President’s report

Proposed supplementary loan to the United Republic of Tanzania for the Agricultural Sector Development Programme
Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Abbreviations and acronyms

ASDP  Agricultural Sector Development Programme
AWP/B  annual workplan and budget
MKUKUTA  National Strategy for Growth and Reduction of Poverty
PMO-RALG  Prime Minister’s Office, regional administration and local government
SWAp  sector-wide approach
Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed supplementary loan to the United Republic of Tanzania for the Agricultural Sector Development Programme, as contained in paragraph 36.
Map of the programme area

United Republic of Tanzania
Agricultural Sector Development Programme

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
United Republic of Tanzania

Supplementary loan for the Agricultural Sector Development Programme

Loan summary

Initiating institution: IFAD

Borrower: United Republic of Tanzania

Executing agencies: Ministry of Agriculture, Food Security and Cooperatives; Ministry of Livestock Development and Fisheries; Ministry of Industry, Trade and Marketing; Ministry of Water and Irrigation; Prime Minister’s Office, regional administration and local government; 132 district councils

Total programme cost: Approximately US$315.6 million

Amount of IFAD loan: SDR 37.65 million (equivalent to approximately US$56 million)

Terms of IFAD loan: 40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum

Cofinancier(s): World Bank, African Development Bank (AfDB), Irish Aid, Embassy of Japan, European Union, IFAD’s initial contribution

Amount of cofinancing: World Bank: US$90 million
AfDB: US$60 million
Irish Aid: US$1 million (initial)
Embassy of Japan: US$3 million
European Union: US$8.5 million
IFAD: US$36 million (initial)
Other cofinancing sought: approximately US$9.2 million

Terms of cofinancing: World Bank, AfDB and IFAD – loans
Others – grants

Contribution of borrower: US$28.7 million

Contribution of beneficiaries: US$23.2 million

Appraising institution: IFAD

Cooperating institution: Directly supervised by IFAD
Proposed supplementary loan to the United Republic of Tanzania for the Agricultural Sector Development Programme

I. The programme
A. Main development opportunity addressed by the programme
1. The rationale for the supplementary IFAD loan in support of the Agricultural Sector Development Programme (ASDP) is to further support smallholder development and ensure that this critical programme, which contributes to attaining the rural poverty reduction targets of the National Strategy for Growth and Reduction of Poverty (MKUKUTA), is not adversely affected by the shortage of funds as the initial commitments of development partners are used up. The agricultural sector in the United Republic of Tanzania, comprising mainly smallholders, has significant growth potential in terms of its comparative advantage in the production of most traditional export crops, expanding domestic and regional markets, and relatively abundant arable and range land.

B. Proposed financing
Terms and conditions
2. It is proposed that IFAD provide a supplementary loan to the United Republic of Tanzania in the amount of SDR 37.65 million (equivalent to approximately US$56 million) on highly concessional terms to help finance the Agricultural Sector Development Programme. The loan will have a term of 40 years, including a grace period of 10 years, with a service charge of three fourths of one percent (0.75 per cent) per annum.

Relationship to the IFAD performance-based allocation system (PBAS)
3. The allocation defined for the United Republic of Tanzania under the PBAS is US$56.13 million over the 2007-2009 allocation cycle. The proposed loan of US$56 million falls within this allocation.

Relationship to national sector-wide approaches or other joint funding instruments
4. The programme will operate through a basket fund arrangement.

Country debt burden and absorptive capacity of the State
5. The United Republic of Tanzania graduated to International Monetary Fund (IMF) policy support instrument status in February 2007, reflecting the positive overall management of the economy in the last decade. The IMF’s assessment of the country’s economic performance in 2007 and 2008 concluded that real growth rates were high (7 per cent) and inflation low (6 per cent in June 2007), along with a comfortable level of international reserves, and a sustainable external debt. The United Republic of Tanzania is considered a good case for scaling up donor assistance. The country received 13 loans from IFAD between 1978 and 2006, and annual disbursements average US$16.60 million.

