THE UNITED REPUBLIC OF TANZANIA
PRIME MINISTER'S OFFICE

AGRICULTURAL SECTOR DEVELOPMENT PROGRAMME
PHASE TWO (ASDP II)

RESOURCE MOBILIZATION STRATEGY

November 2020, DODOMA

THE UNITED REPUBLIC OF TANZANIA
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FOR

AGRICULTURAL SECTOR DEVELOPMENT PROGRAMME PHASE TWO (ASDP II)

November, 2020

Dodoma, Tanzania

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ABBREVIATIONS AND ACRONYMS

ASC	Agricultural Sector Steering Committee
ASCG	Agricultural Sector Consultative Group
ASDS	Agricultural Sector Development Strategy
ASDP	Agricultural Sector Development Programme
ASLMs	Agricultural Sector Lead Ministries
DADPs	District Agricultural Development Plans
DED	District Executive Director
FYDP	Five Year Development Plan
NASSM	National Agricultural Sector Stakeholder Meeting
PORALG	President's Office Regional Administration and Local Government
RAS	Regional Administrative Secretary
RMS	Resource Mobilization Strategy
SADC	Southern African Development Community
TAFSIP	Tanzania Agriculture and Food Security Investment Plan
TDV	Tanzania Development Vision
TLPP	Tanzania Long Term Perspective Plan
TZS	Tanzania Shillings
UNRWA	United Nations Relief and Works Agency

URT	United Republic of Tanzania
USD	United States Dollars

FOREWORD

It has been estimated that about TZS 13.819 Trillion is required to implement the ASDP II. The question is how can the country finance the programme to achieve its objectives? One of its option was to develop a Resource Mobilization Strategy (RMS) that sets alternative funding sources and how best funding can be mobilized. A mixed approach thought process using both top down and bottom up approaches was adopted to generate this strategy. Each of these approaches have their own advantage and disadvantage and thus it was assumed that using a mixed approach could leverage the strength of each approach.

Under the top down approach a combination of instruments are recommended to ensure funding: additional allocation of commercial bank lending to agribusiness portfolio up to two times of the current allocation; design a diaspora bond dedicated for agribusiness funding; introduction of the municipal bond; and local currency denominated global bond. These four approaches in addition with the increased allocation of public expenditure to the agricultural sector could be used during phase one as the point of entry. On the long-term increased household savings as percentage of GDP, increased trading volumes and increased tax base creates significant opportunity for additional revenue. Beyond these inward-looking solutions there are promising outward looking solution from international development finance and development partners.

Using bottom up approach is anchored around value chain financing supported with a strong investment hypothesis. To effectively use this approach, the financing gap per priority value chain need to be identified; and it is assumed to attract both local and international investors. Also, to ensure access to financial services among stakeholders along the value chain, innovative stakeholders support and financial inclusion models are proposed to be adopted.

The arguments presented in this strategy to raise enough funds will be realized if a comprehensive approach is adopted. However, any resource mobilization initiative done should adhere to the Government, loans, guarantees and Grant Act, 1974 and its amendment of 2017, CAP. 134.

PRIME MINISTER'S OFFICE

1. INTRODUCTION

1.1 Background Information

Agriculture is one of the most important sectors in our national economy. The sector plays a critical role in employment generation, income generation, food and nutrition security and export earnings. However, the sector is being hold back by myriads of challenges including: subsistence small scale farming, weak business environment, lack of capital, limited skills and knowledge, diseases and pests, rudimentary technology, market linkage, seed quality, infrastructure and access to finance.

Most of these problems can be addressed by the market if the effective financing mechanism is put in place. Others challenges like weak business environment and business friendly policies requires government interventions. These challenges have been holding back the agriculture and the industry has been historically dominated by subsistence smallholder farmers. Most of these farmers are poor and resource constrained.

The government has acknowledged these challenges and designed a programme for transformation and commercialization of the agricultural industry. The long-term aspirations of socio-economic transformation of Tanzania have been articulated in the Tanzania Development Vision (TDV) 2025; to become a lower middle-income country status with a competitive economy and free of miserable poverty. The Vision is being implemented through the Long-term Perspective Plan (LTPP) (2011/12-2025/26) sequenced in three Five Year Development Plans (FYDP I, 2011/12-2015/16; FYDP II, 2016/17-2020/21 and FYDP III (2021/22-2025/26).

The Agriculture sector has a vital role to play in this transformation process, being mainly rural-based and where the majority poor find livelihood support. However, a major challenge of improving livelihoods of farming communities has been associated with resource allocation and low implementation of budgets for agriculture and related programmes. It is against this backdrop that the Government has been implementing a number of incremental initiatives, ASDPs being one of them.

ASDP consolidates the Agricultural Sector Development Strategy (ASD 2001) as revised in 2015 and the Tanzania Agriculture and Food Security Investment

Plan (TAFSIP) 2011. The Government implemented ASDP I from 2006/2007 to 2013/2014. This has been succeeded by ASDP II; a ten-year programme that will be implemented in two phases of five-years each. Lessons learnt during implementation of ASDP I informed development of the successor plan. The challenges to ASDP I implementation included poor governance, management, and coordination (horizontal and vertical coordination); challenges of sector enablers; inadequate data and data systems; inadequate technical and financial capacity as well as inadequate capacity to plan, manage and deliver investments, leading to delayed disbursement and causing carry-over of funds from year to year (URT 2017).

ASDP II aims at transforming the agricultural sector (crops, livestock and fisheries) towards higher productivity, commercialization level and increased smallholder farmer income for improved livelihood, food and nutrition security and contribution to national income. ASDP II is organized around four components: Sustainable Water and Land Use Management; Enhanced Agricultural Productivity and Profitability; Commercialization and Value Addition; and Sector Enablers, Coordination and Monitoring and Evaluation.

