

AFRICAN DEVELOPMENT BANK



PROJECT: TANZANIA AGRICULTURAL DEVELOPMENT BANK

COUNTRY : TANZANIA

APPRAISAL REPORT

November 2016

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TANZANIA

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Public Disclosure Authorized

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OFSD DEPARTMENT

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CURRENCY EQUIVALENTS

23 SEPTEMBER 2016

1 Unit of Account (UA) = 1.39 US Dollar (USD)

1 UA = 3,038.13 Tanzanian Shilling (TZS)

1 USD = 2,178.90 TZS

ABBREVIATIONS

ADF	African Development Fund
AfDB	African Development Bank
ALCO	Asset and Liability Committee
ASDP	Agriculture Sector Development Programme
ASDS	Agriculture Sector Development Strategy
BDS	Business Development Services
BRN	Big Results Now
CAG	Controller and Auditor General
CSP	Country Strategy Paper
DFI	Development Finance Institution
E&S	Environmental and Social
ESMS	Environmental and Social Management System
FSAP	Financial Sector Assessment Programme
FYDP	Five-Year Development Plan
GDP	Gross Domestic Product
IFSD	International Financial Reporting Standards
IMF	International Monetary Fund
ISS	Integrated Safeguard System
IT	Information Technology
MEMARTS	Memorandum and Articles of Association
MIS	Management Information System
NPL	Non-Performing Loan
PAR	Project Appraisal Report
QCBS	Quality and Cost Based Selection
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SDG	Sustainable Development Goal
TA	Technical Assistance
TADB	Tanzania Agricultural Development Bank
TIB	Tanzania Investment Bank
TZS	Tanzania Shilling
URT	United Republic of Tanzania
UA	Unit of Account
USD	United States Dollar

Loan Information

Client's information

BORROWER: United Republic of Tanzania

EXECUTING AGENCY: Tanzania Agricultural Development Bank

Financing Plan

Source	UA Million	USD Million	Instrument
African Development Fund	67.27	93.51	Loan

ADF Key financing information

Interest Rate	None
Service Charge	0.75%
Commitment Fee	0.50%
Tenor	40 years
Grace Period	10 years

Timeframe - Main Milestones

Project concept note clearance	05 September 2016
Project approval	14 December 2016
Signing of loan agreement	31 January 2017
Last repayment	December 2057

Project Summary

Project Overview: The objective of the present project, which involves a loan from the African Development Fund (ADF) to the United Republic of Tanzania (URT) to be on-lent to the Tanzania Agricultural Development Bank (TADB), is to contribute to the development of the agriculture sector in Tanzania. The agriculture sector provides employment for about 67% of the population of Tanzania and has a very big potential for expansion given the abundance of arable land and the availability of inland water resources. However, the sector needs to be developed if Tanzania is to achieve sustainable economic development and poverty reduction. Specifically, in order for the country to achieve the Sustainable Development Goals and the Tanzania Development Vision 2025, the agriculture sector must sustainably grow at over 10% per annum. Unfortunately, over the past ten years, the sector has grown at an average of 4.4% per annum and contributed an average of 29.3% of Gross Domestic Product (GDP). These rates have recently declined to 3.2% per annum and 26% of GDP (Q2 2016), respectively. A major problem facing the agriculture sector is the unavailability of medium to long-term finance to support, among other things, agricultural production, processing and marketing. The TADB is designed to address this through the provision of much-needed funding to a sector that is key to the country's development. Indeed, the requested loan from the ADF to the URT will be passed on to the TADB as a loan thereby enabling this institution to assist Tanzania in achieving its development goals by extending much-needed funding to the agriculture sector.

Project Beneficiaries: Tanzania is heavily dependent on agriculture which accounts for 26% of GDP and 35% of foreign currency earnings. The country has a dual agricultural economy, the smallholder farmers and the commercial/large-scale farmers. The smallholder farmers dominate the agriculture sector and account for most of the food produced in Tanzania. These farmers are expected to be the main beneficiaries of the project. The project will also benefit women as they represent the majority of the smallholder farmers in Tanzania. Women will benefit from having a portion of the funding specifically dedicated to them as well as from the establishment of a mentoring program to build and enhance their skills. The project will thus have positive social and gender pay-offs.

Project Rationale: The project is consistent with the Tanzania Development Vision 2025 which emphasizes the following three as national priority goals: i) ensuring basic food security, ii) improving household income levels and iii) increasing export earnings. The National Five-Year Development Plan (FYDP I and FYDP II) also identifies the agriculture sector as a priority for the country. The specific agriculture sector policies and strategies, including the Agriculture Sector Development Strategy (ASDS), the Agriculture Sector Development Programme (ASDP), the Kilimo Kwanza Initiative of 2009 and the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) initiative, all call for increased commercialization of agriculture. The latest national development initiative, the Big Results Now (BRN), identifies three priority crops for the agriculture sector which are maize, rice and sugarcane as they contribute to food security and import substitution. The project is consistent with a range of Bank Group policies and strategies including: i) the Bank's Country Strategy Paper for Tanzania (CSP, 2016-2020), ii) the Bank's Ten Year Strategy (2013-22), iii) the Bank's High 5s, iv) the Bank's new Strategy for Feed Africa (2016-2025) and v) the Bank's Gender Strategy (2014-18).

Bank Value Added: The Bank Group has vast experience in supporting national development finance institutions (DFIs) in Africa. Through this operation, the Bank Group will not only provide the United Republic of Tanzania with the necessary financial resources to support the TADB, thereby enabling it to expand its operations and outreach, but will also contribute to building and enhancing the capacity of this national DFI through the proposed technical assistance program (TA Program) which will be funded with a portion of the funds that will be made available to the TADB. The Bank Group's solid expertise and knowledge of DFIs has fed into the design of the TA Program which is expected to contribute to ensuring that the TADB is in a position to intermediate the funds provided to it in an impactful and sustainable manner.

Institutional Development and Knowledge Building: The project will add to the body of knowledge already acquired within the Bank Group following numerous interventions to support agriculture as well as DFIs across Africa. The Bank Group will ensure that knowledge from the operation is captured through adequate monitoring and evaluation of its outputs and outcomes, supervision missions, mid-term review, stakeholder consultations and project completion reports at the end of the operation.

Results Based Logical Framework

Project Goal: To promote financial inclusion and support transformation of agriculture from subsistence to commercial farming in order to effectively and sustainably contribute to economic growth and poverty reduction in Tanzania.						
	RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (Including CSI)	Baseline	Target		
IMPACT	Enhanced growth rate of the agriculture sector and increased contribution to GDP.	Annual growth rate of the of agriculture sector.	3.2% (Q2 2016).	10% by 2025 (in line with the Tanzania Development Vision 2025).	IMF’s Article IV Consultation Staff Reports.	
		Contribution of the agriculture sector to GDP.	26% (Q2 2016).	33% by 2025 (in line with the Tanzania Development Vision 2025).	IMF’s World and Regional Economic Outlook reports. National Bureau of Statistics.	
OUTCOMESS	Outcome 1. Increased income of farmers.	Mean per capita income of farmers in the beneficiary areas.	USD 466 p.a.	USD 600 p.a. by 2020.	Household and Economic Survey Reports.	Risks <ul style="list-style-type: none">The proceeds of the ADF loan not deployed successfully thereby jeopardizing the financial success of the project and the achievement of its development outcomes. Mitigation <ul style="list-style-type: none">High demand for funding from the agriculture sector in Tanzania.The TADB is committed to the successful implementation of the TA Program and enhancing the capacity of its clients.The TADB is expected to finance viable borrowers as a result of its TA-enhanced lending operations.
	Outcome 2. Increased agricultural production and productivity (yields) of the targeted agriculture value chains. <i>Note that the basis of the estimates are the baseline numbers and targets outlined in Tanzania’s Agricultural Sector Development Program (ASDP).</i>	Average annual productivity of maize (Metric tons per hectare, MT/ha).	Yield of 1.6 of MT/ha in 2014.	Increase of 40% by 2020.	National Bureau of Statistics and ASDP.	
		Total annual production of maize (MT).	Annual production of 6,734,438 MT in 2014.	Increase of 20% by 2020.	Ministry of Agriculture, Livestock and Fisheries.	
		Average annual productivity of paddy (MT/ha).	Yield of 1.8 MT/ha in 2014.	Increase of 50% by 2020.	Tanzania Revenue Authority.	
		Total annual production of paddy (MT).	Annual production of 1,681,125 MT in 2014.	Increase of 20% by 2020.		
		Average annual yield of sunflower (MT/ha)	Yield of 1.6 MT/ha in 2014.	Increase of 25% by 2020.		
	Outcome 3. Increased exports.	Volume of exported maize in metric tons.	1,056,559 metric tons in 2014	Increase of 15% by 2020.		
OUTPUTS	Output 1. Funding extended to the agriculture sector from the proceeds of the ADF loan.	Total volume of funding disbursed to the agriculture sector including the proportion benefitting women.	NA	At least UA 67.27 million disbursed including 20% specifically to women in agriculture.	The financial statements and operational reports of the TADB.	Risks <ul style="list-style-type: none">Insufficient demand for funding from the agriculture sector.Consultants not recruited and TA Program not implemented.Mentoring program not established and lack of interest from TADB’s larger clients to mentor women. Mitigation <ul style="list-style-type: none">High demand for funding from the agriculture sector in Tanzania.The TADB is committed to strengthening its own capacity with the disbursement of the second tranche of the ADF loan conditional on the implementation of 2 of the 3 components of the TA Program.The TADB is committed to building the capacity of its clients including through the proposed mentoring program for women.TADB’s larger clients will be incentivized to mentor women.
	Output 2. Implementation of the TA Program for building the capacity of the TADB.	Number of components of the TA Program implemented by the TADB.	NA	Full implementation of the TA Program including training of at least 50 staff.	Bank Group regular supervision and monitoring reports.	
	Output 3. Implementation of the mentoring program for women.	Number of women benefitting from the mentoring program.	NA	At least 880 women benefitting from the mentoring program.		