Flow of funds
6. The borrower has opened the ASDP basket fund holding account at the Bank of Tanzania to receive contributions from development partners. The funds flow from the United States dollar-denominated holding account through the exchequer into the accounts of four agricultural sector line ministries – the Ministry of Agriculture, Food Security and Cooperatives (MAFC), the Ministry of Livestock Development and Fisheries, the Ministry of Water and Irrigation, the Ministry of Industry, Trade and Marketing – and the Prime Minister’s Office, regional administration and local
government (PMO-RALG), as well as the participating districts, according to the annual workplan and budget (AWP/B) and the related quarterly cash flow forecasts.

**Fiduciary arrangements**

7. The fiduciary arrangements are those being followed for Tanzania Mainland under the existing two IFAD programmes, Agricultural Services Support Programme and Agricultural Sector Development Programme – Livestock Support for Pastoral and Agro–Pastoral Development, in accordance with the draft revised memorandum of understanding, to ensure harmonization with government systems and the other donor partners. The financial, reporting and procurement arrangements have been endorsed by the World Bank, a partner in this programme. The basket fund account is subject to audit, with overall reporting being provided to donors on the local and national components. The IFAD portion of total programme costs is apportioned and recorded accordingly (by loan). IFAD is represented on the basket fund steering committee, which approves the AWP/B, to ensure that the programme is supporting the activities authorized. The steering committee also approves quarterly disbursements from the basket fund to the line ministries in accordance with agreed parameters.

**Supervision arrangements**

8. The IFAD supplementary loan will be supervised by IFAD in collaboration with the other partners in the ASDP basket fund.

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

9. The revised memorandum of understanding governing the ASDP basket fund requires development partners to make annual disbursements to the basket fund holding account. Audited financial statements are to be provided within nine months of the financial year-end, according to current government practices. The procurement plan is approved by the ASDP basket fund steering committee, of which IFAD is a member, as mentioned. A waiver to the policy on taxes, as contained in sections 4.10(a) and 11.01 of the General Conditions, is being sought to ensure harmonization with World Bank procedures. A similar waiver was approved for the existing loans.

**Governance**

10. The United Republic of Tanzania is one of the front-runners in implementing the harmonization and alignment agendas endorsed by the Paris Declaration on Aid Effectiveness. The MKUKUTA seeks to achieve the Millennium Development Goals through improved livelihoods, policy and regulatory reforms for economic growth, and good governance and transparency. The country is rated highly (above 50 per cent) in the overall governance index for African countries.

**C. Target group and participation**

**Target group**

11. In accordance with IFAD’s Targeting Policy, the target group for the proposed supplementary loan includes poor women and men in rural districts who have the potential to improve their agricultural productivity and incomes, as well as the food insecure. This group lines up with the IFAD target group, defined as the extremely poor (living on less than US$1 per day) who are able to take advantage of improved access to assets and opportunities for agricultural production and rural income-generating activities. About 58 per cent of the population lives on less than US$1 per day, 87 per cent of them in rural areas.

**Targeting approach**

12. The targeting strategy for the supplementary loan is three-pronged. It calls, first, for supporting the targeting mechanism built into the ASDP that empowers small farmers to increasingly take control of programme activities through the farmers’ forum. Second, the second strategic objective of the country strategic opportunities
programme (COSOP) is to enhance the capacity of small farmer organizations to participate effectively in the ASDP planning process. A grant-assisted project covering 10 regions is under implementation, facilitated by two national umbrella farmer organizations. Third, the targeting strategy calls for IFAD to influence certain key issues to ensure that programme activities actually respond to the priorities of the poorest farmers. These include a gender-disaggregated analysis of results, a systematic review of the poverty focus of the ASDP guidelines, joint performance assessment and monitoring of programme outputs and outcomes, and sharing lessons drawn from implementation experience on targeting.