The overall investment cost of ASDP II is estimated at TZS 13.819 Trillion (USD 5.979 billion) with annual investment base costs ranging from TZS 2.284 Trillion (USD 988 million) to 3.238 Trillion (USD 1.400 million) over a 5-year period. The main sources of financing of the development budgets for ASDP II, will include: Government, Development Partners; and other stakeholders including private sector, NGOs and farmers. For each programme sub-component, the proportions of the budget for which the respective financiers would provide funds were determined to derive a tentative financing plan for ASDP II. In terms of financing modality, the Government prefers Basket funding for ASDP II. Standalone direct project financing will also be considered.

This report is the Resource Mobilization Strategy for Agricultural Sector Development Program (ASDP) II. It presents a consolidation of inputs from stakeholders Workshop on Resource Mobilization Strategies for the Implementation of Agriculture Sector Development Program Second Phase (ASDP II). The report explores and analyses different development finance options available in global and local credit market and recommends feasible funding options for the sector. As continuation of methodology, further literature review and consultations were extended to improve the report to its current version.

1.2 Objectives of the Resource Mobilization Strategy (RMS)

Resource mobilization strategy is "a set of formal or informal policy decisions through which an administration defines, alone or with others, resource needs for their own work, and puts in place administrative arrangements that are expected to allow for the mobilization of resources that match their organizational or policy ambitions" (modified from UN 2011). The objective of a resource mobilization strategy is to identify the most effective ways to mobilize extra-budgetary resources (ECE, 2016). Resource mobilization focuses on forging partnerships built on trust and mutual accountability. A strong resource mobilization plan considers a mix of strategies to generate revenue.

1.2.1 Overall objective

The overall objective of this Resource Mobilization Strategy is to ensure that there is sustainable and adequate resource availability for implementation of first phase of ASDP II (2017/18 – 2022/23) and addresses how best to obtain the necessary resources. A successful strategy ensures that the resources necessary for ASLMs to deliver on their mandate are predictable. RMS complements Medium Term Strategy to ensure that the outcomes set are met.

1.2.2 Specific objectives

Specifically, the strategy will address the following:

a) Put in place a framework for resource mobilization;
b) Ensure existence of a clear, systematic, predictable and well-coordinated approach from soliciting to acquiring resources;
c) Ensure proper utilization and management of acquired resources;
d) Develop a robust reporting, monitoring, and evaluating framework;
e) Expanding the resource base for ASDP II.

2. COUNTRY SITUATIONAL ANALYSIS OF AGRICULTURAL FUNDING

In the past 10 years, Agricultural Sector Development Strategy (ASDS) has been operationalized by ASDP I financed by the Government of Tanzania (Central and Local Governments), the World Bank, African Development Bank (AfDB), IFAD, the governments of Japan and Ireland, and the European Union. ASDS and ASDP I emphasized sector-wide approach and Basket Funding as the preferred form of contribution from donors to foster harmonization of sector interventions, as opposed to the proliferation of "traditional" projects.

Overall, it appears that over the ASDP I implementation period, development partner funding support to the agriculture sector gradually moved towards increasing levels of earmarked basket funding, (back to) "traditional" on-budget projects/programmes implemented through different sector ministries, but also increased off-budget support. Although not always recognized[1], several stand-alone projects were building on systems and capacities developed and maintained by ASDP-1, especially at LGA level: mutual levering is commendable, but non-earmarked financing of basic capacities, (Extension and Capacity Building Block Grants) have decreased to a critical level.

Development partners also made further investment commitment to Big Results Now (BRN) and/or specific local programmes, with high investment concentration on the SAGCOT area. Apart from ASDP I Government of Tanzania, Development partners and private sectors have been co-financing stand-alone projects. Such projects among others include Accelerated Food Security Programme (AFSP) which was co-financed by the Government of Tanzania and the World Bank (USD 245 Million); the Marketing Infrastructure, Value Addition and Rural Finance Support Programme (MIVARF) co-financed by the International Fund for Agricultural Development [IFAD] and AfDB (USD 170 million); and Feed the Future (FTF) supported by the United States Agency for International Development (USAID) (USD 70 million annual off-budget contribution). Despite these initiatives and others that have not been mentioned in this document still funding for the agricultural sector have not met the demand of funds that is required. That is why ASDP II is open to a variety of financing modalities to meet the required funding for its implementation.

1 The IFAD Country Programme Evaluation (December 2014 final-unedited), recognized the high relevance, effectiveness, efficiency and sustainability of their ASDP investments when compared to alternative investments especially in agricultural marketing and value chain development.

3. RESOURCE MOBILIZATION STRATEGIES

The price tag of ASDP II implementation exceeds the capacity of government budget given demands from other sectors as well. In addition, the expected contributions from Government (41%) that include Government and Development Partners; and private sectors (59%) are unlikely to be available given the past experiences. This reality necessitates developing or adapting resource mobilization strategy for ASDP II. The strategy has to integrate both public and private funding streams; and has to be part and parcel of the roles that administrations play and as a core function internally. Resource mobilization is an institutional responsibility. It has to encompass all activities involved in securing new and additional resources. It should also involve making better use of, and maximizing, existing resources.

Generally financial resource mobilization for investment can be generated through bootstrapping the available internal resources or attracting external resources. The common global and regional trends in financing for development has been mainly through a combination of domestic resources mobilization, Overseas Development Assistance (ODA), grants and aids. The recent trend is moving towards domestic resource mobilization which is more stable source of income compared to volatile and uncertain ODA and donor funds. The Addis Ababa Tax Initiatives is one of the signature initiatives which articulates the need for effective domestic resources mobilization for inclusive growth. Thus, the strategy is mainly focusing on resources available locally or to a large extent resources in which the country has control or influence.

