1. Country and Sector Background

Economic performance in Tanzania has improved fairly consistently over the past decade. The economic reforms initiated by the Government to improve macroeconomic stability, shift to more liberalized markets, and broaden the scope for private sector activity have led to significant improvement in economic growth. Annual average GDP growth increased from about 3.5 percent in the mid-1990s to about 6.5 percent in 2004. Agriculture still dominates the economy, accounting for 46 percent of Tanzania’s GDP, and improvements in overall economic growth still rely heavily on the performance of the sector. In addition, about 87 percent of the poor live in rural areas and 75 percent of rural income is earned from agricultural activities. Improvements in agricultural performance can therefore have a direct impact on the incomes of the poor. Agricultural trend growth has been increasing steadily and has been consistently higher than population growth since 1999 (Figure 1). Recent analysis projects that when agriculture growth began exceeding per capita income growth rural poverty has declined from about 40% in 1999 to about 34% in 2004. The actual change in poverty will only be known following the next household survey. Recent increases in agricultural growth stem from both overall economic and sector reforms started in the mid-1990s. Farmers have responded to improved incentives and adapted to the challenging external price environment for traditional exports with increases in the production of exportable food crops. Productivity levels have also improved for several crops.

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The National Strategy for Growth and Poverty Reduction (MKUKUTA) recently developed by the Government of Tanzania focuses on three pillars: (i) growth and the reduction of income poverty; (ii) improved quality of life and social well-being; and (iii) good governance and accountability. The main focus of the strategy is on achieving shared growth in which agricultural development plays a key role. A more detailed Government plan for sector development is presented in the Agricultural Sector Development Strategy (ASDS). The strategy recognizes that growth is to be private sector led through an improved enabling environment for enhancing the productivity and profitability of agriculture and sets an annual sustainable agricultural growth target of 5 percent. Implementation of the strategy will be through the Government’s Agricultural Sector Development Program (ASDP), to be supported by development partners including IDA, which details activities to advance the implementation of the ASDS. The nature of IDAs support is summarized in this information document.

With its abundant resource base, comparative advantage in the production of many crops, and expanding market opportunities both locally and regionally, the potential for improved agricultural performance is high. Sustained achievement of the Government’s agricultural growth targets will need improvements in agricultural productivity, a reduction in transactions costs, and improved management of risks.

Recently developed and improved crop varieties have demonstrated significant potential to reduce crop loss, as well as improve yields. In addition, there are productivity constraining diseases such as coffee berry disease and coffee wilt which can be addressed through improvements in the technology generation, adaptation, dissemination and adoption system. Current expenditure on agricultural research as a proportion of agricultural GDP (a measure of research intensity) is 0.3 percent, which is less than half the Africa average, and one third of the other developing countries. The Government program document proposes improved mechanisms for greater farmer voice in research prioritization and in funding allocation decision to improve the relevance and effective of technology generation and adaptation. Similar mechanisms are proposed for agricultural advisory services. In addition, the program proposes to learn and improve on matching grant support to finance farmer technology adoption. Prior support for irrigation under the past River Basin Management project also demonstrated that its possible to get significant improvements if farm productivity and income with irrigation investment, while at the same time improving water use efficiency. The Government program will support irrigation investments to both raise productivity and reduce the impact of climate shocks.

High transaction costs due to the poor state or lack of infrastructure, particularly rural roads, and the overall policy and regulatory environment governing market transactions (including tax regimes and licensing requirements and costs) will also need to be addressed to improve competitiveness. The Government program proposes to support improvements in local level planning for growth, including improvements in the local regulatory environment for economic activities. Consistent with the

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2 IFPRI (2000). Agriculture in Tanzania since 1986: Follower or Leader of Growth?
Government policy on decentralization, most of the program financing will support local level investment and capacity building. In addition, improvements in national level policies for market development will also be addressed.