**Participation**

13. The target group will participate: (i) by preparing village agricultural development plans, which are to be consolidated into district plans financed by the ASDP; and (ii) as the direct implementers of activities under the village plans.

**D. Development objectives**

**Key programme objectives**

14. The ASDP has two objectives: (i) to improve farmers’ access to and use of agricultural knowledge, technologies, marketing systems and infrastructure, all of which contribute to higher productivity, profitability and farm incomes; and (ii) to promote private investment based on an improved regulatory and policy environment.

**Policy and institutional objectives**

15. The ASDP provides the framework for implementing the Agricultural Sector Development Strategy, which envisages an agricultural sector that, by 2025, is modernized, highly productive and profitable, and utilizes natural resources in a sustainable manner. Implementation of the ASDP is anchored on two institutional parameters – the Joint Assistance Strategy of Tanzania for building effective development partnerships, and the sector-wide approach (SWAp) to reduce transaction costs and ensure sustainable impact. The framework is implemented against a policy background of decentralization by devolving decision-making power and financial resources to the districts.

**IFAD policy and strategy alignment**

16. The ASDP objectives are aligned to IFAD’s strategic objectives of enabling poor people to gain better access to improved agricultural technology and services, markets, and participatory policy and programming processes. The supplementary loan is designed to contribute to achieving the first strategic objective of the COSOP, to establish a solid production and productivity base to trigger more effective demand for technology and services.

**E. Harmonization and alignment**

**Alignment with national priorities**

17. The ASDP is supportive of the MKUKUTA cluster relating to economic growth and income poverty reduction and its major goal of achieving 6 to 8 per cent GDP growth over the next decade. The MKUKUTA goals for the agricultural sector include: (i) increasing agricultural growth from 5 to 10 per cent and livestock subsector growth from 2.7 to 9 per cent; (ii) increasing food production from nine million tons to 12 million tons; and (iii) increasing off-farm income-generating activities.

**Harmonization with development partners**

18. In line with the Paris Declaration on Aid Effectiveness, the development partners in the United Republic of Tanzania and the Government developed the Joint Assistance Strategy of Tanzania with which the ASDP and this supplementary loan comply. The supplementary loan was designed with the full participation and consent of the development partners in the ASDP basket fund.
F. Components
19. The programme has two components: (i) local-level support (67 per cent of total cost) for agricultural activities at village, ward and district levels; and (ii) national-level support (33 per cent) to assist the agricultural sector line ministries with implementing the policy and institutional reforms envisioned in the Agricultural Sector Development Strategy and providing an enabling environment for commercial activity in the sector.

G. Management, implementation responsibilities and partnerships
Key implementing partners
20. These include agricultural sector line ministries and district councils. Zonal research institutions and private-sector service providers will support farmers and district councils.

Implementation responsibilities
21. An inter-ministerial coordinating committee will provide policy guidance. The basket fund steering committee will review AWP/Bs and approve transfers from the basket fund. A committee of directors from the line ministries will oversee implementation of the national component. The Department of Policy and Planning of the Ministry of Agriculture will administer the basket fund and consolidate AWP/Bs, reporting to the basket fund steering committee. The ASDP secretariat will facilitate implementation and prepare reports. The PMO-RALG will coordinate implementation and reporting at the local level. The district councils will handle planning and implementation at the district level.

Role of technical assistance
22. Technical assistance will play a key role in building capacity among public institutions and private-sector participants. Capacity gaps identified in a recent study are being reviewed by the line ministries to this end.

Status of key implementation agreements
23. ASDP is an ongoing programme; implementation arrangements relating to procurement have been agreed among the partners.

Key financing partners and amounts committed
24. The total programme cost is approximately US$315.6 million over seven years. The sources of financing are currently as follows: IFAD’s initial contribution US$36 million, plus a proposed additional US$56 million (29 per cent); World Bank US$90 million (29 per cent); African Development Bank US$60 million (19 per cent); Irish Aid US$1 million (0.3 per cent); Embassy of Japan US$3 million (1 per cent); European Union US$8.5 million (2.7 per cent). Additional commitments are expected to be made during the fund raising event to be held by the Government.