The strategy considers both traditional and innovative approaches for implementation of ASDP II. The traditional instruments for development finance include public expenditure and development partners' contribution and support. The innovative approaches to resources mobilization are: Diaspora Bond, increasing the tax base, local currency denominated global bond (global bond), block chain based financial instruments, municipal bonds, policy directives directing commercial banks and pension funds to increase percent of their lending portfolio in agribusiness.

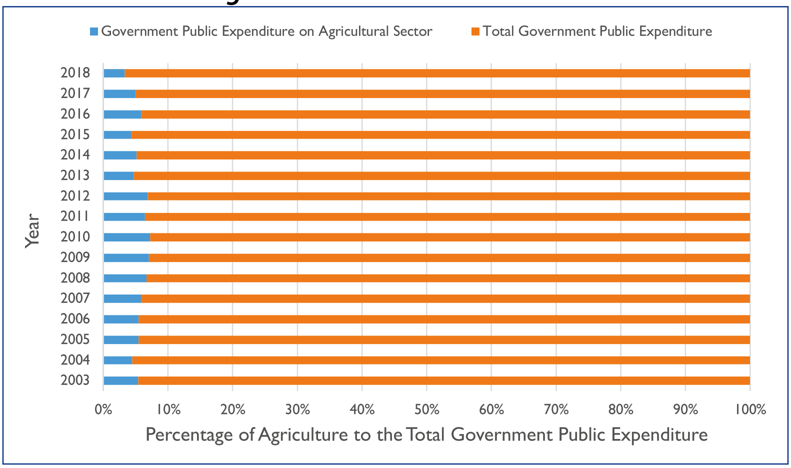
Out of these options the strategy in the first place focus on the potential additional revenue from the following sources: commercial banks and pension funds additional lending to agriculture by allocating at least 10 – 20 percent of their lending portfolio; diaspora bonds, municipal bonds, global bond equivalent to 10 percent of the GDP, tax base improvement by 3 percent of GDP, and increasing domestic savings by 10 percent.

3.1 Traditional Approach

3.1.1 Government to keep on increasing public expenditure allocation to agricultural sector

According to the Maputo (2003) and Malabo (2014) declarations, African countries agreed to allocate at least 10 percent of their public expenditure to agricultural sectors. Many countries are still struggling including Tanzania. Figure 1 shows trend of allocated Government public expenditure on the agriculture sector for the past sixteen (16) financial years. Looking at the trend, the government expenditure toward the agricultural sector is not yet even attaining the minimum agreed percentage (i.e. 10%).

Figure 1: Percentage of Government public expenditure on the Agricultural sector since 2003 to 2018

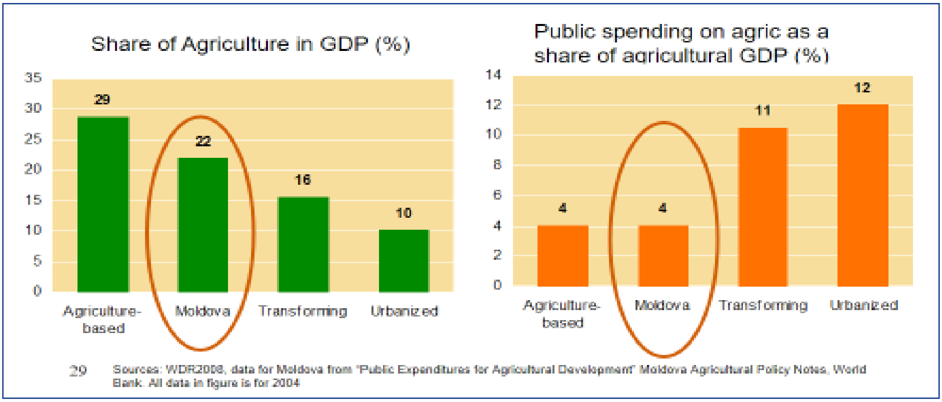


Source: Ministry of Finance

Despite inadequate allocation of public expenditure on agriculture sector, experience from Agriculture Sector Lead Ministries (ASLMs) shows that the actual disbursement of funds do not meet the approved budget for the sector. As a result, within the sector some of planned activities remain unfinished agenda. Based on these scenarios there is a need for adjustment of the public expenditure towards agriculture sector to at least bridge the gap that exist between the actual and the disbursed amount of funds.

Also, Figure 2 shows how the agricultural based economy countries surprisingly enough spend low amount of resources in the agricultural sector compared to urbanized countries. Despite this surprising trend some of the countries in the agricultural based economy like Malawi (16%), Zambia and Ethiopia have managed to allocate above the minimum percentage (10%) agreed at the Maputo (2003) and Malabo (2014) declarations. This creates another opportunity for resource mobilization towards financing ASDP II programme whereby the government need to increase its budget allocation to at least the minimum proposed percentage of public expenditure.

Figure 2: Challenges on public expenditure among agricultural based countries in comparison to industrialized countries.



Funding from the public expenditure allocation can be channelled through Agricultural Sector Lead Ministries (ASLMs) in their regular annual budgets as well as through strategic projects. Funding for strategic projects can be through treasurer and TADB. Such funding (portion of public expenditure allocation) channelled through TADB will assume the bottom up approach. The focus will be to support strategic projects based on per value chain and in-depth investment analysis that will be carried out to identify the financing gaps and the actual needs in each part of the value chain.

To start as a pilot, three value investment approaches namely: protein value chain; dairy cattle and aquaculture (Tilapia) have been developed. Of the three value chains a comprehensive protein value chain is available on request from

TADB; a summary of aquaculture (Tilapia) value chain investment plan as working document is attached as Appendix 1 on fish farming project. This approach intends to bring on board various private sector actors at different nodes of the identified value chains. Thus, a single value chain will have more than one actor operating in profit-oriented manner. Such scenario will ensure development and sustainability of the value chains.

