsidies					5.9	100.0							5.9	4.3
E. Consultancies	0.9	4.3	2.4	12.0	13.0	65.5	3.6	18.2	-	-	-	-	19.9	14.6
F. Training & workshops	0.1	1.9	-	-	3.9	73.5	1.3	24.6	-	-	-	-	5.3	3.9
G. Salaries & allowances	0.6	6.7	0.2	2.6	7.6	83.1	0.7	7.6	-	-	-	-	9.1	6.7
<b>Total investment costs</b>	<b>15.3</b>	<b>12.1</b>	<b>30.1</b>	<b>23.8</b>	<b>48.7</b>	<b>38.6</b>	<b>10.0</b>	<b>8.0</b>	<b>19.9</b>	<b>15.8</b>	<b>2.2</b>	<b>1.7</b>	<b>126.2</b>	<b>92.4</b>
II. Recurrent costs														
A. Operating costs	-	-	-	-	5.5	100.0	-	-	-	-	-	-	5.5	4.0
B. Bulk infrastructure O&M	0.0	-	-	-	2.4	49.7	-	-	-	-	2.4	49.7	4.8	3.5
<b>Total recurrent costs</b>	<b>0.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.9</b>	<b>76.5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2.4</b>	<b>23.2</b>	<b>10.4</b>	<b>7.6</b>
<b>Total programme costs</b>	<b>15.4</b>	<b>11.3</b>	<b>30.1</b>	<b>22.0</b>	<b>56.6</b>	<b>41.5</b>	<b>10.0</b>	<b>7.3</b>	<b>19.9</b>	<b>14.6</b>	<b>4.6</b>	<b>3.3</b>	<b>136.5</b>	<b>100.0</b>

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### C. Summary benefit and economic analysis

34. The economic rate of return (ERR) is estimated at 14 per cent and justifies the investment. The sensitivity analysis has been linked to the risk analysis. The key risk is the availability of water for both irrigated sugar and rainfed agribusiness development. A significant drought year could lead to a drop in benefits. The sensitivity analysis shows a drop in the ERR to 6 per cent for a 1 in 10 year drought with a total wipeout of yields and recovery over two years, and a drop to 9 per cent for a 1 in 5 year drought, with yields of 50 per cent and recovery the following year. This analysis shows that BASIC is viable at both financial and economic levels.
35. About 8,200-10,800 households, representing slightly more than half the households residing in the programme area, will directly benefit from the creation of new livelihoods linked to the core programme investments, either through participation in their own rural enterprises or in the jobs created. BASIC will increase outgrower household income four-to-tenfold, thus creating substantial knock-on development incentives for other households in the wider community.
36. Access to climate-smart technologies, spatial land-use planning and more secure land tenure will bring a number of non-quantifiable benefits. Through the introduction of climate-smart agricultural and livestock technologies, productivity will be increased and stabilized, thus improving household incomes and supporting them in becoming more resilient to both drought and flooding. Families will increase their wealth because they will hold bankable and tradable titles to their farmland.
37. There will also be quality of life improvements associated with the development of village infrastructure, including better access to clean water and greater water availability for households during the dry season, improved sanitation and waste disposal at both the village and household levels, and a reduced labour burden for women and youth. These investments will also stimulate their own employment, in terms of the need for artisans and maintenance.

### D. Sustainability

38. The approach of supporting farmers in organizing themselves into registered outgrower and agribusiness companies, with credible business plans linked with the banking system, aims to establish the long-term commercial relationships that underpin good businesses. Incremental ASAP financing will demonstrate that climate-smart conservation agriculture techniques make good business sense, so that these become part of the lending requirements of bank financing to agriculture.
39. All technologies adopted under BASIC focus on environmental sustainability and increased resilience to changing climate patterns. For sugarcane, there will be a no-burn policy when clearing land, and green harvesting will reduce greenhouse gas emissions and eventually reduce the quantities of agricultural inputs required. The private-sector will implement the 14001 ISO standards and is aiming for Bonsucro certification for the nucleus estate and outgrower companies. Cogeneration – using a high-pressure boiler for renewable power for internal energy usage and its export to the national grid – is another sustainable technology approach being supported by the programme.

### E. Risk identification and mitigation

40. As a result of the interlinkages between investments by Agro EcoEnergy and AfDB, BASIC involves external and internal risks of varying degrees. IFAD's intervention focuses on supporting smallholders in using their primary assets better to leverage climate-smart technologies, markets, and capital from the private investor and the financing sector, without putting their assets at risk, and building their climate resilience. Emphasis on participatory land-use planning and improved land

governance, external monitoring, and multi-stakeholder dialogue and learning will also ensure that local communities can prosper from their natural resource base while managing risks and maximizing benefits. The following key risks and mitigation measures are highlighted:

41. There may be a delay in land titling for establishing outgrower companies. Mitigation: There has been a stakeholder consultation process ongoing since 2009, and the land surveying and village boundary delineation exercise for the five outgrower and four inner circle villages has been completed. Significant learning has taken place, and the required steps to complete land titling have been identified for financing under the programme, meaning that the process can be carried out at the pace that villages are prepared to follow.
42. Establishing outgrower companies and assisting them in addressing and overcoming their new technological, organizational, and business challenges may take longer than foreseen. Mitigation: Intensive capacity-building should enable farmers to carry out their expected role. The eventual challenge is the interface with the business environment in Tanzania, in which company registration is slow. Establishment of the first four to five enterprises will take time, and it is expected that the pace will pick up with the experience gained.
43. While the financing package is ready, there may be some delay in financial closing of the private-sector investment, awaiting conclusion of some of the land for equity issues for the nucleus estate and finalization of the implementation agreement between the Government and Agro EcoEnergy. Mitigation: With regard to IFAD, the potential delay will not have much impact on the outgrower programme due to the long lead time needed for capacity-building and mentoring of the farmers to be supported by IFAD. However, the earlier a PCMU is established and can start working with Agro EcoEnergy and the farmers, the better. Disbursements under IFAD financing for physical development (irrigation and land preparation for outgrowers) will start once financial closing is reached.
44. A potential reputational risk exists for IFAD in cofinancing BASIC. There is a general negative reaction to large-scale agricultural investments in Africa, and the biggest criticism is that of land grabbing. The resettlement of 260 people to establish the nucleus estate could provoke negative media coverage and opposition from international non-governmental organizations. Mitigation: Compliance with IFAD's enhanced Social, Environmental and Climate Assessment Procedures (SECAP) ensures that BASIC meets environmental and social standards accepted by the Global Environment Facility and the international community. In addition, the PCMU will be staffed with a communication officer who will take a proactive approach to communications from the villages to international organizations and the media. IFAD headquarters will develop a communication multi-stakeholder dialogue strategy to address the different audiences with evidence-based answers, which can then be taken up by the IFAD country office and the PCMU.

## V. Corporate considerations

### A. Compliance with IFAD policies

45. BASIC complies with IFAD's policies on targeting, gender, the private-sector, rural finance, climate change, the environment and natural resource management. AfDB has classified the outgrower programme as Category 1, which is in line with IFAD's requirements for Category A projects under its enhanced SECAP. These procedures require that an environmental and social management framework and a resettlement action framework be undertaken for the infrastructural activities linked to the outgrowers programme (construction of the dam, dykes and roads), which have been completed and approved by the Government. Detailed environmental social impact assessments (ESIAs) and resettlement action plans will be undertaken once the programme has financed the necessary detailed design studies and

submitted them to the National Environment Management Council in line with national regulations. Agro EcoEnergy carried out a full ESIA in 2012, prepared a draft environmental and social management plan and has produced the associated resettlement action plan for the nucleus estate.

## B. Alignment and harmonization

46. Promoting commercial/smallholder outgrower investments in agriculture is the government priority under the BRN and the Southern Agricultural Growth Corridor of Tanzania initiatives. IFAD has the potential to both leverage significant AfDB cofinancing and have a highly positive influence on how agricultural 4Ps and private-sector agricultural investment will be implemented in Tanzania. The sugar project and the BASIC programme, as the first BRN 4Ps for the Government and IFAD, will be a model for 24 future investments. BASIC will assist MAFC in implementing adaptation and mitigation measures that address the effects of climate change as laid out in MAFC's new policy to promote climate-resilient agriculture. At the local level, BASIC investments in the wider community will support implementation of the priorities identified in the Bagamoyo District development plan. The experiences gained also offer the potential for exploring similar initiatives elsewhere with AfDB.

## C. Innovations and scaling up

47. National sugar production will increase by 50 per cent in the country. Bagamoyo District is expected to see strong rural growth – transforming rural areas and the livelihoods of their people. The Government will have a sustainable, operational climate-smart 4Ps model – inclusive of commercial agriculture, outgrowers and the wider community – for replication in Tanzania and elsewhere in Africa. This will contribute to dialogue on large agricultural investments and application of the African Union's Guiding Principles on Large Scale Land Based Investments. BASIC's support for multi-stakeholder dialogue and long-term independent environmental and social monitoring will set high standards for transparency and accountability to non-state actors for the 24 future BRN schemes.

## D. Policy engagement

48. Both AfDB and IFAD are major development partners in the agriculture sector in Tanzania, together with the World Bank and the European Union. AfDB's private-sector department financing for the EcoEnergy commercial investment has created a unique opportunity for outgrower development and support to the surrounding areas and broader population of Bagamoyo, which otherwise would have been bypassed by the sugar investment. The AfDB/IFAD joint financing of BASIC will strengthen the partnership between the two institutions and demonstrate their commitment to the private-sector driven approach of the Government to scaling up and transforming agriculture and to rendering it climate-resilient.

## VI. Legal instruments and authority

49. A financing agreement between the United Republic of Tanzania and IFAD will constitute the legal instrument for extending the loan and ASAP grant to the borrower/recipient. A copy of the negotiated financing agreement is attached as appendix I.
50. The United Republic of Tanzania is empowered under its laws to receive financing from IFAD.
51. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Lending Policies and Criteria.



## VII. Recommendation

52. I recommend that the Executive Board approve the proposed financing in terms of the following resolutions:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the United Republic of Tanzania in an amount equivalent to forty million three hundred and fifty thousand special drawing rights (SDR 40,350,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide an ASAP grant to the United Republic of Tanzania in an amount equivalent to seven million one hundred and twenty thousand special drawing rights (SDR 7,120,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President

# Negotiated financing agreement: "Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme"

(Negotiations concluded on 29 July 2015)

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

ASAP Trust Grant Number: \_\_\_\_\_

Programme Title: Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme ("the Programme")

The United Republic of Tanzania (the "Borrower/Recipient")

and

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

and

The Adaptation for Smallholder Agriculture Programme Trust Fund (the "ASAP Trust Fund")

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

hereby agree as follows:

## PREAMBLE

Whereas

(A) the Borrower/Recipient has requested a loan from the Fund and a grant from the ASAP Trust Fund for the purpose of financing the Programme described in Schedule 1 to this Agreement (the "Programme"), and

(B) (B) the Borrower/Recipient intends to obtain from the African Development Bank ("AfDB") a loan ("AfDB Loan") in the amount of thirty million USD to finance component 1(a) of the Programme, on terms and conditions to be set forth in an agreement between the AfDB and the Borrower/Recipient (the "AfDB Agreement").