H. Benefits and economic and financial justification
Main categories of benefits generated
25. The two main outputs of the ASDP are: (i) more responsive and efficient research and extension services; and (ii) increased investment in productive assets. These outputs will generate benefits in the form of higher farm productivity and incomes, greater farmer voice in decision-making, and more effective public expenditures.

Economic and financial viability
26. The economic analysis at the design stage of ASDP indicated that a productivity increase of more than 75 per cent was achievable with irrigation, and 15 per cent with limited investment in irrigation. ASDP expenditures would generate a positive return and contribute to agricultural growth. The appraisal of the supplementary loan confirmed the profitability for smallholders of most of the sample farm enterprises.
I. Knowledge management, innovation and scaling up

Knowledge management arrangements

27. Capacity-building at the local level under ASDP will build confidence to give farmers more effective influence on the decision-making process, and to improve planning and monitoring by district officials. The annual district planning assessment not only determines the districts’ eligibility for grants, but also assesses capacity gaps and recommends solutions. Through the Initiative for Mainstreaming Innovation grant project, IFAD is promoting learning on portfolio implementation within the country team. Also, a knowledge management and communication officer has been recruited under the First Mile Project supported by Switzerland to facilitate knowledge management.

Development innovations that the programme will promote

28. ASDP is providing an opportunity to test the use of the sector-wide approach (SWAp) in the Tanzanian agricultural sector, in order to reduce transaction costs, align and harmonize development aid around country systems, and deliver sustainable development results. Government officials now lead the joint implementation reviews of ASDP. This innovation, apart from being a radical departure from the supervision practice of traditional donor-assisted projects, has proved an effective approach for building confidence and capacity among government officials. Already, the Tanzanian experience with SWAp is being explored by Rwanda and Zambia for possible application to the agricultural sector.

Scaling-up approach

29. The current slice of ASDP being supported under the ASDP basket fund represents 15 per cent of the US$2 billion programme proposed by the Government. The ASDP implementation experience will lay the foundation for sustained productivity increases and a policy environment that will attract increasing private-sector investment. These results are expected to be scaled up by the Government after the ASDP basket fund is closed, through general budget support.

J. Main risks

Main risks and mitigation measures

30. The programme faces six main risks, which are outlined here along with the proposed mitigation measures: (i) limited implementation capacity for a large sector programme: emphasis on capacity-building for farmers, the private sector and government officials; (ii) inadequate financial management and reporting leading to inefficiency and slow disbursement to the basket fund by partners: intensive supervision, annual fiduciary assessments through public expenditure review, independent audits and capacity-building; (iii) productivity increases not achieved because of low donor commitment to irrigation investments: start with small local irrigation investments with beneficiary cost-sharing, develop adapted technology to offset climate change, and emphasize public-private partnership for large irrigation investments; (iv) institutional coordination challenging due to many sector ministries involved: intensify use of the inter-ministerial coordinating committee, the basket fund steering committee and thematic working groups for coordination; (v) inadequate commitment by sector ministries to planning and implementing climate change adaptation and mitigation measures: IFAD will leverage membership of United Nations country team and development partner group to integrate adaptation measures under ASDP; and (vi) non-adherence by the Government and development partners to sector reforms and the SWAp: improvements in aid coordination, continued operation of the agriculture working group and budget management.

Environmental classification

31. Pursuant to IFAD’s environmental assessment procedures, the programme has been classified as a Category B operation in that it is not likely to have any significant
negative environmental impact. Guidelines have been established for environmental and social assessment of different scales of programme activities and the National Environmental Management Council has responsibility for ensuring compliance.