3.1.2 Development partners contribution and support

The development partners (DPs) used to support up 40 percent of the country budget. However, such support has been significantly reduced over time. Nevertheless, there is a significant room to tape into this source if some geopolitical and political economy interest between the donors and the current regime is reconsidered. We will not consider the estimate from this source at the moment but potentially it could be very significant if carefully massaged and unlocked.

It can be anywhere between 0 percent to 30 percent of budgetary allocation or beyond. However, for the sake of attracting funding from the Development Partners for ASDP II implementation, ***the strategy is proposing maximizing of conducting both consultative and decision-making forum between Development partners and the Government through Agricultural Sector Consultative Group (ASCG) and Agricultural Sector Steering Committee (ASC).*** These forums will lead to alignment of DPs' interest with that of the Government.

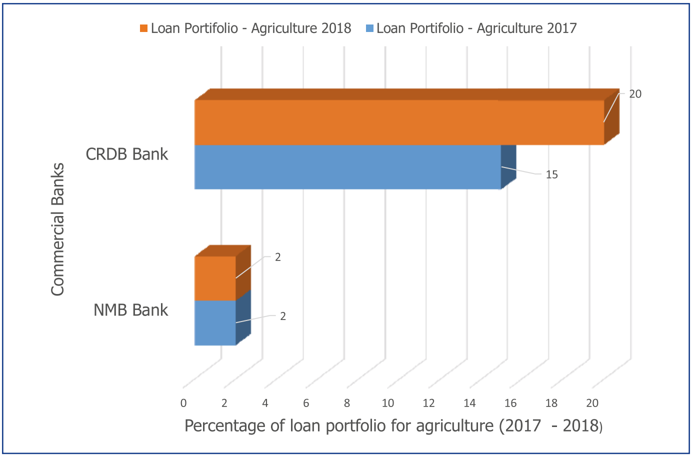
3.2 Innovative Approach

3.2.1 Commercial banks

According to a 2013 report authored by World Bank researchers, Gunhild Berg and Michael Fuchs, lending to Small and Medium Enterprises (SMEs) comprises only 14 percent of total lending by Tanzanian banks compared to 17.4 percent in Kenya (Berg and Fuchs, 2013). Also, in Tanzania agriculture loan portfolio offered among commercial banks is still low. Figure 3 shows loan portfolio for agriculture sector for the two commercial banks (NMB and CRDB) in the year 2017 and 2018.

Taking into account the role of agriculture to country economic growth as well as financial need for the development of the agriculture sector, overall percentage offered to the agriculture loan portfolio is still low. For instance, the distribution of credit to the agriculture sectors by NMB bank has remained at 2% of its loan lending among sectors for the years 2017 and 2018; whereas for CRDB bank the lending portfolio for agriculture was 15% in the year 2017 with an increase to up 20% in the year 2018.

Figure 3: Agriculture loan portfolio from NMB and CRDB banks f or the years 2017 and 2018



Source: NMB and CRBD Annual Reports for the year 2017 and 2018

The African Guarantee Fund also estimates that only 20 percent of African SMEs have a line of credit at a bank. Thus, the low hanging fruit is to negotiate voluntary allocation of at least 20 percent commercial banks funds' portfolio towards agricultural financing.

3.2.2 Municipal Bond

According to Tax Policy Institute (2019), Municipal bonds (which encompasses both state and local government debt) are obligations that entitle owners to periodic interest payments plus repayment of principal at a specified date. States and localities (cities, townships, counties, school districts, and special districts) issue bonds primarily to pay for large, expensive, and long-lived capital projects. Simply put, municipal bonds work just like corporate bonds, only they're issued by cities, states, and counties instead of large companies.

"The first official municipal bond on record was issued by New York City in 1812 to pay for the digging of a canal. Since then, the size of the U.S. municipal bond market has grown to roughly $3.9 trillion. Some notable landmarks financed by municipal bonds include the Erie Canal and San Francisco's Golden Gate Bridge" (Motely Fool, 2019).

Globally, municipal bond remains as one of the robust development financing sources for local community economic development. The municipal bond in OECD countries constitute about 25 percent of GDP. Putting into Tanzanian perspective it could potentially yield up TZS 29.75 trillion if fully utilized (assuming TZS 119 Trillion in GDP). Indeed, for a country like Tanzania where most of development activities are decentralized into local government authorities, it creates a ripe infrastructure for launching municipal bonds.

However human capital, policy and legal framework and institutions need to be in place for effective issuance and management of municipal bonds. Good news is that it is a long-lasting practice with well-established best practices to borrow from and experience to leverage on. Some initial efforts which could be enhanced has started in the country with support of development partners.

More specifically in Arusha in May 31, 2017, the President's Office – Regional Administration and Local Government (PO-RALG) and the United Nations Capital Development Fund (UNCDF) launched a two-day technical workshop on municipal investment finance with various local key stakeholders in Arusha to explore the possibility of tapping into capital markets in Tanzania. Such initiatives demonstrate a strong political commitment to adopt such innovative initiatives in development and strong international support.