Transaction costs are also currently high for development partner support to the sector. This has often diverted Government attention to focus on development partner processes and procedure rather strengthening their own systems. In addition while project impacts have often been high, longer term sustainability has often been difficult as local system were not strengthened. In an effort to reduce these costs and improve sustainability, development partner support to the program will be provided through a pooled funding arrangement which will use common systems and jointly support the Government program. This is consistent with a shift to a more coherent Sector Wide Approach (SWAp), and a shift away from fragmented projects. The pooled funding approach should better align development partner support to the sector Medium Term Expenditure Framework (MTEF) with a move to reliance on government procedures to plan, disburse and account for all funds.

2. Objectives

The program contributes to achieving the overall MKUKUTA target of reducing the proportion of the rural population below the basic needs poverty line from 38.6% in 2000/01 to 24% in 2010 through raising and sustaining agricultural growth. Poverty reduction projections suggest a 4.6% decline in rural poverty over the last 4 years from 2001 to 2004 with a decline from 38.6% to 34%. This implies that to achieve the additional 10% decline over the next 5 years (twice the rate as the previous five) to meet the 2010 rural poverty reduction targets, agricultural growth will need to be sustained at a higher level than in the recent past.

The program has two complementary objectives which contribute to the higher order agricultural growth and poverty reduction objectives highlighted above. The program objectives are: (i) to enable farmers to have better access to and use of agricultural knowledge, technologies, and infrastructure; all of which contribute to higher productivity, profitability, and farm incomes; and (iii) to promote agricultural private investment based on an improved regulatory and policy environment.

3. Rationale for Bank Involvement

The Bank, at the request of Government, continues to play a role in facilitating a more integrated approach of development partner support to the sector, both in shifting to joint financing and to supporting the broader agricultural sector development program. The Bank continues to offer useful international experience and lessons learned for the design and implementation of such programs. Consistent with the World Bank Africa Region Action Plan, the overall focus of Bank support is on improving the impact of all Overseas Development Assistance (ODA) flows to the agriculture sector, not just from IDA. This program is intended to act as a transition to broader budget support to the sector.

4. Description

The program has two main components. The components are aligned to the Government’s national and local level budget, planning and prioritization process. The sub-components of the local government support are aligned to the block grant transfer system of Government, while the national level sub-component are aligned to the key technical themes of the ASDP.

Component 1: Local Government Support. This component will primarily support achievement of the first objective listed above through improvements of Local Government Authority capacity to plan,
support and co-ordinate agricultural services and investments in a more efficient, participatory and sustainable manner. Support will be provided to develop and implement District Agricultural Development Plans, including increasing farmer influence in resource allocation decisions for services and investments; progressing agricultural services reform and improving the quality of public expenditure. In addition support to achieving the second program objective will be provided through improvements in the local regulatory environment for economic activity, particularly local level taxation. The component comprises of three sub-components aligned with the fiscal transfer system of the Government of Tanzania: (i) local agricultural investments, (ii) local agricultural services, and (iii) local agricultural capacity building and reform. The component will finance infrastructure, advisory services, and training with resource transfers to local government authorities linked to performance on local level planning, and implementation, agricultural services reform, the quality of local investments, and the local policy and regulatory environment.

**Component 2: National Level Support:** This component will primarily support achievement of both program objectives. The first objective will be supported through improvements to the relevance and responsiveness of the agricultural research system including greater linkages with extension. The second objective will be supported through improvements to the national level policy environment, and through developing mechanisms for greater public-private partnerships. Support will be provided to: (i) reform agricultural services, primarily research and extension; (ii) improve the overall sector policy, regulatory and legal framework; and market development; capacity building; information and communication; (iii) establishing a framework to ensure the quality and technical soundness of investments and delivery of services at local levels. Emphasis will initially be given to agricultural research and extension services, irrigation, market development, capacity building and program coordination. The components: (i) agricultural services; (ii) irrigation development; (iii) market development; (iv) co-ordination, monitoring and evaluation. This component will finance infrastructure, the development, adaptation and dissemination of new technology, and analytical work on market development.

