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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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Abbreviations and acronyms

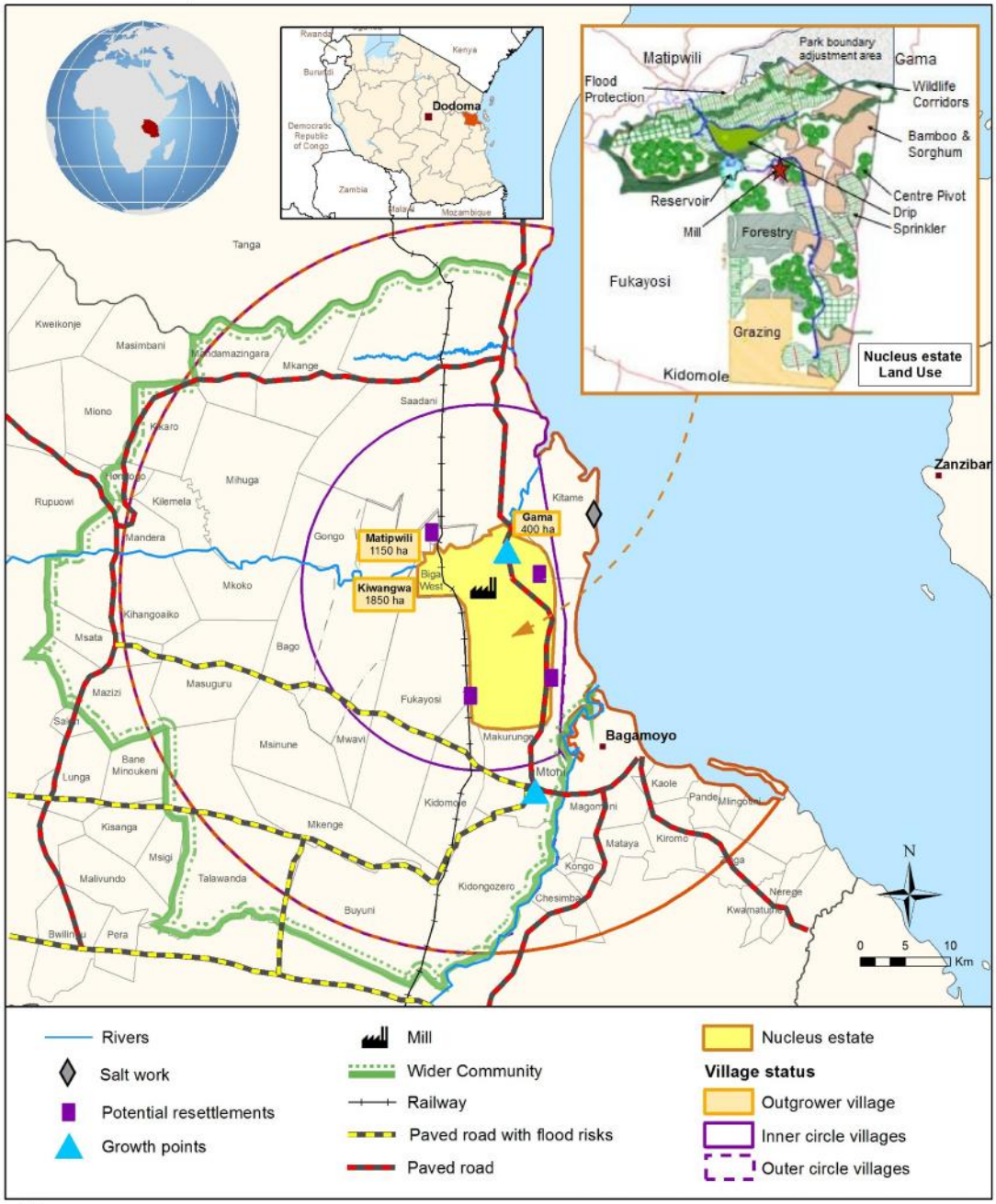
4Ps	public-private-producer-partnership
AfDB	African Development Bank
ASAP	Adaptation for Smallholder Agriculture Programme
AWP/B	annual workplan and budget
BASIC	Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme
BRN	Big Results Now
M&E	monitoring and evaluation
MAFC	Ministry 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



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Map compiled by IFAD | 11-08-2015

United Republic of Tanzania

Bagamoyo Sugar Infrastructure and Sustainable Community Development Programme

Financing summary

Initiating institution:	IFAD
Borrower:	United Republic of Tanzania
Executing agency:	Ministry of Agriculture, Food Security and Cooperatives
Total programme cost:	US$136.5 million
Amount of IFAD loan:	SDR 40.35 million (equivalent to approximately US$ 56.6 million)
Amount of IFAD ASAP grant:	SDR 7.12 million (equivalent to approximately US$10 million)
Terms of IFAD loan:	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
Amount of cofinancing:	African Development Bank: US$30.1 million Private banks: US$19.9 million
Terms of cofinancing:	Loan
Contribution of borrower:	US$15.4 million
Contribution of beneficiaries:	US$4.6 million
Appraising institution:	IFAD
Cooperating institution:	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.[1]

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.

[1] 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.[2] 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

[2] 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[3] 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.