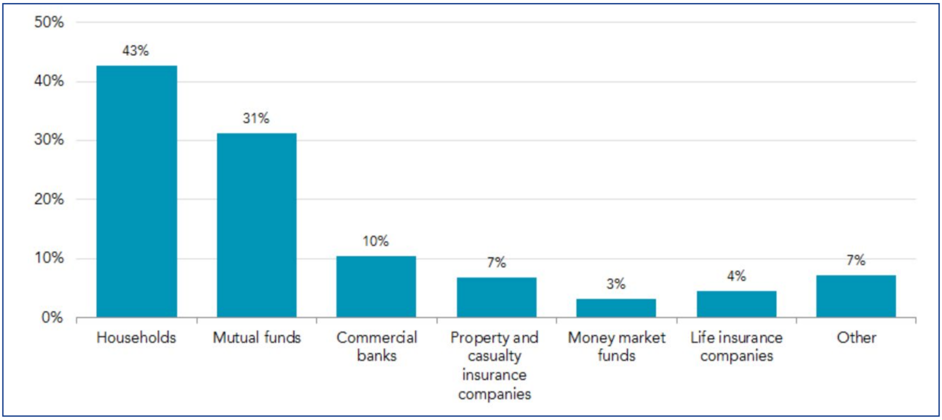
The international expert workshop involved six cities and municipalities in Tanzania with the potential for using municipal bonds. The workshop was attended by senior government officials, local government representatives, financial institutions, and private investors. The participating cities included Tanga, Mwanza, Mbeya, Arusha, Dar es Salaam and municipalities of Dodoma, Ilemela, Temeke and Kinondoni. The importance of such workshop is articulated in the quotes below from workshop participants.

UNCDF's approach to local development finance acknowledges the challenges municipalities in Tanzania face in enhancing local basic services, promoting local economic development and increasing local resilience to climate and economic shocks. The approach recognizes that the national economy has grown dramatically over the past decade, however underinvestment at the local level remains a key setback in structural transformation within municipalities. The Head of UNCDF Tanzania, Peter Malika, noted that finance is one of the keys to sustainable development.

"*It is important to capacitate and empower local government authorities to access municipal finance to enable them to provide access to basic services within their municipalities. We are here to support municipalities with creating an enabling environment for municipal financing. We believe that this will provide a brighter future for the growing cities in Tanzania and its people.*" Against the background presented above, the modest expectation of 15 percent revenue to be generated from municipal bonds in Tanzania is not an overly ambitious assumption.

Apart from generating long term financing sources which is sustainable and local driven, it also creates a second level national-wide impact on stimulating and catalysing household saving which complements the efforts of the domestic savings addressed in section 3.4. The experience from global leaders in Municipal bonds instruments shows majority of shareholding are households followed by institutional investors and private capital allocators. Figure 3 demonstrate the composition of the top investors in municipal bonds using USA case study. The impact of municipal bonds includes: stimulating domestic saving behaviour, creating investment opportunities, increasing oversight and governance, creating local jobs, crowding in private capital and if carefully and innovatively designed it could trigger foreign direct investments inflow.

Figure 4: The State of Local Government Debt in USA First Quarter 2019 - The investors typology in municipal bonds



Source: Federal Reserve Bank June, 2018 and Tax Policy Center

3.2.3 Global bond

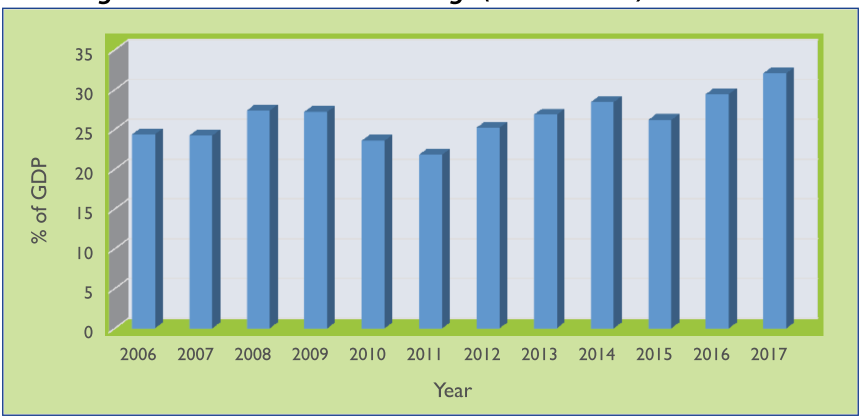
Global bond refers to local denominated bond which is open to both local and foreign investors, attracting both institutional and retail investors. Unit Trust of Tanzania Assets Management and Investor Services (UTT AMIS) recently launched bond fund which could be an important opportunity to raise and manage local bond funds in collaboration with TADB who can be a distributor and deal structuring partner. Such instrument is better than Eurobond because it has an inbuilt exchange rate risk for the issuer.

If we take additional debt of 10 percent of the GDP then we can raise up to TZS 11.9 trillion in the first year depending on the market response. If such resources are spent well its impact on the economy could be almost 2-3 times in some specific value chains and its overall impact on debt to GDP ratio will dissipate with accelerated GDP growth.

3.2.4 Domestic Savings

If there is an area the country has been doing quite well is on Gross Domestic Saving (GDS). The saving has been increasing exponentially for the past 30 years and is still on the rise. Such positive behaviour can trigger additional incentives like matched tax rebate saving or matched housing support or educational support where the government allocates a certain amount to saving accounts after every fixed period of time. Municipal bond could also play a critical in stimulating domestic saving. The positive domestic saving trends is demonstrated by Figure 5.