5. Financing

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<td>International Fund For Agricultural Development</td>
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<tr>
<td>Bilateral Agencies – Various</td>
<td>18</td>
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<td><strong>Total</strong></td>
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6. Implementation

The institutions responsible for implementation of the national level component of the program are the Ministry of Agriculture, Food Security, and Cooperatives; Ministry of Livestock Development; and Ministry of Trade, Industry and Marketing, while implementation of the local level component is the responsibility of Prime Minister’s Office – Regional Administration and Local Government (PMO-RALG) and Local Government Authorities (LGAs). The program implementation arrangements seek to strengthen those of Government and not create parallel structures. All institutional arrangements are in place apart for the proposed ASDP Basket Fund Committee that will review work-plans and budgets to be financed by the pooled fund. At zonal level there will be a reconstitution of the zonal technical and steering committees that oversees agricultural research prioritization and budget allocation, and at district level, the district agricultural offices are to be restructured over the course of the program. The program will also integrate into those arrangements already in place for the Local Government Capital Development Grant including the mechanisms in place for changing the block grant allocation formula,
assessment and qualification of LGAs for block grant allocations, and for changes to the assessment criteria. Based on the decision of the ASDP Basket Fund Committee, funds will flow from an ASDP pooled holding account in the Bank of Tanzania, through the exchequer to LGAs, zonal research institutes and line ministries. The Chief Accountants of Agricultural Sector Lead Ministries (ASLMs) and Council Treasurers will be responsible for the proper management, recording and reporting of Basket Funds released to their respective ministries or Councils. The ASLMs include the Ministry of Agriculture, Food Security, and Cooperatives; Ministry of Livestock Development; Ministry of Trade Industry and Marketing; and Prime Minister’s Office – Regional Administration and Local Government.

Main Strengths

1. All ASLM are operating the Integrated Financial Management System (IFMS) that enhance expenditure control and facilitate production of required ASDP financial reports. Inbuilt controls in IFMS provide a greater degree of assurance about the accuracy of transactions.
2. All ASLM have established internal audit units and Audit Committees. Internal audit manuals and relevant training materials to support the planned training have been developed. PMO-RALG have made budgetary provisions for training internal audit staff during the fiscal year 2005/06.
3. The Accountant General’s Department has an ongoing national training program to improve accounting and materials management. Twenty five EPICOR specialists have already been deployed to the five zones to support LGAs with the implementation of IFMS.
4. The LGAs accounting system is based on the Epicor computerized, double entry, accrual-based system. Currently there is an ongoing Local Government Reform Program to improve the accounting system through the IFMS and training of Council Directors and District Treasurers and Accountants on the system. Already 32 Councils are on Epicor and there are plans to roll out IFMS to an additional 30 LGAs.
5. LGAs have a set of Financial Rules and Regulations, which describe the internal control system and set of accounting procedures. These are being updated.
6. There is an access criteria agreed upon that ensures that the qualifying LGAs meet minimum financial management and auditing conditions under the Local Government Capital Development Grant (LGCDG).
7. Organizational structure and financial management systems in place both at ASLMs and LGAs, which include the quality of finance staff, are capable of handling accounting and reporting on the use of development partners funds.
8. There are new developments which enhance LGAs planning and budget process: (i) the use of GFS codes in the preparation of LGA budgets and the harmonization of fiscal year between local authorities and central government, and (ii) the newly approved population-based formula for allocation of grants to local authorities has become effective from FY04/05. The LGAs have also acquired a planning and reporting (PLANREP) tool for generating all reports. Although training has been given to four practitioners from each LGA there is need for PMO-RALG to ensure that the LGAs are using the system.
9. The government is now publishing quarterly allocations of the LGAs through local newspapers, the national website and public notice boards to enhance transparency and accountability.
10. There has been a steady improvement in auditing in the last three years. Based on the Report of the Controller and Auditor General on Local Government Authority Accounts, all LGAs were able to submit on time their final accounts for audit. Thirty nine (equivalent to 33% of all LGAs) were awarded a Clean Certificate compared with only 18 LGAs (out of 117 that submitted final accounts).