Project Goal: To promote financial inclusion and support transformation of agriculture from subsistence to commercial farming in order to effectively and sustainably contribute to economic growth and poverty reduction in Tanzania.						
	RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (Including CSI)	Baseline	Target		
KEY ACTIVITIES	<ul style="list-style-type: none">Provision of funding from the African Development Fund to the United Republic of Tanzania to support the Tanzania Agricultural Development Bank.Technical assistance program (TA Program) to build and strengthen the capacity of the TADB.					INPUT:
						Funding from the ADF for an amount of UA 67.27 million to be passed on by the United Republic of Tanzania to the TADB as a loan. The terms and conditions of the loan from the URT to the TADB will be in line with those of the loan from the ADF to the URT except for the loan currency which will be Tanzanian Shilling.

REPORT AND RECOMMENDATION OF THE MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSED LOAN TO THE UNITED REPUBLIC OF TANZANIA TO SUPPORT THE TANZANIA AGRICULTURAL DEVELOPMENT BANK

Management submits the following report and recommendation for a loan from the African Development Fund (ADF) to the United Republic of Tanzania (URT) which will be on-lent to the Tanzania Agricultural Development Bank (TADB). The loan is for an amount of UA 67.27 million. The present appraisal report¹ focuses principally on assessing the TADB since the proceeds of the ADF loan are to be passed on by the URT to this national development finance institution (DFI) in the form of a loan. The terms and conditions of the loan from the URT to the TADB will be in line with those of the loan from the ADF to the URT except for the loan currency which will be Tanzanian Shilling.

1. STRATEGIC THRUST & RATIONALE

1.1. The agricultural sector provides employment for about 67% of the population of Tanzania² and has a very big potential for expansion given the abundance of arable land³ and the availability of inland water resources. However, the sector needs to be developed if Tanzania is to achieve sustainable economic development and poverty reduction. Specifically, in order for the country to achieve the Sustainable Development Goals (SDGs) and the Tanzania Development Vision 2025, the agriculture sector must sustainably grow at over 10% per annum. Unfortunately, over the past ten years, the sector has grown at an average of 4.4% per annum and contributed an average of 29.3% of Gross Domestic Product (GDP). These rates have recently declined to 3.2% per annum and 26% of GDP (Q2 2016), respectively.

1.2. A major problem facing the agricultural sector is the unavailability of medium to long-term finance to support, among other things, agricultural production, processing and marketing. The TADB is designed to address this through the provision of much-needed funding to a sector that is key to the country's development. Indeed, the requested loan from the ADF to the URT will be used to support the TADB thereby enabling this institution to assist Tanzania in achieving its development goals and inclusive growth by extending much-needed funding to the agricultural sector.

1.3. The present project is aligned with Tanzania's key priorities. In highlighting the importance of the agriculture sector and to address the challenges facing it, the Tanzania Development Vision 2025 emphasizes the following three as national priority goals: i) ensuring basic food security, ii) improving household income levels and iii) increasing export earnings.

¹ The present report has been prepared based on information provided by the URT and the TADB before, during and after the AfDB's appraisal mission to Tanzania from the 5th to 8th of September 2016. During the mission, a series of meetings were held with senior government officials at the Ministry of Finance and Planning, Ministry of Agriculture, Livestock and Fisheries, Office of Treasury Registrar, Agriculture Council of Tanzania and the Bank of Tanzania. Extensive discussions were also held with the senior management and technical staff of the TADB. Furthermore, the appraisal report is informed by the lessons learnt from supporting similar projects in other African countries.

² The ongoing portfolio in Tanzania, as of September 2016, comprises 24 operations with total net commitment of UA 1.36 billion. The portfolio consists of 20 public sector operations and 4 private sector operations. Public sector operations (mostly infrastructure: transport, power and water supply and sanitation) represent 86.45% of the portfolio while private sector operations make up the remaining 13.55%. The ongoing operations are financed through various instruments. ADF loans account for 52% while AfDB public sector loans represent 27% and private sector loans account for 14%. ADF grants and various AfDB administered trust funds account for the remaining 7% of the financing. See **Appendix II** for additional information on the portfolio.

³ Agricultural Land in Tanzania was last measured at 396,500 sq.km in 2016 (44.8% of total land area) versus 369,744 sq.km in 2008 representing an increase of 7% over the period.

The National Five-Year Development Plan (FYDP I and FYDP II) also identifies the agriculture sector as a priority for the country. The specific agriculture sector policies and strategies, including the Agriculture Sector Development Strategy (ASDS), the Agriculture Sector Development Programme (ASDP), the Kilimo Kwanza Initiative of 2009 and the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) initiative all call for increased commercialization of agriculture. The latest national development initiative, the Big Results Now (BRN), identifies three priority crops for the agriculture sector which are maize, rice and sugarcane as they contribute to food security and import substitution. One of the three “big ideas” for agriculture under the BRN is delivery of 25 commercial and out-grower investments, 16 for sugar and 9 for rice.

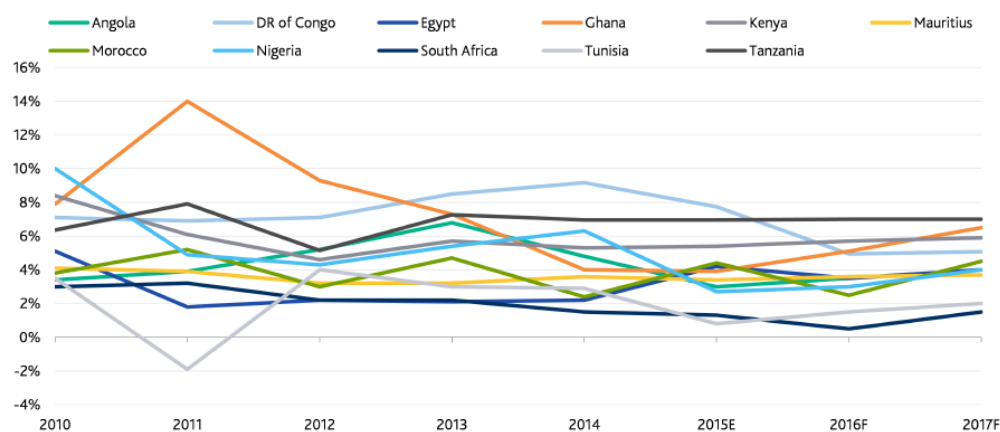
1.4. The present project is consistent with a range of Bank Group policies and strategies. These include: i) the Bank’s Country Strategy Paper for Tanzania (CSP, 2016-2020) which calls for unlocking the country’s productive capacity to promote various key sectors including agriculture, ii) the Bank’s Ten Year Strategy (2013-22) particularly its operational focus areas (private sector development), areas of special emphasis (agriculture and food security) and the promotion of inclusive growth by offering support to smallholder farmers, iii) the Bank’s High 5s especially Industrialize Africa, Feed Africa and Improve the quality of life for Africans, iv) the Bank’s new Strategy for Feed Africa (2016-2025) and v) the Bank’s Gender Strategy (2014-18) for the promotion of gender equality.

2. COUNTRY CONTEXT

The Economy

2.1. Tanzania’s economy is one of the fastest growing among large Sub-Saharan African countries (Figure 1). Real GDP growth is expected to remain around 7% in 2016 and 2017 (in line with 2015), according to the International Monetary Fund (IMF), supported by continued investment in infrastructure, manufacturing and tourism. Better availability and reliability of power supply, a rapidly expanding services sector and an improvement in the country’s terms of trade due to lower oil prices are also factors that are stimulating growth. Furthermore, Tanzania holds significant growth potential in every major sector of the economy, including agriculture, manufacturing, services, tourism and mining. GDP growth is expected to be driven by the construction, transport, communications and financial services sectors. Recent offshore natural gas discoveries are projected to expand the country’s export base and help to further diversify the economy.

Figure 1. Real GDP Growth Rate Forecast



Sources: IMF, Tanzania’s National Bureau of Statistics, Moody’s Investors Service.

2.2. Tanzania has been able to weather recent risk aversion to emerging markets and financial market volatility, which led to a 24% depreciation in the local currency against the US Dollar in 2015, thanks to its diversified economy and net oil import position. As a

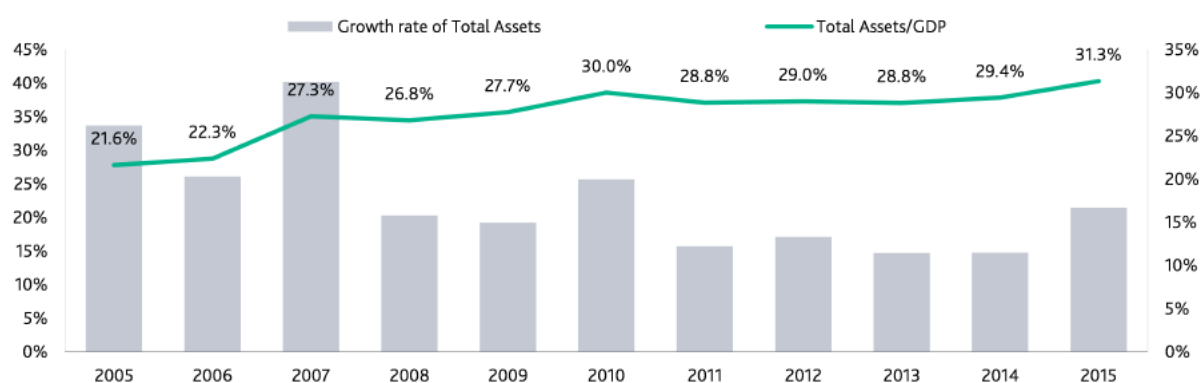
net oil importer, Tanzania is benefitting from the decline in global oil prices, its external position has improved and lower pump prices are supporting domestic consumption and growth.