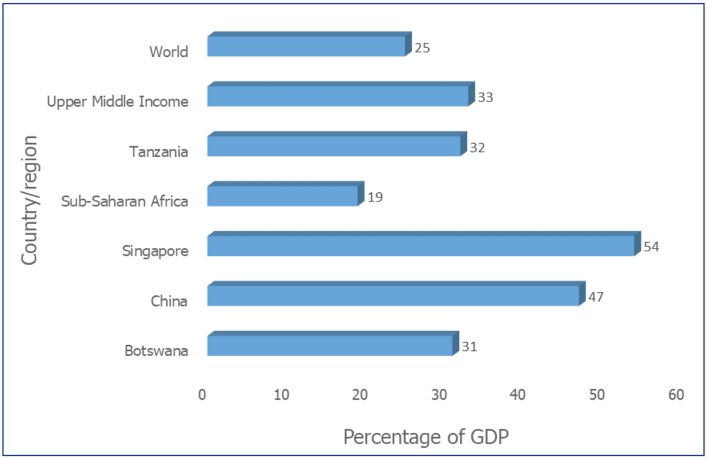
Figure 5: Gross Domestic Savings (Current LCU) – Tanzania



Source: World Bank, May 2020

The current gross domestic saving as a percentage of GDP in Tanzania is about 32 percent well above the world average of 25 percent and far above sub-Saharan average of 19 percent. While this is very impressive statistics still there is room to improve our saving further. China and Singapore have reached above 42 percent which give them a margin of about at least 10 percent additional gross saving as percentage of GDP before they approach exhaustion zone (Figure 6). Thus, the suggested additional 3 percent increase in saving rate is realistic.

Figure 6: Gross saving rate as a percentage of GDP



Source: World Bank, 2019

3.2.5 Diaspora Bond

Another instrument is diaspora saving bond. This is a debt instrument which is structured to incentivize and pool the remittance of Tanzanians abroad to catalyse domestic development. According to Her Excellence Rosemary Jairo, the Deputy Ambassador of Tanzania and a former Director of Tanzania diaspora desk, there is about 3 million Tanzanians in diaspora. If only two third of these Tanzanians contribute about $1,000 per person per year it will be around $2 billion at the current exchange rate of 2,300 TZS/USD, then we should expect at least TZS 4.6 trillion per year.

Countries like Israel and India have extensive track record in leveraging diaspora bond as significant source of development finance. This is another low hanging fruit if well designed because by nature and due to patriotic and altruistic motive these Diasporas would want to see positive development back home. Even more so when they can access loans at the rate as low as 2 percent APR or less in countries like UK, Europe, Japan and around 4 percent APR in North America, then diaspora bond with coupon rate of 10 percent or above can create an excellent opportunity working abroad while creating retirement package at the country of origin.

3.2.6 Broadening of tax base

During the past 10 years the country has adopted aggressive measures toward tax collection especially on imports taxes, incomes taxes and taxes on local goods and services as articulated in Figure 7. However, according to World Bank report (2015) Tanzania revenue collection is quite low compared to the global best practice. Our tax rate is about right but we need to extend our tax base through formalization and integration of the informal economy into a taxable base.

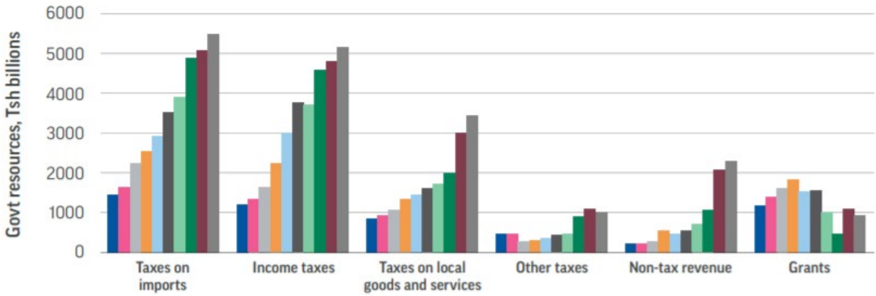
The Tanzanian Government has made various attempts to promote investment in the country by creating business enabling environment (BEE) through strategic reforms. Such reform initiatives include Business Environment Strengthening for Tanzania (BEST) and Blueprint on Regulatory reforms. Such initiatives have led to some improvements in the realignment of the business regulatory regime and the government's initiative in the provision and delivery of services. Also, improvement of business environment through different initiatives could help to close the tax base gap that exist in unfriendly business environment for the informal sector.

According to the Meagher (2013), the informal sector contributes to large extent of the employment in African cities. It is estimated that about 66% of the total employment in the Sub-Saharan African is in the informal sector. On the other hand, informal sector adds to city congestion through vending and transport services to mention a few; and does not contribute significantly to city revenue.

In this view it is considered as tax dodgers. In response to this, in most of developing countries including Tanzania policy reactions to informal sector have been taking place with varying two extreme scenarios: some focus on punitive and regulatory measures to enforce formalization or evict vendors outside the city, while other approaches focus on unleashing the untapped entrepreneurial potential of the informal sector.

This strategy is optimistic forecasting for the informal economy that to a large extent fail to formalize its business leading to loss of income that can be generated as tax. Thus, the strategy would like to see initiatives developed for creating favourable business environment rolling to capture the tax sources available in the informal economy.

Figure 7: Collection of tax across different tax bases



	Taxes on imports	Income taxes	Taxes on local goods and services	Other taxes	Non-tax revenue	Grants
2008/09	1,475	1,229	877	463	249	1,199
2009/10	1,660	1,334	934	500	234	1,405
2010/11	2,228	1,660	1,064	287	285	1,627
2011/12	2,556	2,247	1,337	341	545	1,855
2012/13	2,959	3,020	1,467	377	471	1,522
2013/14	3,536	3,779	1,607	444	573	1,588
2014/15	3,928	3,720	1,745	499	706	1,024
2015/16	4,899	4,600	1,995	917	1,070	495
2016/17	5,093	4,830	3,038	1,095	2,073	1,093
2017/18	5,489	5,157	3,431	1,015	2,312	931

Source: Bank of Tanzania.

Tanzanian tax collection effort is around 15 percent of the GDP according to World Bank data. While this collection is modest compared with her peers, it is well below the Organization for Economic Cooperation and Development (OECD) countries' average of around 35 percent and for some countries which collect well above 40 percent. This create an opportunity of further revenue collections from domestic resources.