NOW, THEREFORE, the Parties hereto hereby agree as follows:

## 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, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement and all references to "Project" in the General Conditions shall apply to the Programme). 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 and the ASAP Trust Fund shall provide an ASAP Trust Grant to the Borrower/Recipient (collectively referred to as the "Financing"), which the Borrower/Recipient shall use to implement the Programme in accordance with the terms and conditions of this Agreement.

#### Section B

1. A. The amount of the IFAD Loan is SDR 40 350 000 (forty million, three hundred, fifty thousand Special Drawing Rights).

B. The amount of the ASAP Trust Grant is SDR 7 120 000 (seven million, one hundred, twenty thousand Special Drawing Rights).

2. The Loan is granted on highly concessional terms, meaning that the Borrower/Recipient shall pay to the Fund a service charge at the rate of 0.75% per annum on the principal amount of the Loan outstanding from time to time and with a maturity period of (forty) 40 years, including a grace period of (ten) 10 years.

3. The Loan Service Payment Currency shall be US Dollars.

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 March 1 and September 1.

6. There shall be one Designated Account operated by of the Ministry of Agriculture, Food Security and Cooperatives ("MAFC") in the Borrower/Recipient's central bank.

7. The Borrower/Recipient shall provide counterpart financing for the Programme in the amount of fifteen million four hundred thousand USD (USD 15 400 000) in tax exemptions in accordance with the Borrower/Recipient's tax law, including (i) cash to offset applicable taxes to be paid by the Programme in case the Programme and Coordination Management Unit ("PCMU", as defined below) is not benefited by an efficient tax exemption mechanism, and (ii) and approximately one million five hundred thousand USD (USD 1 500 000) in cash to pay for any taxes that may apply to service providers and staff contributions paid by Government/Recipient to its National Social Security Fund ("NSSF").

#### Section C

1. The Lead Programme Agency ("LPA") shall be the Borrower/Recipient's ministry responsible for agriculture, food security and cooperatives.

2. The following are designated as additional Programme Parties: Bagamoyo EcoEnergy Tanzania Limited Company ("EcoEnergy") and other private sector partners, participating commercial banks, non-state actors and civil society groups.

3. The Programme Completion Date shall be the ninth (9th) anniversary of the date of entry into force of this Agreement.

## Section D

The Financing will be administered and the Programme supervised by the Fund. In addition to supervision and implementation support missions, which shall normally be carried out each six (6) months, the Fund, together with MAFC, shall conduct two mid-term reviews towards the third and seventh years of Programme Implementation Period, and these may be carried-out jointly with the AfDB.

## Section E

1. The following are designated as additional general conditions precedent to withdrawal:

- (a) The Borrower/Recipient and EcoEnergy have entered into the EcoEnergy Implementation Agreement, establishing the roles and responsibilities of the Borrower/Recipient and of EcoEnergy for the implementation of an efficient sugarcane development in the Borrower/Recipient's territory, in accordance with Section II.B.5 of Schedule 1 to this Agreement ("Implementation Agreement on Bagamoyo-EcoEnergy");
- (b) The AfDB Loan has been approved by the AfDB Board of Directors;
- (c) The Borrower/Recipient has established the Programme Coordination and Management Unit ("PCMU") within the MAFC in accordance with section II.A.3 of Schedule 1 to this Agreement, including the opening of an office in the Bagamoyo district and the recruitment of a Programme manager, a Monitoring and Evaluation (M&E) officer, a process manager for irrigation development, an irrigation engineer, a financial controller, and a procurement officer, all with terms of reference and qualifications acceptable to the Fund;
- (d) The Borrower/Recipient has submitted with confirmation of receipt by the Fund, an official confirmation of the availability of adequate counterpart funds for the first Programme Year;
- (e) The Borrower/Recipient has caused two Programme Accounts to be duly opened for programme management and counterpart funds to be operated and maintained by the PCMU and has submitted the related authorized signatories to the Fund;
- (f) The Borrower/Recipient has created a dedicated cost centre in its Financial Management Information System ("FMIS") to record the Programme's related transactions;
- (g) The Borrower/Recipient has published the amended government notice ("GN"), which updates the boundaries of its Saadani National Park, as indicated in MAFC's letter EA 10/19/01, dated April 24, 2015, and
- (h) The Borrower/Recipient has prepared a draft Programme Implementation Manual ("PIM") in accordance with section II.C.9 of Schedule 1 to this Agreement.

2. The following are designated as additional grounds for suspension:

- (a) The AfDB Loan has not become effective or the rights of the Borrower/Recipient to withdraw proceeds of the AfDB Loan have been suspended, cancelled or terminated, in whole or in part, or the AfDB Loan has become due and payable prior to the agreed maturity thereof, or any event has occurred which, with notice or the passage of time, could result in any of the foregoing;
- (b) The Borrower/Recipient has suspended, rescinded, waived, terminated or failed to enforce the Implementation Agreement on Bagamoyo-EcoEnergy in whole or in part;

- (c) The operations of EcoEnergy, either by its own action(s) or inaction(s) or of any authority having jurisdiction over it, have been suspended in whole or in part, or in the Fund's opinion have been adversely affected so to impair EcoEnergy's ability to carry-out its obligations under the Programme or the Implementation Agreement on Bagamoyo-EcoEnergy;
- (d) The PIM, or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme, and
- (e) Programme staff having received an unsatisfactory performance rating have not been dismissed.

3. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Minister of Finance  
Ministry of Finance  
1 Madaraka Street  
P.O. Box 9111  
11468 Dar Es Salaam  
United Republic of Tanzania

For the Fund:

International Fund for Agricultural development  
Via Paolo di Dono 44  
00142 Rome, Italy

This Agreement, dated [\_\_\_\_], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

UNITED REPUBLIC OF TANZANIA

\_\_\_\_\_  
[Authorized Representative]  
[Title]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze  
President

ADAPTATION FOR SMALLHOLDER AGRICULTURE  
PROGRAMME TRUST FUND

\_\_\_\_\_  
Kanayo F. Nwanze  
President

## Schedule 1

## Project Description and Implementation Arrangements

**I. Programme Description**

1. Target Population. The Programme is located in the Bagamoyo district and it shall benefit villagers located within a 40 km radius ("Programme Area") from the EcoEnergy sugar mill and plantation for sugarcane development (the "Nucleus Estate"). The Programme will directly benefit sugar cane outgrower households, households producing other crops, fodder and livestock and those engaged in non-farm activities, women, youth, and resettled households and indirectly benefit the workforce for the Nucleus Estate and outgrower companies.

2. Goal. The goal of the Programme is: to contribute to the inclusive growth and rural transformation of the Bagamoyo district by empowering villages to respond to the opportunities created by the public-private-producer-partnership ("4Ps") to be set up to replace imported sugar, to develop about 11,000 ha of irrigated sugarcane (about two thirds from the Nucleus Estate and one third from outgrowers) and to build a mill to produce brown sugar, ethanol and electricity for the national grid, all with state-of-the-art modern technology and in compliance with Bonsucro social and environmental standards as published in Bonsucro's website ("Sugar Investment"), thus raising incomes, improving and diversifying livelihoods.

3. Objective. The Programme will enable participating villages to form groups to establish climate-smart sugarcane outgrower companies (the "Outgrower Companies"), other agribusinesses and small and medium enterprises ("SMEs"), underpinned by investments on participatory village land-use planning and tenure security and sustainable land and range management.

4. Components. The Programme shall consist of the following Components:

Component 1. Sugarcane Outgrower Development.

This Component shall support the construction of climate-smart bulk infrastructure for the provision of irrigation water and electricity, dykes for the protection of on-farm investments, and the establishment of about 24-36 commercial Outgrower Companies to produce irrigated sugarcane and food crops on about 3000 hectares in approximately five participating villages located within two kilometers of the Wami River, including:

Sub-Component 1.1: Bulk Infrastructure Development.

- (a) The design and construction of: (i) approximately five pumping stations and approximately 41 km of pipes and drainage network to outgrower areas, approximately 23 km of dykes, some of which shall be connected to the Nucleus Estate dykes, all along the Wami river and water storage facilities; (ii) approximately 95 km of high voltage lines and fiber optic cables connecting factory and grid, mill, outgrower pump stations and outgrower farmers and villages, approximately five high voltage and 13 low voltage transformers, approximately 33 km of haulage roads and the conversion of a train bridge to a dual-carriage bridge over the Wami river between Matipwili and the Nucleus Estate. This Financing will not finance this sub-component.

- (b) The design and construction of additional water storage facilities and support for the establishment of an entity to operate and maintain the bulk infrastructure, including operating and maintenance costs for the first three years of said entity's operations or until farm companies are operational and able to fully pay for the entity's operations costs, whichever occurs first.

Sub-Component 1.2: Establishment of Outgrower Companies and On-Farm Development. Development of technically and financially viable irrigated sugar cane farms by Outgrower Companies, and of their capacity to operate said farms efficiently and to commercially produce sugarcane in line with BONSUCRO environmental and social standards, including:

- (a) The construction of irrigated sugarcane farms by Outgrower Companies;
- (b) Comprehensive capacity building for farm company establishment and registration, irrigation design, tendering, farm business plan development, loan application and farm construction, initial planting, start-up, and operation;
- (c) Mobilisation of participating villagers into Outgrower Companies using an inclusive participatory process (for women and youth) with the local community, and
- (d) Provision of climate-smart financing to Outgrower Companies having signed cane supply agreements with EcoEnergy so that they may obtain commercial financing from banks for farm development sugarcane crop establishment, and the purchase of climate-smart equipment.

## Component 2. Climate Resilient Community Development.

This Component shall support the development of sustainable livelihood diversification and employment opportunities for the wider communities within the Programme Area, including approximately 22 agribusinesses for crop, fodder and livestock production and 500 small and medium enterprises ("SMEs"), including:

Sub-Component 2.1: Village Planning and Climate-smart Investments. Enabling approximately 27 participating villages to improve their rural livelihoods activities, through:

- (a) The initiation of climate-smart village development planning, carrying out of boundary surveys and of land use planning studies and the emission village land certificates and customary land titles ("CCROs") for individuals and companies;
- (b) The establishment of climate-smart village investments, the introduction of climate-smart agricultural technologies, climate-smart field demonstrations and capacity building for the communities on crop, fodder and livestock development, and
- (c) Comprehensive capacity building for crop, fodder and livestock production, land preparation, farm business plan development, company establishment and registration and loan application for participating agribusinesses and SMEs.



Sub-Component 2.2: Climate-smart Business Investments. Provision of climate-smart financing to agribusinesses and SMEs so that they may obtain financing from commercial banks for land preparation for conservation agriculture and crop establishment and livestock production, and the purchase of climate-smart equipment.