2.3. Relatively low wealth levels and widespread poverty are constraints on economic growth. However, while significant infrastructure bottlenecks hamper the country's full growth potential. Tanzania is also less competitive, has lower productivity and provides a less favorable business environment than some of its regional peers such as Kenya and Rwanda.

The Banking Sector

2.4. With total assets approaching TZS 28.5 trillion at end of 2015 (USD 13.08 billion), Tanzania's banking sector is the seventh largest in sub-Saharan Africa, behind South Africa, Nigeria, Angola, Mauritius, Kenya and Ghana. Banking assets rose at an annual rate of 21% between 2005 and 2015, compared with average nominal GDP growth of 17% over the same period. The banking system, however, remains small in a global and regional context. Banking system assets are estimated at around 31.3% of GDP as of December 2015 (Figure 2) due to low per capita income, fairly low banking penetration and low transaction volumes.

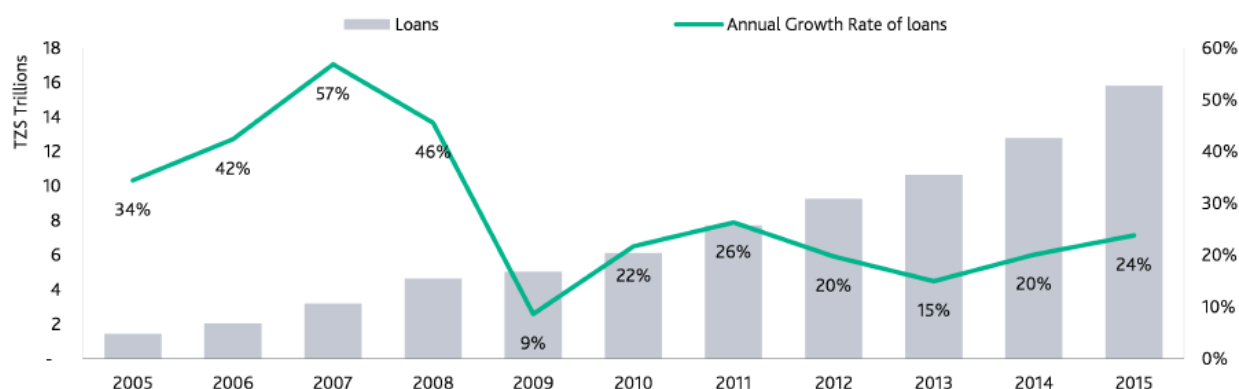
Figure 2. Banking System Assets as a Percentage of GDP



Sources: Tanzania's National Bureau of Statistics, Bank of Tanzania.

2.5. Lending growth grew at an annual rate of 27% between 2005 and 2015, with particularly high loan growth prior to 2009 levelling off to 21% over the past five years (Figure 3). The expansion covered most economic sectors, but the agricultural, hunting, forestry and fishing sectors have slowed recently to a five-year annual growth rate of 11%. Rapid growth continues in trade (25%), building, construction, real estate and leasing (32%), education (48%), health (53%), and mining and quarrying (52%). Personal and other services grew less aggressively over the past five years (20% annual growth rate), but have recently picked up with 46% growth in 2015 alone.

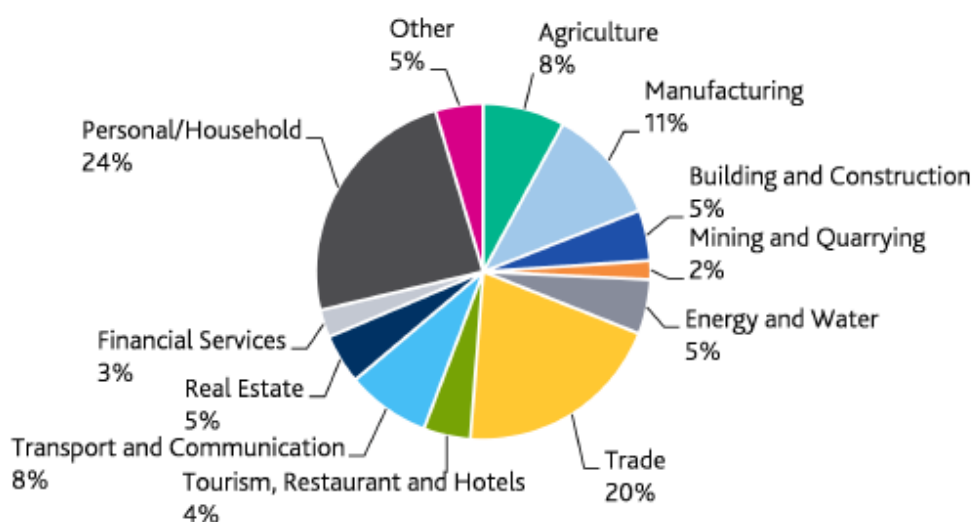
Figure 3. Lending Growth Rates



Source: Bank of Tanzania.

2.6. **Loan books cover a wide range of sectors and segments (Figure 4), a reflection of the diversification of the Tanzanian economy.**

Figure 4. Sector Composition as of December 2015



Source: Bank of Tanzania.

2.7. **The banking sector plays a dominant role in the financial system with banks having around a 71.3% market share as of the end of March 2016.** Pension funds accounted for 26.5%, insurance companies for 1.9% and collective investment schemes for 0.5%. Four banks account for around half of system assets. These are: CRDB Bank, National Microfinance Bank, National Bank of Commerce and Standard Chartered Bank Tanzania. A total of 36 commercial banks and 12 community banks operate in the country ensuring some level of competition. Concentration remains high, however, as smaller banks and community banks generally lack extensive branch networks and are unable to compete with larger banks, often leading to weaker financial profiles.

2.8. **Non-performing loans (NPLs), defined as 90 days past due, have remained high over the past few years, ranging between 6.5% and 9.3% of gross loans since 2011.** Despite robust growth in the economy since then, NPLs remain elevated and stood at 8.4% of total loans as of March 2016. Weaknesses in certain economic sectors are to blame, including the inherently volatile agricultural sector which accounts for the highest NPLs. The agricultural sector is a top priority for development by the Government of Tanzania but problem loans are rife. This is due to the inherent volatility of the sector given its dependence on commodity prices and vulnerability to droughts. This, combined with a tendency for the commercial banks to extend loans with short-term maturities and high interest rates, results in a higher propensity to default in the agriculture sector compared to other sectors. In fact, the little funding that is currently offered to the agriculture sector is not considered as suitable given its high interest rates and short-term maturities and does not necessarily contribute to the development of the sector either as it does not provide the flexibility to accommodate the inherently seasonal and cyclical nature of agriculture.

The Agriculture Sector

2.9. **Agriculture in Tanzania is an important sector of the economy as it accounts for 26% of the country's GDP and employs 67% of its population.** The sector is also an important source of export revenues. Despite its significance to livelihoods and to the overall economy, the agriculture sector remains hampered by widespread underinvestment. As a result it continues to operate largely at subsistence levels and its potential to bring commercialization to scale remains for the most part unrealized.

2.10. **A major problem facing the agricultural sector is the unavailability of finance (particularly medium to long-term) to support agricultural production, processing and marketing.** As of December 2015, a mere 8% of commercial banks' lending went to the sector with most of which went to large companies operating in Tanzania. As a result of this underinvestment, production in the agriculture sector has not increased significantly over the past decades.

2.11. **In Tanzania, there is huge potential to produce both food and non-food crops for the domestic and export markets if access to term (medium to long-term) finance is improved.** The availability of such finance will enable farmers to reduce their exposure to the cyclicity and seasonality of agriculture, to make investments in crops with long gestations periods and to acquire farm machinery and inputs, irrigation equipment, storage and processing facilities thereby transforming the sector and increasing its contribution towards economic growth. Access to term finance is critical for the growth of the agriculture sector and the shift from subsistence to commercial agricultural production.

2.12. **The commercial banks in Tanzania are reluctant to expand their lending to the agriculture sector which they view as risky.** This deprives the sector of the much-needed funds to boost production, processing and marketing. The commercial banks tend to fund themselves with short-term deposits limiting their incentive to extend term finance to a sector that they consider as risky although it is not necessarily more risky than other sectors, it is just that these banks, having found their niches, have not done enough to adequately structure their lending to the sector taking into account risk factors such as seasonal variations which can be addressed through the provision of medium to long-term lending. It is against this background, and for sustainable economic growth in the country that, the Government of Tanzania has decided to establish the TADB so as to address the observed bottlenecks and enhance access to credit in the agriculture sector. The TADB has been established as a national DFI with a key role of being a catalyst for delivery of credit facilities for the development of agriculture in Tanzania. However, the TADB alone cannot satisfy the significant demand for credit of the entire sector and this is why it aims to focus on particular actors as well as on a set of high potential value chains in which investments can produce results within a short timeframe. The TADB will also take a holistic approach and finance the entire value chain namely production, processing and marketing.

2.13. **It is worth noting that in 2005, the Government of Tanzania implemented the recommendations of the Financial Sector Assessment Programme (FSAP) of the IMF which was undertaken in 2003.** It was recognized that lack of long-term financing was among the stumbling blocks in the growth of the economy. Among the activities that were earmarked for implementation was the establishment of development finance institutions to provide long-term financing to key economic sectors including agriculture. This led to the establishment of a number of credit schemes while the Tanzania Investment Bank (TIB) was transformed into a development finance institution with an agricultural financing window albeit not sufficient to address the needs of the agriculture sector hence the establishment of the TADB. The failure of the commercial banks to meet the needs of the agriculture sector in Tanzania provides a strong justification for Government intervention particularly through a dedicated DFI whose mandate is to specifically serve the agriculture sector.