K. Sustainability
32. ASDP is the major instrument for implementing the longer-term Agricultural Sector Development Strategy, which covers a 15-year period. A review at the end of the current ASDP phase will provide lessons for adjusting the next phase. ASDP is designed to benefit from the ongoing economic and institutional reforms to enhance sustainability. The fact that ASDP was designed around the Joint Assistance Strategy of Tanzania and the SWAp, and benefits from joint funding and implementation arrangements based on government procedures, gives it a higher likelihood of sustainability.

II. Legal instruments and authority
33. A programme loan agreement between the United Republic of Tanzania and IFAD will constitute the legal instrument for extending the proposed supplementary loan to the borrower. Important assurances included in the negotiated agreement are attached as an annex.

34. The United Republic of Tanzania is empowered under its laws to borrow from IFAD.

35. I am satisfied that the proposed loan will comply with the Agreement Establishing IFAD.

III. Recommendation
36. I recommend that the Executive Board approve the proposed supplementary loan in terms of the following resolution:

RESOLVED: that the Fund shall make a supplementary loan to the United Republic of Tanzania in various currencies in an amount equivalent to thirty seven million six hundred and fifty thousand special drawing rights (SDR 37,650,000) to mature on or prior to 15 November 2048 and to bear a service charge of three fourths of one per cent (0.75 per cent) per annum, and to be upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented to the Executive Board herein.

Lennart Båge
President
Important assurances included in the negotiated programme loan agreement

(Negotiations concluded on 19 November 2008)

Gender
1. The Government of the United Republic of Tanzania (hereinafter the “Government”) will ensure that gender concerns are mainstreamed in all Programme activities throughout the Programme Implementation Period. The Government will ensure that: (i) the Programme promotes the role of women as agents of change in the local social and economic development; (ii) priority in training is given to women; (iii) the Programme encourages women to take on leadership roles and participate in decision-making at the community level; and (iv) priority is given to qualified women, as per the Government’s existing rules, to work as Programme staff for the Programme.

Monitoring
2. The Government will ensure that the Programme Monitoring and Evaluation systems use the following indicators specified in the Results Framework to monitor Programme sustainability: (a) production and yield of major agricultural and livestock products; (b) proportion of smallholder households using improved technologies; (c) flow of private funds into agricultural and livestock sectors; (d) proportion of smallholder households participating in contract production and out-grower schemes; (e) number of rural microfinance institutions serving farmers; (f) proportion of Local Government Authority qualifying to receive top-up grants; (g) number of favourable agricultural marketing regulations and legislation in place; (h) and proportion of female members of Planning and Finance committees at the village and district levels.

Indigenous peoples’ (IP) concerns
3. The Government will ensure that the interests of the National Minorities and those of the IP are given due consideration in implementing the Programme.

Pest management practices
4. The Government will comply with the International Code of Conduct on the Distribution and Use of Pesticides and ensure that pesticides procured under the programme do not include any pesticides classified as Extremely Hazardous or Highly Hazardous by the World Health Organization (WHO).

Resource protection
5. The Government will take all reasonable measures to ensure that existing laws are enforced to safeguard water, forest and wildlife resources in the Programme Area. The Government will take all measures to ensure sustainability of the Programme without any detriment to the environment, promoting local participation during Programme implementation which is essential for environment sustainability.

Operation and maintenance
6. The Government will ensure that adequate human and financial resources are provided to support the operation and maintenance of Programme-financed investments and the recurrent costs of the Programme operations both during and after the programme implementation period, at least for the useful life of such investments.

Insurance
7. The Government will insure Programme personnel against health and accident risks in accordance with its customary practice in respect of its national civil service. The Government will insure all vehicles and equipment used in connection with the
Programme against such risks and in such amounts as may be consistent with sound practice. The Government may, in either case, finance such insurance from the proceeds of the Loan.

**Authorizations**

8. The Government will provide any Programme Party with such delegations of authority or other authorizations as may be required under its national procedures to implement the Programme in accordance with this Agreement.