Sub-Component 2.3: Institutional Strengthening

- (a) Strengthening of the institutional capacity of relevant Bagamoyo District Administration (BDA) departments to implement the Programme, and provision of advisory services and training for the participating villagers on sustainable agriculture practices.
- (b) Institutional strengthening of MAFC and to the Wami-Ruvu Basin Water Office ("WRBWO"), including the preparation of climate-smart guidelines for districts and of a communication strategy and related preparation and dissemination of communication materials on climate change and on 4Ps, strengthening the hydrological monitoring capacity of the Recipient's relevant institutions.

## II. Implementation Arrangements

### A. Organization and Management

#### 1. Lead Programme Agency ("LPA")

1.1. The LPA shall be the MAFC, which shall have the overall responsibility for the execution of the Programme.

1.2. MAFC will ensure that its procurement contract committee meets every month to review and approve Programme procurement.

#### 2. Programme Steering and Oversight

2.1. The Borrower/Recipient shall ensure Programme steering and oversight by the Big Results Now Agriculture Steering Committee under MAFC ("BRN Steering Committee"), or another suitable entity in charge of ministerial level coordination of public-private sector initiatives, with adequate human and financial resources for its responsibilities, all satisfactory to the Fund. The BRN Steering Committee shall meet at least once a year on Programme matters.

2.2. Responsibilities. The BRN Steering Committee is responsible for Programme's steering, oversight and strategic guidance, as detailed in the PIM, including: (i) coordination of the public-private sectors' initiatives at the ministerial level; (ii) review of the annual work plan and budget (AWPB) and of the initial Procurement Plan; (iii) review of the PIM and its subsequent revisions; (iv) vigilance over full transparency and accountability in Programme management; (v) review and follow-up of supervision and audit recommendations; (vi) promotion of cooperation with all development partners, and (v) identification of policy issues for attention by the Borrower/Recipient.

### 3. Programme Coordination and Management Unit (“PCMU”)

3.1. Establishment and Composition. The Borrower/Recipient shall establish the PCMU within MAFC, in an office based in Bagamoyo town in the Programme Area, with structure, functions and responsibilities acceptable to the Fund and as detailed in the PIM. Qualified staff shall be selected according to the Borrower/Recipient’s applicable procedures acceptable to the Fund. Termination of the contracts of the Programme staff shall be subject to the Fund’s no-objection. PCMU staff will coordinate Programme activities with the relevant staff of the BDA.

3.2. Responsibilities. The PCMU is responsible for overall Programme implementation and coordination, including, among others: (i) preparation of the consolidated AWPBs; (ii) financial management and disbursement; (iii) procurement; (iv) Programme monitoring and evaluation; (v) knowledge management; (vi) preparation and consolidation of Statements of Expenditures, financial statements and withdrawal applications; (vii) Programme reporting; (viii) leadership in the introduction of climate-smart approaches for agricultural development; (ix) intermediate the Borrower/Recipient’s interaction with the Bagamoyo district and with EcoEnergy, and (x) coordination of all Programme implementing partners, ministries and other Borrower/Recipient’s bodies.

### 4. Bulk Infrastructure Operations Entity

4.1. Establishment and Responsibilities. The Borrower/Recipient shall establish an entity responsible for the administration, operation and maintenance of the bulk infrastructure for Outgrower Companies for the life of the Sugar Investment with structure, functions and responsibilities acceptable to the Fund, including a full recovery cost mechanism where the Outgrower Companies will finance the entity at full development. The entity will be mandated to manage funds received from Outgrower Companies and will open the necessary accounts.

4.2 While its capacity emerges, the entity’s board will be chaired by a representative selected by MAFC and its composition will include the Programme Manager, the Bagamoyo district irrigation officer, a representative from EcoEnergy, two outgrower village chairmen, and two future Outgrower Company members.

## B. Legal Instruments for the Sugar Investment

### 5. Implementation Agreement on Bagamoyo-EcoEnergy

5.1 The Borrower/Recipient shall enter into an implementation agreement with EcoEnergy, (the “Implementation Agreement on Bagamoyo-EcoEnergy”) laying out the roles and responsibilities for the development of the Sugar Investment, including the following provisions:

- (a) As Borrower/Recipient’s obligations, among others:
  - (i) Promotion of a private sector-led sugar sub-sector and maintenance of an enabling national policy environment to promote national sugar production;
  - (ii) Ensure an efficient coordination among its ministries and agencies so that EcoEnergy can complete its investment in the construction of the Nucleus Estate and of the sugar mill in the Bagamoyo district;