3. PROJECT DESCRIPTION

3.1. **As previously stated, among the major problems facing the agriculture sector in Tanzania is the availability and cost of term finance to support agricultural production, processing and marketing.** As of December 2015, credit to the agriculture sector accounted for only 8% of total lending by the commercial banks. Most of this lending was to large enterprises operating in the sector. In fact, despite rapid growth of the financial sector in

Tanzania, access to credit and other financial services is a serious constraint to many actors in the agriculture sector especially the smallholder farmers for whom funding from the banks is simply out of reach. This essentially underlines the rationale for public intervention as the financial system has not been able to adequately address gaps in the provision of finance to the agriculture sector in Tanzania.

3.2. The Bank Group is to intervene to provide resources from the African Development Fund to the United Republic of Tanzania which will utilize the borrowed resources to extend a loan to the TADB which is a state-owned DFI established as part of the second pillar of the country's Kilimo Kwanza Initiative of 2009. The TADB, whose design has been informed by an in-depth review of global experiences relating to successful national DFIs, is meant to play a critical role in alleviating the financing constraints that hamper the growth of Tanzania's agriculture sector.

3.3. The TADB was officially launched and started operations in 2015. It is structured to deliver medium and long-term funding through wholesale and direct lending as well as guarantees and risk-sharing instruments to address the financing gaps in the agriculture value chains.

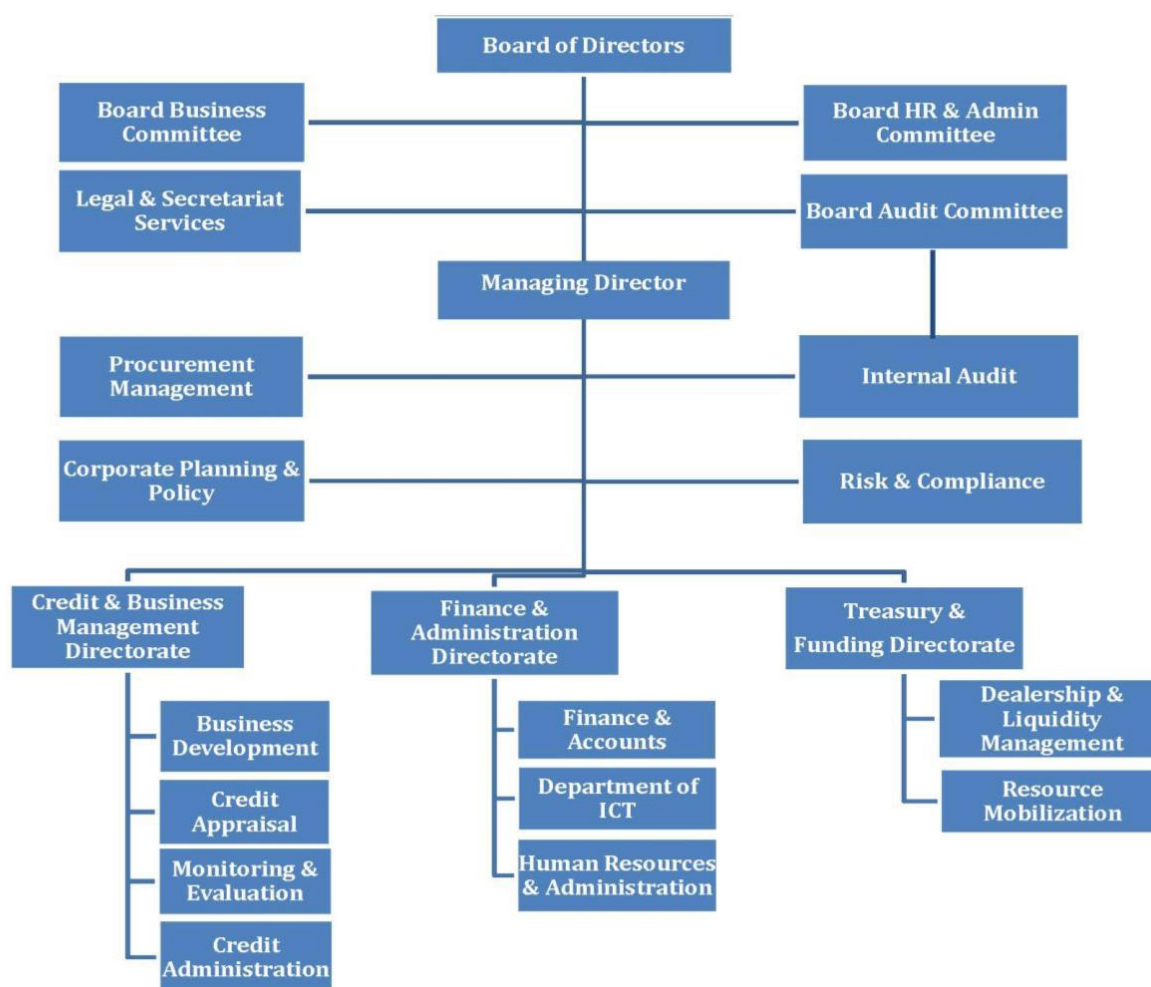
3.4. The TADB has been focusing on a set of high potential value chains within the national priorities. The fourteen value chains of focus fall under eight agriculture sub-sectors as follows: cereals (maize and rice), industrial commodities (sugarcane and cashew nuts), oilseeds (sunflower and sesame), horticulture (vegetables, fruits and spices), livestock (diary and beef), poultry, fisheries and forestry. Overtime, the TADB will support other value chains as more funds are made available to it including from the ADF.

3.5. The TADB will predominantly target smallholder farmers who carry out essential agricultural-related economic activities within the value chains of focus (understanding that serving the smallholder farmers directly will be challenging, the TADB aims to reach them through their farmer organizations). These farmers will be targeted through funding as well as technical assistance which the TADB will implement by working closely with Business Development Services (BDS) providers across Tanzania. The ultimate objective in doing so is to enable these farmers to make the transition from subsistence to commercial farming in an effective and sustainable manner. That said, the TADB will also target other medium and large scale farmers as well as the agro-processors, among others. Furthermore, the TADB will finance infrastructure development for irrigation, storage/warehousing and transport.

3.6. The pricing of TADB's facilities will take into account its developmental mandate as well as the objective of maintaining sustainable operations. This national DFI will aim to extend funding with affordable interest rates for agriculture production, processing and value addition. As part of its mandate to develop agriculture, it will aim to maintain low interest rates for the smallholder farmers based on its cost of funds plus a sufficient margin to cover operating expenses and generate a profit to facilitate sustainability of operations. Given that smallholder farmers are potentially one of Tanzania's most powerful sources of economic growth, the TADB will thus contribute to inclusive growth as well as sustained poverty alleviation. The provision of long-term funding in local currency to the smallholder farmers will also have a positive impact on affordability. Extending loan tenors will have a beneficial impact on the cash flows of the borrowers, thus allowing them to expand their borrowing capacity and businesses. For the larger clients, the TADB will extend financing on market confirming terms, nevertheless. This is important as sustainability is paramount and the viability of the products that the TADB provides will be crucial to its success.

3.7. **The TADB is currently wholly-owned by the Government of Tanzania and is run by a board comprised mostly of independent non-executive directors appointed through a competitive process.** The board has three committees namely the board business committee, the board human resource and administration committee and the board audit, risk and compliance committee. Each committee is assigned specific focus areas and specialized functions in the operations of the TADB. The managing director is in charge of the TADB's day-to-day affairs supported by a senior management team. The TADB has begun operations with 45 staff and expects to continue recruiting staff based on the needs and expansion of business operations to reach a total of 150 by 2020. The TADB operates from its head office in Dar es Salaam and overtime expects to open a number of offices in relevant areas of the country for reaching out to potential customers. Finally, its structure is as follows:

Figure 5. Organization Structure



3.8. **The TADB's authorized share capital is Tanzania Shilling (TZS) 800 billion (USD 367.16 million).** In order to enable the TADB to start carrying out its functions, the Government of Tanzania has so far injected TZS 60 billion (USD 27.54 million) as its initial capital contribution. However, this limited funding base is hindering the TADB's ability to fully achieve its objectives including extending medium to long-term loans to the agriculture sector especially the loans needed for infrastructure development. It is against this background that the URT is requesting a loan from the ADF in an amount of UA 67.27 million (USD 93.51 million, TZS 204.38 billion) whose proceeds will be on-lent to the TADB thereby enabling it to expand its operations and outreach.

3.9. The borrowed funds are expected to be deployed by the TADB towards funding a technical assistance program (TA Program) and supporting complementary activities which are expected to have a positive impact on productivity in the agriculture sector in Tanzania:

- Support in the form of medium and long-term funding for agricultural infrastructure development (e.g. warehousing facilities and irrigation schemes to provide reliable access to water to absorb shocks caused by climatic variability);
- Support in the form of medium and long-term funding for access to agricultural inputs (financing access to quality seeds, fertilizers and pesticides);
- Support in the form of medium and long-term funding to agro-processing industries;
- Support in the form of medium and long-term funding for agro-mechanization (e.g. tractors, harvesters and irrigation equipment); and
- Building resilience and capacity to absorb costs by having a portion of the funds invested in low risk/high return instruments in order to absorb the high transaction costs associated with financing smallholder agriculture at low interest rates.