Major weaknesses
The internal audit units at both the ministries and LGAs are generally not adequately staffed and the Audit Committees are not functioning effectively.

Weak budget discipline and controls in LGAs as evidenced by losses of cash, questionable payments, stores losses, and unsatisfactory accounting and banking of revenues.

Low capacity in most of the LGAs particularly in terms of finance, accounting and internal auditing skills to carry out appropriate accounting and financial management,

Poor follow-up on the implementation of auditor’s recommendations by the Accounting Officer.

The overall conclusion of the financial management assessment is that the current financial management arrangements at respective ASLM and LGAs can report on the use and sources of the Program funds and satisfy the development partner minimum financial management requirements. The overall financial risk is rated modest.

7. Sustainability

The MKUKUTA highlights agricultural development as a key priority to achieve the Government’s rural poverty reduction targets. The Government also developed the ASDP with a request to development partners to support its implementation. This demonstrates a clearer commitment to the program than some of the past donor financed interventions. The proposed support also builds on Government systems and processes using pooled development partner funds, rather than past approaches of fragmented and area based projects with their own donor specific system.

The long term sustainability of the program will also be determined by the extent to which it delivers results i.e. improving agricultural service delivery, investment, the policy environment and subsequent gains in farm productivity and income. Improving the responsiveness of key services to demands of farmers together with supporting improvements in the quality of infrastructure development and the local policy environment should improve impact.

8. Lessons Learned from Past Operations in the Country/Sector

The last three IDA supported projects in the sector on irrigation, research, and extension all closed with satisfactory outcome and performance ratings. These projects clearly demonstrated progress that can be made and the lessons learned to improve future support to the sector. The program design also builds on the lessons from projects supported by other development partners, as well as on lessons from other countries in the region that have adopted agricultural sector wide approaches and pooled funding arrangements. The experiences and lessons of these projects have guided the design of this program. Some of the more general lessons are presented below.

Demand-based approaches: Public agricultural service provision built around demand-based approaches, which typically require significant institutional change, has significantly increased productivity and raised per capita income. These service reforms stress the changing role of extension agents from advisor to facilitator; increasing control of services by farmers through cost sharing; increasing use of contracted services; and a focus on knowledge provision as well as technical advice. Demand-based approaches form the building blocks for both local level planning and for research and extension services.

Incentive to reform: Incentive based systems for reform of LGAs, with resource transfers based on annual performance assessments (such as the capital development grant system) have yielded better results than

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3 Refer to the so-called Neuchâtel Initiative (Common Framework on Agricultural Extension, Neuchâtel Group, 1999).
approaches which lack similar incentives for LGAs to reform (such as the local government reform program). An incentive based approach will be used for the agricultural block grant transfers to local government.

Sustainability: The lack of integration of development partner financed projects into Government systems has resulted in multiple parallel system, high transaction costs, duplication of effort, and has often lead to weak sustainability of project activities and impact. Building on the lessons from the sector and other countries, the program proposes to pool development partner support through a basket fund to support an agreed Government program, through Government systems. While this may result in lower short term impacts, the reform interventions and impact are likely to be more sustainable.

Sector wide support: Efforts by development partners to jointly support broad-based agricultural sector programs have typically resulted in significant preparation time prior to implementation (e.g. about 5 years as in Mozambique, Zambia, and Lesotho). In an effort to reduce preparation time, a step-wise approach is taken. A sub-set of the broader sector program is more advanced in its preparation and implementation readiness, while other elements of the program are less advances and will be further developed during implementation, as part of other complimentary programs.

9. Safeguard Policies (including public consultation)

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10. List of Factual Technical Documents

11. Contact point
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Email: Rtownsend@worldbank.org

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1818 H Street, NW

* By supporting the proposed project, the Bank does not intend to prejudice the final determination of the parties' claims on the disputed areas