- (iii) Support the BDA to facilitate the acquisition of village land certificates and CCROs by individuals and companies, to implement agricultural and livestock training using climate-smart techniques and to endeavour to ensure that Outgrower Companies are good-faith partners to EcoEnergy;
  - (iv) Ensure the timely availability of funding for the outgrower development portion of the Sugar Investment;
  - (v) Provision of all support needed for outgrowers to obtain land and water rights, and register their companies, so they can access commercial funding from the banking system;
  - (vi) Provisions establishing a procurement partnership with EcoEnergy for the procurement for bulk infrastructure and on-farm development for Outgrower Companies to be undertaken by EcoEnergy consistent with the Borrower/Recipient's procurement laws and in accordance with IFAD's procurement policies;
  - (vii) Ensure the installation and operation of integrated software and accounting systems for the transparent application of the "Division of proceeds" ("DOP") formula by EcoEnergy and the Outgrower Companies, and
  - (viii) Ensure a timely supply of electricity to outgrowers either by the Tanzania Electric Supply Company ("TANESCO") or by EcoEnergy at affordable rates to the Outgrower Companies.
- (b) As EcoEnergy's obligations, among others:
- (i) Completion of its investment in the Nucleus Estate and sugar mill in line with the laws of Tanzania, the Programme's Social and Environmental Management Plan ("ESMP"), Resettlement Action Framework ("RAF") and any social and environmental instruments prepared and adopted for the Programme (collectively, the "Safeguards Documents") and with environmental and social safeguards, policies and procedures of IFAD, AfDB and ASAP;
  - (ii) Undertake the procurement of bulk infrastructure and on-farm development for Outgrower Companies for the outgrower programme at cost on behalf of the Borrower/Recipient;
  - (iii) Provision of technical support at cost to Outgrower Companies for the design and procurement of on-farm irrigation development;
  - (iv) Provision of technical training for Outgrower Companies in all aspects of irrigated sugarcane crop husbandry;
  - (v) Maintenance of the seed cane nursery and ensure the provision of planting material and other inputs (such as agro-chemicals and fertiliser) to Outgrower Companies at cost during the life of the Sugar Investment;
  - (vi) Ensure the processing of all cane produced by the participating Outgrower Companies having signed cane supply agreements with EcoEnergy;

- (vii) Enter into cane supply agreements with Outgrower Companies that adopt the DOP formula with the inclusion of all cane by-products in the DOP calculation;
- (viii) Ensure that at least 1/3 of the mill capacity is allocated to the Outgrower Companies that enter into cane supply agreements with EcoEnergy, and
- (ix) Establishment of a computerised weighing, accounting and payments system from the weigh bridge to the assessment of sucrose content for all cane provided by Outgrower Companies to ensure the initial payment to said companies within 30 days of delivery, with the reconciling final payment at the end each season.

#### 6. Memoranda of Understanding (MOUs) with Participating Commercial Banks

6.1. For the provision of climate-smart financing under Components 1.2(d) and 2.2. the PCMU, on behalf of the MAFC, shall enter into MOUs with participating commercial banks, laying out the financing modalities for channelling Loan proceeds for incremental climate-smart financing to Outgrower Companies, agribusinesses and SMEs, in form and substance satisfactory to IFAD. The MOUs shall provide, among other things, the obligations of the participating commercial banks and the terms and conditions for IFAD's Financing and to be channelled by the participating commercial banks to the targeted beneficiaries.

6.2. Participating commercial banks will provide commercial medium to long-term financing from their own resources for Outgrower Companies, agribusinesses and SMEs. IFAD climate-smart financing will cover the incremental cost of purchasing climate-smart equipment and applying climate-smart technologies, and will be disbursed to cover the final loan repayments of the Outgrower Companies, agribusinesses and SMEs to the banks.

### C. Implementation of Components

#### 7. Component 1: Sugarcane Outgrowing Development

7.1. Sub-component 1.1(a) will be financed by the AfDB and designed in line with the Borrower/Recipient's national guidelines for participatory smallholder irrigation investments. For sub-components 1.1. (b) and 1.2, the PCMU will be responsible for working with EcoEnergy, which will undertake the procurement and supervision of civil works and to provide technical backstopping on irrigation development and water management and irrigated sugarcane cropping to the PCMU, Outgrower Companies and to the entity operating the bulk infrastructure. The PCMU will be responsible for the contracting of a long-term capacity building service provider to mobilise villagers to create Outgrower Companies, and for the establishment of the Bulk Infrastructure Operations Entity in accordance with the section II.A.4 above. The PCMU and the long-term capacity building service provider will use an inclusive approach for the inclusion of youth and women and disadvantaged villagers when mobilising Outgrower Company members. The Borrower/Recipient will ensure that Outgrower Companies receive a reliable supply of power to operate their bulk infrastructure and their on-farm irrigation equipment to ensure water for the sugarcane plantations. For sub-component 1.2(d), the PCMU and the long-term service provider will develop operational modalities for helping Outgrower Companies to obtain financing from commercial banks for the purchase of climate-smart farm equipment and sugarcane establishment.

## 8. Component 2: Climate Resilient Community Development

8.1. Programme activities under this component will be implemented by the PCMU and by the BDA, together with the authorities of the participating villages. The BDA, with technical backstopping from the PCMU, is responsible for participatory village land use planning, land titling and infrastructure assessment and for undertaking climate-smart field demonstrations. The PCMU will be responsible for the execution of village infrastructure investments and climate-smart household technology investments, for the procurement of equipment and vehicles for BDA and WRWBO and for contracting a long-term capacity building service provider to mobilise villagers for managing and operating their village infrastructure, and promoting the formation of registered agribusiness companies and SMEs. The PCMU and the long-term capacity building service provider will use an inclusive approach for the inclusion of youth and women and disadvantaged villagers when mobilising agribusinesses and SMEs company members. Household mentoring will also be provided. WRWBO will be responsible for hydrological monitoring of the Wami river. For sub-component 2.2, the PCMU and the long-term service provider will develop operational modalities for helping agribusinesses and SMEs to obtain financing from commercial banks for the purchase of climate-smart farm equipment and selection of climate-smart production activities.

## 9. Programme Implementation Manual ("PIM")

9.1 Preparation. The LPA shall prepare a draft PIM which shall include, among other things:

- (a) Terms of reference and implementation responsibilities of Programme staff, consultants and likely service providers;
- (b) Criteria for the performance appraisal of the Programme and of Programme professional staff;
- (c) Modalities for providing IFAD climate-smart financing to Outgrower Companies, agribusiness and SMEs;
- (d) M&E system and procedures including the Results and Impact Management System;
- (e) Guiding principles for the preparation of the cane supply agreement, and
- (f) Programme operational, financial and procurement procedures.