3.10. The TADB has been established to promote the transformation of the agriculture sector from subsistence to commercial farming by offering loans to the sector at affordable interest rates. Affordable interest rates have been identified to be a key driver to unlock the potentials of smallholder farmers. The agricultural sector in Tanzania has been characterized with low returns and therefore low interest rates for loans are needed to assist in enabling start up projects to take off. Lending at low interest rates to the smallholder farmers can nevertheless restrict the ability of the TADB to generate profits and can also result into operating losses which can deplete capital and endanger the long-term sustainability of the institution. To address this issue, the TADB intends to deploy the following measures in order to preserve capital and ensure funding sustainability:

- **Adequate pricing of loans to ensure that the overall yields remain positive:** The TADB intends to recover all costs of financial intermediation (including administrative expenses, borrowing costs and provisions against expected losses) and to earn an appropriate return on capital. In its pricing policy, the TADB will charge a margin over the base rate plus fees and commissions to recover the administrative and operating costs incurred in generating, implementing and monitoring a loan as well as the cost of capital employed. While the smallholder farmers will be charged low interest rates, the TADB expects to compensate for this by charging the larger clients interest rates that are essentially market confirming. This cross-subsidization will enable the TADB to assist the smallholder farmers while generating positive returns to ensure sustainability. In addition, the TADB will diversify its portfolio by placing a small portion of its funds in government securities that offer risk free returns. Such diversification will lower the risk profile of the TADB's portfolio while at the same time enhance its return; and
- **Moderating and controlling the issuance of new loans and advances:** Issuance of new loans and advances will be subject to the availability of funding and compliance with existing capital adequacy regulations which require banks not to increase their risk weighted assets above the regulatory thresholds in relation to the size of core capital. In order to ensure compliance, the TADB's Asset and Liability Committee (ALCO) will continually review its liquidity and capital adequacy and ascertain its ability to continue with the issuance of new loans. The TADB may temporarily withhold issuance of new loans and advances if liquidity and capital adequacy ratios are breached and if other circumstances are deemed necessary such as a deteriorating loan portfolio and high level of non-performing loans.

3.11. Furthermore, the TADB's funding strategy has been developed in order to outline the potential sources of funding. While commercial banks mainly rely on short-term customer deposits as the key source of funding, the TADB's funding will come from the main shareholder and from concessionary borrowings from international DFIs, at least in the first few years of operations. This will contribute to ensuring that the TADB's funds are low-cost putting it in a position to extend affordable loans to its target beneficiaries particularly the smallholder farmers to whom funding must be affordable to pursue profitable agriculture activities to transform their lives into improved standards.

Technical Assistance

3.12. As agreed with the TADB and the Tanzanian authorities during the appraisal mission, a portion of the proposed funding of UA 1.0 million (equivalent to USD 1.39 million) will be utilized to fund a TA Program to further enhance and strengthen the capacity of this institution. The Bank Group has vast experience in supporting national development finance institutions in Africa. Through this present project, the Bank Group will not only provide the United Republic of Tanzania with the necessary financial resources to further support the TADB, thereby enabling it to expand its operations and outreach, but will also contribute to building and enhancing the capacity of this national DFI through the proposed TA Program. The Bank Group's solid expertise and knowledge of DFIs has fed into the design of the TA Program which is expected to contribute to ensuring that the TADB is in a position to intermediate the funds provided to it in an impactful and sustainable manner. The main components are provided below and are based on a preliminary assessment of the TADB. However, once the funds are disbursed, the TADB will be expected to implement the TA Program beginning with a thorough needs assessments to further fine-tune the list of areas that need to be enhanced and strengthened. That said, the below components will serve as a good guide for implementation:

- **Component 1: Process and System Improvements**

This will include support to the TADB in key areas such as asset and liability management, risk management, corporate and capital planning, credit underwriting, risk based pricing, product development and costing and the enhancement and/or development of relevant strategies, procedures, policies and guidelines (especially those that relate to internal control systems and audit, code of conduct, financial management and accounting and procurement);

- **Component 2: Information Technology (IT)**

This component will cover the IT needs of the TADB in terms of banking software and systems in order to enhance outputs and functionalities. It will also cover the TADB's IT infrastructure and management information system (MIS) for portfolio management and monitoring including the tracking of the development outcomes of its lending activities; and

- **Component 3: Building staff capacity**

This component will entail training staff in key areas such as risk analysis, risk management, credit underwriting, asset and liability management, use of new IT/MIS and environmental and social risks management. Evidently, the needs assessment will provide a more comprehensive list of the needs of the staff of the TADB. Further, to ensure maximum impact for this component, the training that will be provided to the staff of the TADB will be done primarily on the premises of the TADB or on location in Dar es Salaam as to ensure that: i) most of the staff are trained and ii) that the resources of this component are not unnecessarily spent on travel.

3.13. **The TA Program is designed to strengthen the capacity of the TADB.** This is intended to contribute to building a sound banking business so that this national DFI is not only used as an intermediary to channel financing to the agriculture sector in Tanzania, but also to build institutional development of a DFI to enable sustainable lending and provide a strong demonstration effect.

Gender Impact

3.14. **Tanzania's constitution guarantees equality of men and women and supports women's full participation in social, economic and political life.** The Government of Tanzania has also taken steps to mainstream gender perspectives in sector policies, strategies and programs. In agriculture, even though the Kilimo Kwanza Initiative does not specifically address gender, pillar 8 of its implementation framework (Science, Technology and Human Resources for Kilimo Kwanza) calls for mainstreaming gender in Kilimo Kwanza and developing programs to strengthen the position of women in agriculture.

3.15. **Agriculture is a major source of livelihood for most rural populations in Tanzania.** Women comprise a large proportion of the agricultural labor force yet women farmers are consistently found to be less productive than male farmers. There are several barriers that hinder their performance. These include limited access to finance as well as inadequate skills to run and manage operations and businesses. This project is therefore expected to contribute to narrowing the financing gap for women in the agriculture sector while also enhancing their skills and capacity.

3.16. **During the appraisal mission, the mission team emphasized the need for the TADB to continue targeting and supporting women as beneficiaries considering their critical role in the agriculture sector.** More concretely, following discussions with the TADB, it has been agreed that the project will include the following key actions to support women in agriculture:

- **As the TADB scales up support to the agriculture sector in Tanzania through the mobilized ADF funds, at least 20% of these resources will be specifically dedicated by it towards supporting women in agriculture.** This is in addition to the already existing access by women to funding from the TADB (i.e. the remaining 80% will still go to both men and women);
- **The TADB will put in place a mentoring program for women in agriculture to enhance their technical, farming and managerial skills.** The mentoring would consist of linking women with the TADB's larger and more experienced clients from whom they can benefit and learn. That said, for the mentoring to work, it is critical to put in place an effective incentivization scheme for the mentors including, but not limited to, small reductions in their cost of borrowing; and
- **At the institutional level, while the TADB has designated a staff member as a gender champion, this action is not supported by an institutional policy or strategy.** During the appraisal mission, it was established that the TADB's credit policy does not explicitly mention women. To address these gaps, the TADB will develop a gender policy that will guide how it addresses gender issues internally and externally with its clients. Furthermore, the TADB will review its credit policy to reflect its commitment to advancing the empowerment of women. The Bank Group will support the TADB to develop a Gender Policy which will need to be in place prior to the disbursement of the funds.

Social Issues

3.17. **The funds to be provided to the TADB are expected to contribute towards economic empowerment of small scale farmers, entrepreneurship and employment creation.** These funds are expected to contribute to growth of small businesses, income generation, household savings and a surge in value addition activities. The TADB maintains a tiered pricing framework whereby it provides funding at low interest rates to the smallholder farmers while it charges more to the larger and more established corporate entities in the agriculture sector. This cross-subsidization enables the TADB to provide affordable funding to the smaller farmers while generating sufficient income to sustain its business. Financial literacy among rural farmers and especially women has been identified as a major challenge and the TADB is in the process of setting up a technical assistance fund which will focus on capacity development for the small farmers.

Environment Impact

3.18. **The project has been classified as Category FI-B in line with the Bank Group's assessment procedures.** The TADB's portfolio and the proposed investments to be supported with financing from the ADF are considered medium risk with limited adverse environmental or social impacts that are largely reversible and readily addressed through mitigation measures.

3.19. **At the request of the AfDB and with its guidance and input, the TADB has developed and approved an Environmental and Social (E&S) Policy and an Environmental and Social Management System (ESMS), which will provide the procedures and workflow that will be followed for each investment by the institution to manage all levels of environmental and social risks.** The proposed investments will be screened, reviewed and evaluated against national laws and regulations, the Bank Group's Exclusion List and Integrated Safeguard System (ISS) as well as other applicable performance standards or safeguard requirements (specifically those pertinent to the agriculture sector including land issues, water management, pollution and climate risks).

Lessons Learned Reflected in Project Design

3.20. **The AfDB has learned numerous lessons from its work with national and regional DFIs from across Africa as well as in its experience providing technical assistance programs.** These lessons, and the manner in which they have been taken into account in the current operation, are:

Lesson	How it will be addressed
National DFIs across Africa face common challenges including: <ul style="list-style-type: none">• Emphasis placed on loan approvals and disbursements over loan quality resulting in high non-performing loans• Weak administrative systems, procedures and reporting systems; and• Insufficient human resource capacity.	The proposed technical assistance program is expected to contribute to achieving the following key objectives: <ul style="list-style-type: none">• Enhanced credit underwriting processes and skills;• Improved IT and management information systems for portfolio reporting and monitoring; and• Skilled staff through relevant trainings.