The above mentioned six sources suggested have a potential of mobilizing up to TZS 45.19 trillion per year if effectively managed and up to TZS 106.95 over the course of five years. These figures offers an optimistic scenario which sheds light at the end of the tunnel. Even if we assume the worst-case scenario of mobilizing 10 percent of total possible funding from the six sources per year, up to TZS 4.5 trillion can be realized compared with the annual recommended average of TZS 2.8 trillion in ASDP II document. Table 1 below demonstrates potential sources of revenue should we adopt these methods.

Table 1: Potential Possible Sources of Funding to Support ASDP II implementation

Sources	Yearly Allocation (Trillion in TZS)	Five Year Allocation	Assumptions/Risks
Commercial Bank and Pension Funds**	3.7	18.5	All commercial Banks will allocate about 10% additional agribusiness lending beyond the current allocation (The current total commercial bank loan portfolio is around 28 trillion).
Glocal Bond	11.9	11.9	Additional government debt of 10% of GDP.
Tax Base Improvement	3.57	17.85	Improvement in tax base by 3% per annum
Domestic Saving	3.57	17.85	Improvement of domestics savings by 3% per annum
Municipal Bonds	17.85	17.85	Allocation of 10% of the portfolio for agribusiness. Need Government intervention and clear formulation and directives under MoFP/BoT, involve change of mindset with a piloting of few Municipals under TADB as an implementer.
Diaspora Bonds	4.6	23	At least 2 million Diaspora will contribute $1000=TZS 2,300,000 per annum. Estimated Tanzanian diaspora is 3 million (2,000,000*1000*2,300=TZS 4.6 trillion)
Total Potential Funding	**45.19**	**106.95**	

The assumption made here is quite reasonable and within the bound of global practices. For example, most of the OECD countries their debt to GDP ratio is well above 90 percent while Tanzania's debt to GDP is below 40 percent. If such additional debt is directed into productive investment on the short term may affect the debt to GDP ratio but on the long term it will reduce it significantly.

The municipal bond for OECD countries consists about 25 percent of GDP which implies that 15 percent of GDP assumed in our case is modest estimate given that the necessary institution and infrastructure are in place. The recent UTT bond fund initiative offers a unique vehicle to be used to launch and manage the municipal bonds.

Figure 8: Global Ranking of Debt to GDP ratio

Summary Forecast Download Alerts

World Europe America Asia Africa Australia G20

Country	Last		Previous	Range	
Japan	238.20	Dec/18	238	238 : 50.6	%
Italy	134.80	Dec/18	134	135 : 90.5	%
Singapore	112.20	Dec/18	111	112 : 67.4	%
United States	106.10	Dec/18	105	119 : 31.8	%
France	98.40	Dec/18	98.4	98.4 : 20.7	%
Spain	97.10	Dec/18	98.1	100 : 16.6	%
Canada	90.60	Dec/18	89.7	101 : 45.1	%
Argentina	86.20	Dec/18	56.6	167 : 34.5	%
Euro Area	85.10	Dec/18	87.1	92 : 65	%
United Kingdom	84.70	Dec/18	85.1	85.1 : 21.8	%
Brazil	77.22	Dec/18	74.07	77.22 : 51.27	%
India	68.30	Dec/18	68.9	83.23 : 47.94	%
Germany	60.90	Dec/18	64.5	81.8 : 54.8	%
South Africa	55.80	Dec/18	53.1	55.8 : 27.8	%
Netherlands	52.40	Dec/18	57	73.1 : 43	%
China	50.50	Dec/18	46.8	50.5 : 20.4	%
Mexico	46.00	Dec/18	46	48.2 : 17.9	%
Australia	40.70	Dec/18	40.7	40.7 : 9.7	%

This is using the top down approach in fund raising. The open question which remain on this approach is the specific detail on how these funds will be utilized, that is where the blend of the bottom up approach becomes handy.

4. FINANCING GATEWAY TO SMALLHOLDER FARMERS AND STAKEHOLDERS IN THE VALUE CHAIN

Smallholder's farmers play a critical role in Tanzanian agriculture and sub-Saharan Africa in general. However, financing the sector especially smallholder farmers as key stakeholders has been very challenging due to numbers of reasons which are hinged on actual and perceived risk (Badiru, 2010; Venkataramany and Bhasin, 2009). Other barriers to financing include: weak property rights regime, high transaction cost, seasonality in cash flow, lack of collateral, information opacity, erratic weather, disease and pests, geographical location and information asymmetry (Badiru, 2010; Venkataramany and Bhasin, 2009).

As a result, less than one percent of the commercial lending portfolio goes to this market in sub-Saharan Africa. Hence, there is both government and market failure. By implication the current business model in credit market does not seem to board well with the realities in the ground. In response to this challenge introduction of agriculture insurance is inevitable. Agriculture insurance is one of risk management tool in agriculture that has practically minimized the risk of loan default as well as motivating commercial banks to offer credits among farmers. Thus, to capture its advantage development of smallholder farmer data base is inevitable.

This will also provide an avenue that can allow an individual or farmer groups to access credit from commercial banks. Studies elsewhere (Sinha, 2017; Manisha, 2019; Dalhaus *et al*., 2018; Lopulisa *et al*., 2018; Badiru, 2010) and even in Tanzania (Osumba and Recha, 2019; Haule and Katundu, 2019; Dougherty *et al.*, 2019) have revealed that agriculture insurance as one of the risk management had played a great role to motivate commercial banks to issue loans to smallholder farmers as well as other stakeholders in the sector. Thus, efforts to increase the lending portfolio among commercial banks in the agriculture sector especially among smallholder farmers should go hand in hand with developing awareness of agricultural insurance among small-scale farmers and strengthening the ability of agricultural insurance institutions to carry out their mandates.