9.2 Approval and Adoption. The LPA, shall forward the draft PIM to the Fund for comments and approval. The LPA shall adopt the PIM, substantially in the form approved by the Fund, and the LPA shall promptly provide copies thereof to the Fund. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed approved.

## Schedule 2

## Allocation Table

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

Category	Loan Amount Allocated (expressed in SDR)	ASAP Trust Grant Amount Allocated (expressed in SDR)	Percentage
A. Works	10 000 000	2 240 000	
B. Vehicles	1 250 000	450 000	
C. Equipment, material	650 000	190 000	
D. Grants	3 750 000	-	
E. Consultancies	8 200 000	2 300 000	
F. Trainings & Workshops	2 500 000	830 000	
G. Salaries & Allowances	4 900 000	390 000	
H. Operating expenses	5 050 000	-	
I. Unallocated	4 050 000	720 000	
<b>TOTAL</b>	<b>40 350 000</b>	<b>7 120 000</b>	

- (i) The Financing is 100% net of applicable taxes and counterpart contribution. The Loan will finance all activities under component 1 for outgrowers.
- (ii) The ASAP Trust Grant shall only finance expenditures under component 2, while climate-smart grants for Outgrower Companies, agribusinesses and SMEs under both components shall be financed by the Loan.
- (iii) Activities under component 2 are financed both by the Loan and the ASAP Trust Grant, and the Financing share is at 55% Loan and 45% ASAP Trust Grant respectively for each expenditure financed by both the ASAP Trust Grant and the Loan.
- (iv) Operating expenses include maintenance costs of the bulk infrastructure after construction amounting to USD 2,400,000 and it will be available after the tendering of bulk infrastructure works financed by AfDB under component 1.

## 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/Recipient to request withdrawals from the Loan Account and the Grant Account if the Borrower/Recipient 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 Project/Programme:

## I. Social and Environmental Compliance

1. The Borrower/Recipient shall ensure that the Programme is carried out in accordance with the Safeguards Documents.
2. To that end, the Borrower/Recipient shall take the following measures:
  - (a) If any activities included in a proposed AWPB would require the preparation and adoption of additional safeguard instruments as per the ESMP no such activities shall be implemented unless and until said instrument(s) has(have) been prepared, furnished to the Fund as part of the AWPB and subsequently approved by the Fund.
  - (b) In addition to paragraph (a) above, if any activities included in a proposed AWPB would involve resettlement, the Borrower/Recipient, prior to the initiation of such activities, shall provide to the Fund a report on the status of compliance with the requirements of the RAF, including allocation and payment by the Borrower/Recipient to the displaced persons of the amounts that are required to be paid as compensation in accordance with a schedule acceptable to the Fund and other provisions of the RAF.

## II. Implementation

1. In order to ensure the effective implementation of the Programme, the Borrower/Recipient undertakes to:
  - (a) Cause the relevant contracts for the construction of bulk infrastructure to be tendered before IFAD approves any funding for physical works for on-farm construction under the Financing;
  - (b) Cause the relevant contracts for the construction of the water storage facilities to be tendered before IFAD approves any funding for on-farm physical development under the Financing;
  - (c) Cause the relevant flood protection barriers to be tendered before IFAD approves funding of outgrower on-farm physical development.
  - (d) Cause the signature of the two long-term contracts for capacity building within nine months from the signature of this Agreement;
  - (e) Adopt performance-based contracts, carry-out regular performance evaluations and immediately dismiss non-performing staff;
  - (f) Take all necessary measures to ensure the continuous and reliable supply of electricity to Outgrower Companies by TANESCO provided that in any case the electricity price shall be affordable to the Outgrower Companies. If TANESCO is

unable to ensure a reliable supply of electricity, provision will be for EcoEnergy to supply electricity at cost directly from its sugar mill;

- (g) Adopt land preparation construction standards up to those adopted for the Nucleus Estate for outgrower infrastructure, dyke and haulages roads and on-farm construction, and ensure compatibility of the bulk irrigation and drainage equipment to facilitate shared spares stockholding and its operation and maintenance;
- (h) Take all necessary measures to provide adequate and continuous flow of water to the Programme Area, specially to the villages, Outgrower Companies, the Nucleus Estate, and the mill, so to ensure proper irrigation of the outgrowers' and of the Nucleus Estate's sugarcane, including expedited review and approval of water permit request, and

Within the first year of Programme Implementation Period, to cause an accounting software acceptable to the Fund for managing the Programme's financial reporting shall have been installed and become operational and whilst the Programme is in the process of procuring and installing the accounting software, to maintain appropriate manual double-entry accounting records.