3.21. **In addition to the above, during the appraisal mission, extensive discussions were held with the senior management of the TADB as well as with government officials on the need to ensure that the institution, which is newly established, is encouraged to operate based on internationally recognized good practice principles that are considered as key for success and long-term sustainability.** These principles have been identified by the AfDB as well as sister institutions such as the World Bank and include:

- **While the TADB is currently owned by the Government of Tanzania, it was favorably noted that the aim of the authorities, over the medium to long-term, is to attract reputable investors to be shareholders in the institution.** This is important as the shareholding structures of DFIs are moving away from 100% state ownership towards mixed public-private capital structures. This will be expected to strengthen the governance of the TADB. It was also noted that the governance of the TADB has been designed with a board of directors that is predominately composed of independent directors selected based on a competitive process. Indeed, as per the TADB's memorandum and articles of association (MEMARTS), the board is designed to consist of between 7 and 9 directors, the majority of whom meant to be non-executive and non-government officials. As per the MEMARTS, the directors are also to be selected to be qualified and capable individuals with a high degree of skills, expertise, integrity and stature. This is key as it contributes to enhancing performance and minimizing political interference. The governance of the TADB was thoroughly discussed, including with senior government officials, and it was agreed to ensure independence of both the management and the board with their recruitment based on merit only;
- **The need to ensure that the TADB is operationally and financially sustainable with overall pricing that reflects costs and credit risk.** While the smallholder farmers will be provided with funding that is concessional, the TADB will make up for this by charging its larger borrowers interest rates that will be market-conforming as well as funding itself with low cost liabilities which will help in absorbing the high transaction costs associated with serving the smallholder farmers;
- **The importance of putting in place strong administrative systems, procedures, policies and guidelines and this is what the TA Program will address.** The TA Program will also address staff capacity and skills;
- **The importance of avoiding credit misallocation and politically motivated lending and to this end, it was agreed that the funding to be provided to the TADB will not be utilized for onward lending to ineligible persons.** Advancing loans to them will lead to automatic acceleration of the loan and cancellation of undisbursed amounts⁴;
- **During the appraisal mission, it was noted that the TADB is subject to prudential regulation and supervision by the Bank of Tanzania under its guidelines for development finance institutions.** This was also viewed positively as independent regulation and supervision by the financial sector regulator rather than a line ministry with conflicts of interest enforces disciplined management; and
- **In addition, it was agreed that the TADB should aim as much as possible to operate as a wholesale lending institution as international experience has shown that wholesale-only development finance institutions that provide funding through**

⁴ Ineligible Persons means the following persons who are ineligible to access funding extended with the proceeds of the ADF loan:

- a) Politically Exposed Persons defined as: head of state or head of government and their deputies, if any; cabinet minister of central or local government; member of a legislature of central or local government; deputy minister or equivalent rank; ambassador or attaché or counsellor of an ambassador; military officer with a rank of general or above; chief executive officer of a state-owned company or a state-owned bank; head of a government agency; judge; and senior official of a political party represented in a central state or local government legislature;
- b) Civil servants with the position of director, or its equivalent, and above employed by central, state or local government;
- c) Directors and senior management of the TADB; and
- d) Any related parties of the persons falling under clauses a) through c) above.

eligible financial institutions⁵ perform better than those that engage in retail operations. A wholesale approach is particularly appropriate with respect to financing underfunded segments. Retail development finance institutions are also perceived by their retail borrowers as entities that do not need to be repaid as they are owned by governments. While the TADB has been established to focus principally on wholesale lending activities, it is currently carrying out retail lending although it is expected to move towards wholesale lending as more funding is provided to it. The TADB is committed to this and will ensure that the funding from the ADF is extended through eligible financial institutions. It is worth noting that while extending funding through wholesale lending, the TADB will work with financial institutions which will be incentivized to enter the agriculture sector or expand service to it by augmenting their capacity and by providing them with long-term funding combined with technical assistance to increase the attractiveness of the agriculture sector and/or make commercial bank credit feasible. Thus, rather than replacing markets, the TADB will enhance them by providing term financing to financial institutions for on-lending (providing maturities that are otherwise unavailable to the financial institutions) and technical assistance to strengthen the financial institutions' capacity to serve the agriculture sector. Furthermore, by working with such financial institutions, the TADB's capital will essentially be protected as the capital of the financial institutions will stand between the TADB and any credit losses⁶.

3.22. It is worth highlighting that the TADB has been incorporated as a public limited company under the Companies Act no. 2 of 2002 and not through an act of parliament. This is key for avoiding political interference since the key reporting relationship will be with the shareholders and not with the national assembly and the presidency as is the case when the establishment of a company is through an Act of Parliament. Furthermore, as stated earlier, while the Government of Tanzania is currently the sole shareholder, their intention is to bring in additional equity investors overtime so that the shareholding structure of the TADB moves away from 100% state ownership towards a mixed public-private capital structure. If this is achieved, the governance of the institution will be further strengthened.

4. IMPLEMENTATION ARRANGEMENTS

Procurement Arrangements

4.1. All procurement of goods, works and services will be carried out in accordance with the Procurement Policy for Bank Group Funded Operations and Methodology for its Implementation, dated October 2015. The various activities under the TA Program of the equivalent of UA 1 million involve the procurement of both goods and consultancy services. In the case of consultancy services, the procurement will be carried out on the basis of the

⁵ The following are minimum eligibility criteria for the financial institutions: i) must be duly licensed and at least two years in operation, ii) owners and board of directors should be "fit and proper", iii) must have qualified and experienced management, adequate organization and institutional capacity for its specific risk profile, iv) must be in "good standing" with its supervisory authority and remain in compliance at all times, v) must have well defined policies and written procedures for management of all types of financial risks, vi) x) must have adequate internal audits and controls for its specific risk profile and vii) must have adequate management information systems.

⁶ While extending funding through financial institutions, the TADB will need to ensure that the end beneficiaries (especially the smallholder farmers) are able to gain access to funding that is affordable in addition to having long tenors. To this end, the TADB will explore various mechanisms including auctioning credit to the financial institutions especially those serving the smallholder farmers. In order to put competitive pressure on the spreads offered by the financial institutions to the final borrowers, the TADB's interest rates will be determined by an auction process under which the financial institutions will compete on the basis of the spreads they propose to offer to their borrowers. This innovative approach will ensure that the affordability of the funds being extended by the TADB.

Quality and Cost Based Selection (QCBS) method. In particular, the TADB will be required to select and engage consultant(s) based on a transparent and competitive process, including well developed terms of reference, international advertising, short-listing and a robust evaluation process. An evaluation report prepared by the TADB will have to be accepted by the Bank Group within 14 calendar days, before recruiting the consultant(s). The procurement of goods, related to the IT upgrades component of the TA Program, will need to conform to established commercial practices acceptable to the Bank Group so that such procedures result in competitive market prices for the goods. The TADB will need to ensure adherence to appropriate procurement procedures which will be periodically reviewed for compliance. For the rest of the funding, the procurement of goods, works and services by the TADB's target beneficiaries will need to conform to established commercial practices acceptable to the Bank Group so that such procedures result in competitive market prices for the goods, works and services and meet the needs of the TADB's beneficiaries. The TADB will ensure adherence to appropriate procurement procedures and the Bank Group will periodically review the TADB's compliance in ensuring that such procedures are followed by its target beneficiaries.

Monitoring, Financial Management and Audit Arrangements

4.2. **The Bank Group conducted an assessment on the adequacy of the financial management systems of the TADB, the Executing Agency, based on the Bank's 2014 Financial Management Implementation Guidelines and concluded that the overall risk is Moderate.** The TADB will be monitored, supervised and evaluated regularly by the Bank Group. It will prepare annual financial statements in accordance with International Financial Reporting Standards (IFRS). The financial statements will include in the notes to the accounts the disbursement of the proceeds of the ADF loan by the URT to the TADB and will be audited by the Controller and Auditor General (CAG) or a private audit firm appointed by the CAG in accordance with the United Republic of Tanzania statutory requirements by applying International Standards of Supreme Audit Institutions which are acceptable by the Bank. Within six months after the end of each financial year, the TADB will be required to submit a copy of its audited financial statements together with the management letter on the weaknesses identified by the auditors and the TADB's management responses and implementation plan of the auditor's recommendations. Furthermore, the TADB is licensed and supervised by the central bank and required to meet prudential requirements as regards to capital adequacy, loan provisioning and recognition of loan losses as well as other relevant regulations. These will be regularly verified by the Bank Group. Relevant to this, the URT should ensure that the TADB at all times maintains in full force and effect an operating license from the central bank and all such other consents, licenses, approvals, authorizations and exemptions required under the laws of Tanzania for the TADB to carry out its business and perform its obligations under this present project.

Sustainability

4.3. **The TADB's viability is viewed positively for a number of reasons including its sound corporate governance and prudent lending strategy.** Also, as an institution that is expected to focus principally on wholesale lending, this will contribute to preserving the quality of its assets and capital. Further, the TADB will be subject to limited liquidity risk as it funds itself through long-term funding and not through short-term deposits. In addition, the TADB will be subject to prudential regulation and supervision by the central bank, which will enforce requirements similar to those applied to commercial banks. Furthermore, the proposed technical assistance program will play a key role in strengthening the capacity and enhancing the performance of the institution.

4.4. **The long-term sustainability and success of the TADB hinge on its ability to mobilize additional capital from the Government⁷ and other investors as well as low-cost debt liabilities from international DFIs.** To fund itself, the TADB will also explore the possibility of issuing bonds in the local capital market after building a track record of operations and thoroughly assessing the market conditions to establish the depth of liquidity as these will influence the success rates and costs of the bonds. The importance of mobilizing low cost funding is fully recognized by the TADB as articulated in its funding strategy. This, combined with its determination to generate positive returns from its lending activities, should ensure that any advantage that may accrue to the TADB in being able to fund itself with low cost liabilities be accrued by it as a contribution to its equity.