[3] 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)

	IFAD loan	*ASAP*	*AfDB*	*Government*	*Banks and companies*	*Farmers and companies*	*Total*
Component	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*	*Amount*
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
Total	**56 600**	**10 000**	**30 100**	**15 400**	**19 900**	**4 600**	**136 500**

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
Total investment costs	15.3	12.1	30.1	23.8	48.7	38.6	10.0	8.0	19.9	15.8	2.2	1.7	126.2	92.4
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
Total recurrent costs	0.0	-	-	-	7.9	76.5	-	-	-	-	2.4	23.2	10.4	7.6
Total programme costs	**15.4**	**11.3**	**30.1**	**22.0**	**56.6**	**41.5**	**10.0**	**7.3**	**19.9**	**14.6**	**4.6**	**3.3**	**136.5**	**100.0**

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 will be tabled at the session.

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

(To be tabled at the session)

Logical framework

Narrative Summary	Key Performance Indicators (*) denotes ASAP and/or RIMS indicator	Means of Verification	Assumptions (A) / Risks (R)
Goal:			
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.	0.1 Improved incomes (increase in the HH asset indicator) (*) 0.2 Improved food security (decrease in the length of the hungry season; decrease in child malnutrition levels) (*) 0.3 Improved ability to cope with shocks (*) as evidenced by decline in food assistance to programme area from current 10% of households 0.4 National sugar production rises from current 300,000 to 450,000 t with EcoEnergy production	- Baseline, midline and endline HH surveys - Sugar Board of Tanzania (SBT)	(A) Continuing stable national macroeconomic environment, including management of sugar imports & tariffs (R) Financial close between GOT and EcoEnergy achieved, mill & nucleus estate established
Project Development Objective:			
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.	***0.5*** 27 village land registries established and issuing certificates of customary right of occupancy (CCROs) ***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) (*) ***0.7*** Annual yields of cane and other crops through time to show variance and assess resilience during dry and flood periods ***0.8*** 27 villages (20,000 households) with improved infrastructure (including water) for agricultural production and processing (27 villages with water infrastructure established) (*) 0.9 20,000 poor smallholder households supported in coping with the effects of climate change (*)	- District agricultural production annual reports - PCMU quarterly progress reports and company annual reports	(A) Villages establish land registries and issue CCROs to companies (A) Outgrower and other villages infrastructure development successfully implemented (A) Capacity-building and mobilization of villagers into companies successful (A) District technical services provide training in climate-smart technologies
Outcome 1 (Sugarcane outgrower development – IFAD and AfDB financing)			
Establishment of profitable outgrower companies producing irrigated sugarcane and other crops in line with environmental standards and norms for company sustainability.	1.1 Achievement of Bonsucro mark by mill and outgrowers 1.2 Full cost recovery for bulk infrastructure operation and management 1.3 Smallholder companies sustainable (cost of sales less than 65% of revenue) and distributing dividends to shareholders	- Company annual reports - EcoEnergy semi-annual report - External assessment at PY7 - Bulk infrastructure annual company reports	(A) Outgrower companies follow modern cane planting and green-harvesting technologies (A) Outgrower companies save depreciation & have audited accounts
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.	1.4 Bulk infrastructure partially operational by PY 3, fully by PY5 1.5 Equipment and cane planting financing obtained from banks 1.6 24 outgrower farms built by PY 7 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) 1.8 Yield of 95 t/ha and 12% sucrose content achieved	- Company reports and accounts - EcoEnergy mill quarterly statistics - PCMU quarterly progress reports	(A) TANESCO provides electricity as foreseen (A) Cane supply agreements signed by companies and EcoEnergy for fair DOP (A) Timely supply of inputs and technical knowledge by EcoEnergy

Narrative Summary	Key Performance Indicators (*) denotes ASAP and/or RIMS indicator	Means of Verification	Assumptions (A) / Risks (R)
			to outgrowers
Outcome 2 (Climate-resilient community development – IFAD and IFAD ASAP financing)			
Establishment of profitable agribusinesses and SMEs using climate-smart techniques to produce food and livestock products for people working in the sugar sub-sector.	***2.1*** Yields by crop, meat and milk production through time ***2.2*** About 22 agribusinesses and 500 SMEs (cost of sales less than 65% of revenue) and providing income to shareholders ***2.3*** About 8500 ha of land managed under climate-resilient practices using conservation agriculture and range management (*)	- Company reports and accounts - District prod stats - Agribusiness/SME reports	(A) Capacity-building with smallholders empowers them and builds confidence and capacity
Outputs: 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.	2.4 Climate-smart village infrastructure established in 22 villages (*) ***2.5*** Climate-smart demos in 27 villages for 3 years, no of people who adopt (*) ***2.6*** No of groups involved in climate risk and natural resource management (*) ***2.7*** Agribusinesses established: 3 in PY4, 6 PY5:, 8 PY6, 5, PY 8 ***2.8*** SMEs established: 50 in PY3, 100 PY4, 150 PY 5, 200 PY 6	- Company reports and accounts - District agricultural production annual reports	(A) Equipment financing obtained by companies from banks (A) Able to purchase suitable equipment and labour saving mechanization