## Logical framework

Narrative Summary	Key Performance Indicators (* denotes ASAP and/or RIMS indicator)	Means of Verification	Assumptions (A) / Risks (R)
<b>Goal:</b>			
Contribute to growth of Bagamoyo District, by empowering villages to respond to opportunities generated by the sugar investment, thus raising income, improving livelihoods and sustainably transforming the rural economy.	<p>0.1 Improved incomes (increase in the HH asset indicator) (*)</p> <p>0.2 Improved food security (decrease in the length of the hungry season; decrease in child malnutrition levels) (*)</p> <p>0.3 Improved ability to cope with shocks (*) as evidenced by decline in food assistance to programme area from current 10% of households</p> <p>0.4 National sugar production rises from current 300,000 to 450,000 t with EcoEnergy production</p>	<ul style="list-style-type: none"> <li>- Baseline, midline and endline HH surveys</li> <li>- Sugar Board of Tanzania (SBT)</li> </ul>	<p>(A) Continuing stable national macroeconomic environment, including management of sugar imports &amp; tariffs</p> <p>(R) Financial close between GOT and EcoEnergy achieved, mill &amp; nucleus estate established</p>
<b>Project Development Objective:</b>			
Enable programme villages to achieve higher stable yields using a private-sector driven approach, underpinned by land tenure security improved infrastructure and access to modern climate-smart production technologies.	<p>0.5 27 village land registries established and issuing certificates of customary right of occupancy (CCROs)</p> <p>0.6 Total direct outreach for about 11,000 households: Participating households and number of people (disaggregated by sex; and by type of intervention, including support for coping with climate change and employment creation) (*)</p> <p>0.7 Annual yields of cane and other crops through time to show variance and assess resilience during dry and flood periods</p> <p>0.8 27 villages (20,000 households) with improved infrastructure (including water) for agricultural production and processing (27 villages with water infrastructure established) (*)</p> <p>0.9 20,000 poor smallholder households supported in coping with the effects of climate change (*)</p>	<ul style="list-style-type: none"> <li>- District agricultural production annual reports</li> <li>- PCMU quarterly progress reports and company annual reports</li> </ul>	<p>(A) Villages establish land registries and issue CCROs to companies</p> <p>(A) Outgrower and other villages infrastructure development successfully implemented</p> <p>(A) Capacity-building and mobilization of villagers into companies successful</p> <p>(A) District technical services provide training in climate-smart technologies</p>
<b>Outcome 1 (Sugarcane outgrower development – IFAD and AfDB financing)</b>			
Establishment of profitable outgrower companies producing irrigated sugarcane and other crops in line with environmental standards and norms for company sustainability.	<p>1.1 Achievement of Bonsucro mark by mill and outgrowers</p> <p>1.2 Full cost recovery for bulk infrastructure operation and management</p> <p>1.3 Smallholder companies sustainable (cost of sales less than 65% of revenue) and distributing dividends to shareholders</p>	<ul style="list-style-type: none"> <li>- Company annual reports</li> <li>- EcoEnergy semi-annual report</li> <li>- External assessment at PY7</li> <li>- Bulk infrastructure annual company reports</li> </ul>	<p>(A) Outgrower companies follow modern cane planting and green-harvesting technologies</p> <p>(A) Outgrower companies save depreciation &amp; have audited accounts</p>
Outputs: About 24 commercial outgrower companies/entities managing 3000 ha of irrigated land, with medium and short-term financing from banks, selling 300,000-400,000 T of cane to EcoEnergy under transparent CSA.	<p>1.4 Bulk infrastructure partially operational by PY 3, fully by PY5</p> <p>1.5 Equipment and cane planting financing obtained from banks</p> <p>1.6 24 outgrower farms built by PY 7</p> <p>1.7 3,000 ha sugarcane planted by PY7 (375 ha in PY3; 750 in PY4; 1,000 in PY 5; 875 in PY 6)</p> <p>1.8 Yield of 95 t/ha and 12% sucrose content achieved</p>	<ul style="list-style-type: none"> <li>- Company reports and accounts</li> <li>- EcoEnergy mill quarterly statistics</li> <li>- PCMU quarterly progress reports</li> </ul>	<p>(A) TANESCO provides electricity as foreseen</p> <p>(A) Cane supply agreements signed by companies and EcoEnergy for fair DOP</p> <p>(A) Timely supply of inputs and technical knowledge by EcoEnergy</p>

Narrative Summary	Key Performance Indicators (* ) denotes ASAP and/or RIMS indicator	Means of Verification	Assumptions (A) / Risks (R)
			to outgrowers
<b>Outcome 2 (Climate-resilient community development – IFAD and IFAD ASAP financing)</b>			
Establishment of profitable agribusinesses and SMEs using climate-smart techniques to produce food and livestock products for people working in the sugar sub-sector.	<b>2.1</b> Yields by crop, meat and milk production through time <b>2.2</b> About 22 agribusinesses and 500 SMEs (cost of sales less than 65% of revenue) and providing income to shareholders <b>2.3</b> About 8500 ha of land managed under climate-resilient practices using conservation agriculture and range management (*)	<ul style="list-style-type: none"> <li>- Company reports and accounts</li> <li>- District prod stats</li> <li>- Agribusiness/SME reports</li> </ul>	(A) Capacity-building with smallholders empowers them and builds confidence and capacity
<b>Outputs:</b> About 22 climate-smart agribusinesses and 500 small and medium businesses operating in 22 villages, growing and advancing to commercial scale with financing from banks.	<b>2.4</b> Climate-smart village infrastructure established in 22 villages (*) <b>2.5</b> Climate-smart demos in 27 villages for 3 years, no of people who adopt (*) <b>2.6</b> No of groups involved in climate risk and natural resource management (*) <b>2.7</b> Agribusinesses established: 3 in PY4, 6 PY5, 8 PY6, 5, PY 8 <b>2.8</b> SMEs established: 50 in PY3, 100 PY4, 150 PY 5, 200 PY 6	<ul style="list-style-type: none"> <li>- Company reports and accounts</li> <li>- District agricultural production annual reports</li> </ul>	(A) Equipment financing obtained by companies from banks (A) Able to purchase suitable equipment and labour saving mechanization