Risk Management

4.5. **Potential risks are rated as mostly Medium and are expected to be mitigated as outlined below:**

Potential Risk	Rating	Mitigation Measures
High operational costs associated with reaching out to smallholder farmers.	Medium	The TADB will implement measures to minimize costs including reaching smallholder farmers through wholesale lending by working with eligible financial institutions and developing innovative products and services such as mobile banking.
Impact of lending at low interest rates on financial sustainability.	Medium	The TADB is fully aware of the importance of sustainability and while the smallholder farmers will be supported with affordable loans, the institution will aim to balance its portfolio by also targeting larger clients to whom the funds will be priced based on market confirming terms. Additionally, the TADB will invest a portion of its funds in low risk/high return government securities to further support the cross subsidization of the smallholder farmers. Finally, the TADB expects to continue funding itself through the mobilization of low-cost funds.
The TADB unable to effectively intermediate the funds extended to it.	Medium	The proceeds of the ADF loan will be made available to the TADB in two equal tranches to ensure that it is able to absorb the resources made available to it and effectively intermediate them.
The TA Program is not implemented properly by the TADB.	Low to Medium	The proceeds of the ADF loan will be made available to the TADB in two tranches and the disbursement of the second tranche will be conditional on the TADB having successfully implemented two of the three components of the TA Program. The TADB is also strongly committed to ensuring that the TA Program is successfully implemented.
Funds extended to ineligible persons.	Low to Medium	The TADB will be required to ensure that the funds are not on-lent to ineligible persons. Lending to such persons will result in the accelerated repayment of the ADF loan.
Political capture of the TADB.	Medium to High	This risk is primarily managed with an innovative governance structure. While the TADB will be majority government-owned, its MEMARTS provides that the majority of directors should be non-executive and non-government officials chosen based on a competitive and transparent process. Cognizant that governance failures contributed to thwarting the effectiveness of existing DFIs across Africa, the Tanzanian authorities are fully committed to a robust governance structure for the TADB. In addition to providing comfort as regards the strategic direction of the TADB, the MEMARTS requires that the directors should be qualified and capable individuals with a high degree of skills, expertise, integrity and stature. The TADB will also be subject to regulation, licensing and supervision by the central bank, thus further strengthening the governance arrangements as well as due diligence as regards to its operational and financial capacity. Finally, the Bank Group will ensure continuous supervision of all key operational aspects to ensure good governance.

⁷ While the Government is committed to injecting additional equity into the TADB, it must scale up its efforts. The TADB's MEMARTS provides that the initial paid-up capital of the institution is TZS 100 billion to be raised gradually to TZS 800 billion. The Government will need to significantly scale up its efforts to mobilize additional equity for the TADB to ensure that it complies with the MEMARTS.

Knowledge Building

4.6. **The present operation is expected to generate considerable knowledge and experience that will add value and build up lessons for the design and management of similar projects across Africa.** The lessons learnt will be documented including those on supporting smallholder farmers especially women. Bank supervision missions, quarterly and annual progress reports, mid-term review, audit and completion reports will also provide an opportunity to capture knowledge on relevant aspects of this project. As a new institution, the TADB will benefit from working with the Bank Group to learn about its procedures and safeguards which it can incorporate to enhance itself. The Bank Group will share the lessons learnt from the experience of implementing this project in Tanzania.

5. LEGAL INSTRUMENTS AND AUTHORITY

5.1. **The proceeds of the loan from the African Development Fund to be provided to the United Republic of Tanzania will be made available to the TADB by way of a loan in accordance with the Bank Group's On-Lending Policy (ADB/BD/WP/90/36; ADF/BD/WP/90/38).** The terms and conditions of the loan from the URT to the TADB will be in line with those of the loan from the ADF to the URT except for the loan currency which will be Tanzanian Shilling. This structure is essentially innovative as it enables the Bank Group to support a national development finance institution without being exposed to the risks that would be associated with direct lending to such an institution. Plus, it is deploying a debt instrument to a country whose credit rating is much better than the rating that would be applicable to a direct loan to the beneficiary institution.

5.2. **The legal instrument to be used for this project is a loan agreement between the United Republic of Tanzania and the African Development Fund.** This loan agreement will enter into force subject to fulfilment by the United Republic of Tanzania of the provisions of section 12.01 of the General Conditions Applicable to the African Development Fund Loan Agreements and Guarantee Agreements.

5.3. **The ADF loan will be extended to the URT and its proceeds transferred by the URT to the TADB as a loan on the same terms and conditions (except for the loan currency).** The URT will sign a loan agreement with the ADF while the URT and the TADB will sign an on-lending agreement.

5.4. **The proceeds of the ADF loan will be disbursed in two equal tranches upon fulfillment of agreed disbursement triggers.** The obligation of the African Development Fund to make the disbursement of the first tranche will be conditional upon entry into force of the loan agreement and the submission by the URT and the TADB of evidence of the fulfillment of the following conditions, each in form and substance satisfactory to the African Development Fund:

- The opening by the United Republic of Tanzania of a special United States Dollar denominated account at the central bank of Tanzania for the deposit of the proceeds of the ADF loan. The opening of the account will be evidenced by a letter from the central bank confirming that the said account has been opened and providing the account numbers;
- The opening by the TADB of a special Tanzanian Shilling denominated account at the central bank of Tanzania for the deposit by the URT of the proceeds of its loan to the TADB (the loan from the URT to the TADB will be in local currency meaning that the URT will take on the foreign exchange risk to which the TADB will not be exposed). The opening of the account will be evidenced by a letter from the central bank confirming that the said account has been opened and providing the account numbers;
- An on-lending agreement between the URT and the TADB, relating to the loan from the URT to the TADB whose amount is equal to the loan from the ADF to the URT, in form and substance acceptable to the ADF, has been duly executed by the parties thereto.

The execution of the on-lending agreement shall be supported by a legal opinion issued to the ADF by a legal counsel acceptable to the ADF confirming that the on-lending agreement between the TADB and the URT, has been duly authorized, ratified and executed on behalf of the URT and the TADB and constitutes legal, valid and binding obligation of such parties; and

- The TADB has adopted a Gender Policy in form and substance acceptable to the African Development Fund.

5.5. The obligation of the ADF to disburse the second tranche of the ADF loan will be conditional on the following conditions:

- Submission by the TADB of evidence, in form and substance satisfactory to the AfDB Group, that it has successfully implemented components 1 and 2 of the TA Program (noting that component 3 involves training staff which is a continuous activity). By linking the disbursement of the second tranche to the implementation of the TA Program, the Bank Group will be in a position to exercise due diligence as regards to progress; and
- Supervision by the Bank Group of the utilization of the first tranche of the ADF loan and satisfaction that the funds were effectively deployed including towards supporting women through funding and the proposed mentoring program.

5.6. In addition, for the disbursement of the two tranches of the ADF loan, the United Republic of Tanzania will be required to ensure that the funds are passed on to the TADB within a maximum of 14 calendar days of the URT receiving the funds from the ADF. Any delays will result in calls for potential suspension or accelerated repayment of the ADF loan. Additional events that may call for potential suspension or accelerated repayment of the ADF loan will include the following: i) violation of signed agreements or regulations affecting the ability of the TADB to fulfill its mandate or that affect its financial sustainability, ii) the TADB's license has been withdrawn, revoked, amended or suspended, or its renewal has been withheld, so as to materially and adversely affect the ability of the TADB to carry out its functions and iii) extension of funding to ineligible persons.

5.7. Finally, this present project complies with all the applicable AfDB Group policies including the On-Lending Policy (ADB/BD/WP/90/36; ADF/BD/WP/90/38) referred to earlier in paragraph 5.1.

6. CONCLUSION AND RECOMMENDATION

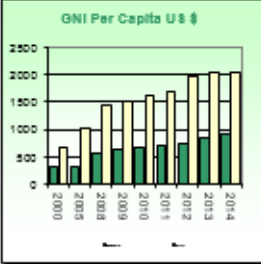
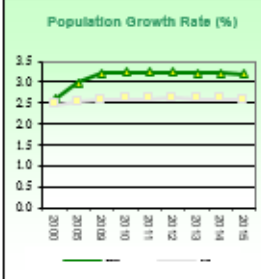
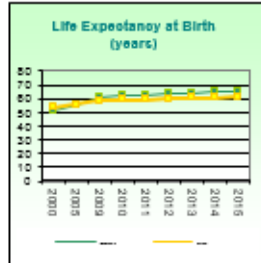
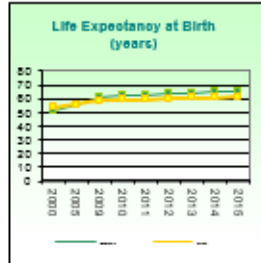
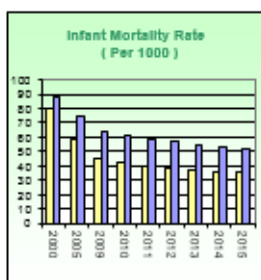
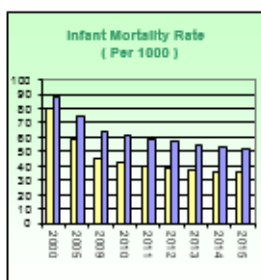
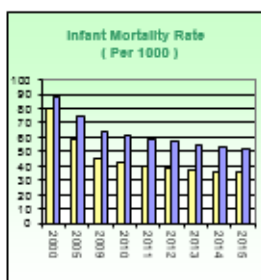
6.1. The proposed loan from the ADF to the United Republic of Tanzania, to be utilized by the URT to support the TADB, will contribute to enabling this national DFI to scale up support to the agriculture sector in Tanzania. This institution is expected to play a key role in facilitating attainment of sustainable food self-sufficiency and food security in Tanzania and in promoting and supporting the transformation of agriculture from subsistence to commercial farming in order to effectively and sustainably contribute to inclusive economic growth and poverty reduction.

6.2. The Government of Tanzania is fully committed to the success of the TADB and has demonstrated this through the capital that it has injected so far from its own budget and its current efforts to mobilize additional funding from new sources including the ADF. The failure of the commercial banks to meet the funding needs of the agriculture sector provides a strong justification for Government intervention through the proposed borrowing from the ADF. This outside funding will enable the Government of Tanzania to support the TADB while providing it with the fiscal space for more spending in sectors and projects critical to the country's development (including infrastructure projects planned to facilitate trade and industrialization).

6.3. In the light of the foregoing, Management recommends that, for the purposes stipulated

in this report, the Board of Directors of the African Development Fund approves the proposed ADF loan of UA 67.27 million (equivalent to USD 93.51 million) to the United Republic of Tanzania.