**Coordination**

9. The Government will make effective arrangements to coordinate with other international agencies operating in the Programme Area to ensure that: (i) uniform policies are adopted for the same sector or activity, such as extension methodology and staff incentives; (ii) Programme activities financed by different donors in the same Programme Area are carefully phased to avoid constraints on the available human and financial resources; (iii) lessons learned from beneficiary impact assessments are given due consideration in future policy formulation.

**Use of programme vehicles and other equipment**

10. Each Programme Party will ensure that:
   (a) The types of vehicles and other equipment procured under the Programme are appropriate to the needs of the Programme; and
   (b) All vehicles and other equipment transferred to or procured under the Programme are dedicated solely to Programme use.

**Fraud and corruption**

11. The Government will promptly bring to the attention of IFAD allegations or concerns of fraud and/or corruption, if any, in relation to the implementation of the Programme of which it has knowledge or becomes aware.

**Suspension**

12. (a) IFAD may suspend, in whole or in part, the right of the Government to request withdrawals from the Loan Account, upon the occurrence of any of the events set forth in the General Conditions, or any of the following events:
   (i) The focus, framework or substance of the Agricultural Sector Development Programme (ASDP) has been changed in such a way that, in the opinion of IFAD, the goals and purposes of the Programme or the terms of the Programme Loan Agreement may not be fulfilled;
   (ii) The Memorandum of Understanding for the Establishment of the Agricultural Sector Development Programme Basket Fund between the Government of the United Republic of Tanzania and Development Partners and/or the Programme Implementation Plan, or any provision(s) thereof, has/have been waived, suspended, terminated, amended or modified without the prior consent of IFAD, and IFAD has determined that such waiver, suspension, termination, amendment or modification has had, or is likely to have, a material adverse effect on the Programme;
   (iii) IFAD, after consultation with the Government, has determined that the material benefits of the Programme are not adequately reaching the Target Group, or are benefiting persons outside the Target Group to the detriment of Target Group members;
   (iv) The Government and/or any Programme Party has/have defaulted in the performance of any covenant set forth in the Programme Loan Agreement and IFAD has determined that such default has had, or is likely to have, a material adverse effect on the Programme;
(v) IFAD has given notice to the Government that credible allegations of corrupt or fraudulent practices in connection with the Programme have come to the attention of IFAD, and the Government has failed to take timely and appropriate action to address the matters to the satisfaction of IFAD; and

(vi) Procurement is not being carried out in accordance with the Programme Loan Agreement.

(b) Notwithstanding the above, IFAD will suspend, in whole or in part, the right of the Government to request withdrawals from the Loan Account if the Audit Reports required pursuant to the Programme Loan Agreement have not been satisfactorily completed within six (6) months after the due date.

Conditions precedent to effectiveness

13. This Agreement will become effective in accordance with the General Conditions subject to the fulfillment of the following conditions precedent:

(a) Outstanding audit reports and financial statements relating to activities falling under the Mainland Sub-Programme of the IFAD-financed Agricultural Services Support Programme and the Agricultural Sector Development Programme – Livestock Support for Pastoral and Agro-Pastoral Development have been satisfactorily completed and submitted to IFAD;

(b) The Programme Loan Agreement has been duly signed, and the signature and performance thereof by the Government have been duly authorized and ratified by all necessary administrative and governmental action;

(c) A favourable legal opinion, issued by the Attorney General of the Government in respect of the matters set forth in the Programme Loan Agreement and in form and substance acceptable to IFAD, has been delivered by the Government to IFAD.
Key reference documents


Country reference documents

Poverty reduction strategy paper

IFAD reference documents
Project design document (PDD) and key files
COSOP
Administrative Procedures on Environmental Assessment
## Logical framework

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<td>1. Farmers have better use of agricultural knowledge, technologies, and infrastructure contributing to their productivity, profitability and farm incomes</td>
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