Appendix I. Tanzania's Comparative Socio-economic Indicators – August 2016

	Year	Tanzania	Africa	Developing Countries	Developed Countries		
Basic Indicators							
Area ('000 Km²)	2016	947	30,067	94,638	36,907		
Total Population (millions)	2016	55.2	1,214.4	3,010.9	1,407.8		
Urban Population (% of Total)	2016	31.6	40.1	41.6	80.6		
Population Density (per Km²)	2016	62.3	41.3	67.7	25.6		
GNI per Capita (US \$)	2014	930	2 045	4 226	38 317		
Labor Force Participation *- Total (%)	2016	78.5	65.6	63.9	60.3		
Labor Force Participation **- Female (%)	2016	74.0	55.6	49.9	52.1		
Gender -Related Development Index Value	2007-2013	0.916	0.801	0.506	0.792		
Human Develop. Index (Rank among 187 countries)	2014	151		
Popul. Living Below \$ 1.90 a Day (% of Population)	2008-2013	46.6	42.7	14.9	...		
Demographic Indicators							
Population Growth Rate - Total (%)	2016	3.2	2.5	1.9	0.4		
Population Growth Rate - Urban (%)	2016	5.3	3.6	2.9	0.8		
Population < 15 years (%)	2016	45.1	40.9	28.0	17.2		
Population >= 65 years (%)	2016	3.2	3.5	6.6	16.6		
Dependency Ratio (%)	2016	93.6	79.9	52.9	51.2		
Sex Ratio (per 100 female)	2016	98.9	100.2	103.0	97.6		
Female Population 15-49 years (% of total population)	2016	23.0	24.0	25.7	22.8		
Life Expectancy at Birth - Total (years)	2016	66.0	61.5	66.2	79.4		
Life Expectancy at Birth - Female (years)	2016	67.3	63.0	68.0	82.4		
Crude Birth Rate (per 1,000)	2016	38.1	34.4	27.0	11.6		
Crude Death Rate (per 1,000)	2016	6.5	9.1	7.9	9.1		
Infant Mortality Rate (per 1,000)	2015	35.2	52.2	35.2	5.8		
Child Mortality Rate (per 1,000)	2015	48.7	75.5	47.3	6.8		
Total Fertility Rate (per woman)	2016	5.0	4.5	3.5	1.8		
Maternal Mortality Rate (per 100,000)	2015	398.0	495.0	238.0	10.0		
Women Using Contraception (%)	2016	41.8	31.0		
Health & Nutrition Indicators							
Physicians (per 100,000 people)	2004-2013	3.1	47.9	123.8	292.3		
Nurses and midwives (per 100,000 people)	2004-2013	43.6	135.4	220.0	859.8		
Births attended by Trained Health Personnel (%)	2010-2015	42.6	53.2	68.5	...		
Access to Safe Water (% of Population)	2015	55.6	71.6	89.3	99.5		
Healthy life expectancy at birth (years)	2013	54.2	54.0	57	68.0		
Access to Sanitation (% of Population)	2015	15.6	39.4	61.2	99.4		
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2014	5.3	3.8		
Incidence of Tuberculosis (per 100,000)	2014	327.0	245.9	160.0	21.0		
Child Immunization Against Tuberculosis (%)	2014	99.0	84.1	90.0	...		
Child Immunization Against Measles (%)	2014	99.0	76.0	83.5	93.7		
Underweight Children (% of children under 5 years)	2010-2014	13.6	18.1	16.2	1.1		
Daily Calorie Supply per Capita	2011	2 208	2 621	2 335	3 503		
Public Expenditure on Health (as % of GDP)	2013	2.6	2.6	3.0	7.7		
Education Indicators							
Gross Enrolment Ratio (%)							
Primary School - Total	2010-2015	86.8	100.5	104.7	102.4		
Primary School - Female	2010-2015	87.4	97.1	102.9	102.2		
Secondary School - Total	2010-2015	32.3	50.9	57.8	105.3		
Secondary School - Female	2010-2015	30.8	48.5	55.7	105.3		
Primary School Female Teaching Staff (% of Total)	2010-2015	51.8	47.6	50.6	82.2		
Adult literacy Rate - Total (%)	2010-2015	80.4	66.8	70.5	98.6		
Adult literacy Rate - Male (%)	2010-2015	84.8	74.3	77.3	98.9		
Adult literacy Rate - Female (%)	2010-2015	76.1	59.4	64.0	98.4		
Percentage of GDP Spent on Education	2010-2014	3.5	5.0	4.2	4.8		
Environmental Indicators							
Land Use (Arable Land as % of Total Land Area)	2013	15.2	8.6	11.9	9.4		
Agricultural Land (as % of land area)	2013	44.8	43.2	43.4	30.0		
Forest (As % of Land Area)	2013	52.8	23.3	28.0	34.5		
Per Capita CO2 Emissions (metric tons)	2012	0.2	1.1	3.0	11.6		

Sources: AfDB Statistics Department Databases; World Bank: World Development Indicators; UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.

Note: "n.a." stands for Not Applicable; "..." means Data Not Available.

* Labor force participation rate, total (% of total population ages 15+).

** Labor force participation rate, female (% of female population ages 15+).

Appendix II. Bank Group Country Portfolio – September 2016

The ongoing portfolio, as of September 2016, comprises 24 operations with total net commitment of UA 1.36 billion. The performance of portfolio is rated satisfactory with overall assessment of 3.2. The portfolio has no operation with unfulfilled conditions to first disbursement. However, the portfolio is experiencing project start-up delays and slow pace of project implementations reflected by a slow disbursement rate.

PROJECT/SECTOR	SOURCE OF FINANCE	APPROVAL DATE	CLOSING DATE	APPROVED AMOUNT IN MILLION UA	DISBURSED AMOUNT IN MILLION UA	DISBURSEMENT RATE (%)	AGE (YEARS)
A. NATIONAL OPERATIONS:							
TRANSPORT							
Tanzania Road Sector Support Project I	ADF Loan	2-Dec-2009	15-Dec-2017	152.00	125.04	82.26	6.7
Tanzania Road Sector Support Project II	ADF Loan	5-Apr-2012	30-Sep-2017	140.00	68.45	48.89	4.4
Dar es Salaam Rapid Bus Transit Project	ADB Loan	30-Sep-2015	31-Dec-2020	69.74	0.19	0.27	1.0
	AGTF Loan	30-Sep-2015	31-Dec-2020	31.71	0.16	0.51	1.0
Transport Sector Support Program	ADB Loan	26-Nov-2015	30-Oct-2021	193.97	0.00	0.00	0.8
	ADF Loan	26-Nov-2015	30-Oct-2021	54.00	0.60	1.11	0.8
WATER SUPPLY/SANITATION							
Zanzibar Urban Water & Sanitation	ADF Loan	19-Dec-2012	31-Dec-2017	14.00	3.50	24.98	3.7
Arusha Urban Water Supply Improvement Project	ADB Loan	16-Sep-2015	31-Dec-2020	102.83	0.00	0.00	1.0
	ADF Loan	16-Sep-2015	31-Dec-2020	18.00	0.32	1.78	1.0
	AGTF Loan	16-Sep-2015	31-Dec-2020	30.07	0.00	0.00	1.0
ENERGY							
Iringa-Shinyanga Transmission Line	ADF Loan	26-Oct-2010	31-Oct-2018	45.36	17.43	38.42	5.8
Scaling-Up Renewable Energy Program	SCF Grant	20-Dec-2013	15-Sep-2017	0.50	0.1	21.01	2.7
SOCIAL							
Alternative Learning and Skills Development	ADF Loan	29-Jun-2011	31-Dec-2017	15.00	3.66	24.38	5.3
Support to Technical Vocational Education and Training & Teacher Education	ADF Loan	2-Apr-2014	31-Dec-2019	34.00	1.37	4.03	2.4

MULTISECTORAL							
Institutional Support Project for Good Governance	ADF Loan	3-Feb-2016	31-Dec-2018	12.00	0.53	4.38	0.7
Sub-total				953.18	243.28	25.52	3.28
B. MULTINATIONAL OPERATIONS:							
East Africa Transport and Trade Facilitation	ADF Grant	29 Nov. 2006	31-Dec-2016	6.20	3.87	62.48	9.8
Arusha-Holili/Taveta-Voi Road Project	ADF Loan	16-Apr-2013	31-Dec-2018	79.90	13.19	16.5	3.3
Lake Victoria Water Supply & Sanitation Programme Phase II	ADF Grant	17-Dec-2010	30-Dec-2017	17.48	12.31	70.41	5.7
The EAC Payments & Settlement Systems Integration Project	ADF Grant	5-Dec-2012	30-Jan-2017	15.00	5.71	38.09	3.7
Regional Rusumo Hydropower	ADF Loan	27-Nov-2013	31-Aug-2019	22.41	0.02	0.09	2.8
EAC Railway Sector Enhancement Project	NEPAD IPPF Grant	29-Jun-2012	20-Dec-2016	0.82	0.61	74.99	4.2
EAC Centres of Excellence for Skills and Tertiary Education	ADF Loan	3-Oct-2014	31-Dec-2019	6.25	0.90	14.42	1.9
Kenya -Tanzania Interconnection	ADF Loan	18-Feb-2015	31-Dec-2019	75.29	1.06	1.41	1.5
Sub-total				223.34	37.68	16.9	4.1
Total Public (A)				1176.52	280.96	23.9	3.7
C. PRIVATE SECTOR OPERATIONS:							
Bagamoyo Sugar Project and Stand by Facility	ADB Loan	23-Apr-2014	Not signed	32.52	0.00	0.00	2.3
	ADB Loan	23-Apr-2014	Not signed	32.52	0.00	0.00	2.3
Line of Credit to First National Bank Tanzania	ADB Loan	12-Dec-2012	30-Apr-2017	31.05	14.32	46.12	3.7
Partial Credit Guarantee for TMRC	ADB Loan	4-May-2016	Not signed	2.82	0.00	0.00	0.3
Line of Credit to CRDB Bank Ltd	ADB Loan	18-May-2016	Not signed	85.54	0.00	0.00	0.3
Total Private (B)				184.45	14.32	7.8	1.7
Total Public and Private (A) + (B)				1361.0	295.3	21.7	3.2