This will motivate financial institutions to offer credits as it will lower the risk faced by financial institutions in lending to small-scale farmers.

Apart from the agriculture insurance, the government of Tanzania introduced Tanzania Agricultural Development Bank (TADB) to take the leading role in de-risking the market. Since its launch it has crafted and designed several innovative products and models which will significantly improve access to finance and financial inclusion in the agricultural sector. The bank is collaborating with over 8 financial institutions and other key players in the financial sector.

The first phase of TADB intervention has been to craft a credit guarantee scheme which helps to mitigate the potential loss for commercial banks should default happens. Additionally, it helps to improve the collateral value of the smallholders' farmers which may not have enough formal collateral to meet the loan requirement. This product has been rolled out to more than 8 commercial banks, community banks, microfinance banks which has foot prints across different regions in the country. This intervention has opened a window of opportunity for micro, small and medium enterprises in agricultural sector.

The second intervention is the *Mfumo Jumuishi* which is a collaboration between farmers' organization, mobile financial services, commercial banks and digital financial services, TCDC off takers, and farmers themselves. The *Mfumo Jumuishi* platform links all the key stakeholders in transparent and efficient way which make it easy to channel financial services and products (savings, health insurance, credit and agricultural insurance) through the platform.

The third intervention in terms of ensuring access to credit to all legible stakeholders along the value chain including farmers. TADB has developed innovative farmers support and financial distribution models which is called *Nyarusai* Farmer's Support Partnership Model. The *Nyarusai* partnership model pool together farmers, farmers' organizations, regulators, processers, input suppliers and ICT services provider, financial institutions and extension services providers into an integrated network of specific value chain ecosystem. This innovative approach mitigates a number of risks along the value chains and unlock the funding potential for the key stakeholders along the value chain. We believe these three innovative models which are currently under implementation will unlock the commercial capital into agribusiness industry in unprecedented magnitude.

The details about the three models are available on request. Beyond these specific products for smallholders' farmers, TADB has also a range of products including: co-financing, syndication, nucleus farmers/out grower scheme, value chain financing mechanism and integrated off takers and small holder farmer's development financing mechanism. These mechanisms ensure that both, access to market and productivity challenges are addressed simultaneously.

5. GUIDING PRINCIPLES FOR RESOURCE MOBILIZATION, IMPLEMENTATION ARRANGEMENTS AND COORDINATION

5.1 Guiding principles for resource mobilization

The resource mobilization from different sources will follow the following steps/ principles in Table 2.

Table 2: Summary of steps to be followed in the resource mobilization strategy

Step 1: Identification	▪ Map resource partners (thematically and geographical) ▪ Establish if there a match with Ministry's comparative advantage ▪ Verify if the resource partner is acceptable source
Step 2: Engagement	▪ Organize resource partners meetings/consultations ▪ Joint development of advocacy tools e.g. concept notes/ proposals ▪ Foster individual contacts
Step 3: Negotiation	▪ Reach agreement on joint interests ▪ Agree on conditions/supporting mechanism of partnership, including procedures (terms and conditions) on use of the resources ▪ Develop and formalize legal agreement
Step 4: Management and reporting	▪ Acknowledge partners' contributions ▪ Ensure efficient and effective operation and management of the resource
Step 5: Communication of the results	▪ Disseminate information on lessons learnt ▪ Develop advocacy communication tools ▪ Advocate for continued engagement

The highlighted steps for resource mobilization apply to a number of types of mobilization available, either being a top down or bottom up source of funds. The proposed types of mobilization for the highlighted internal and external sources of funding include preparation and submission of investment plans/ proposals that are feasible/bankable; organizing fundraising events; donations; collecting in-kind contributions; volunteer support and income from business-oriented projects.

5.2 Implementation Arrangements

Implementing a resource mobilization strategy goes beyond fund raising. It entails obtaining various resources from a multitude of partners, by different means. Thus, resource mobilization could be seen as a combination of resources, mechanisms and partners. It involves a sequence of activities as shown in Figure 9.

Figure 9: Resource Mobilization Process

Optimal combination of the identified resource mobilization strategies/sources is recommended. The allocation of commercial bank lending, diaspora bond, municipal bond, local currency denominated global bond and increase of government expenditure in accordance to the Maputo (2003) and Malabo (2014) declaration to be the phase one point of entry (quick wins). On the long-term increased household savings as percentage of GDP, increased trading volumes (both export and domestic oriented) and increased tax base creates significant opportunity for additional revenue to implement ASDP II.

The government through its National Coordination Unit (NCU) at the Prime Minister's Office (PMO) need to create a fund mobilization committee which will be responsible for coordination, mobilization and allocation of these resources. Local financial institutions like TADB can be brought on board to help manage and disburse funds collected and allocate them to other commercial banks through affordable concessionary arrangements.

5.2.1 Preparation and submission of investment plans

Establishment of joint preparation of investment plans especially for priority commodities need to be fostered. Development of these plans will be consultative whereby different stakeholders will give their opinion. The developed investment plans will need to be tabled at the investors meeting. Interested investors will have signed agreement to execute respective responsibilities. It is assumed that the private sector will focus more in areas whereby they will be able to make profit in the short or long run. Contrary, the government will focus more on areas that needs longer-term investment in the provision of public service rather than make profit.

5.2.2 Organizing fundraising events

A special fundraising team with a minimum of four people (including high government officials, private sector and development partner's representatives) need to be established. The team will be responsible for identifying potential candidate for funding agricultural activities and their interest. Events will be organized as it is deemed necessary to ensure good response from the fund-raising efforts.

5.2.3 Social and development impact bonds

This is an emerging financing mechanism whereby investors put upfront capital for public project that deliver social (or environmental) outcomes. This can be achieved either through donations, in-kind contribution or social cooperative responsibilities levy.

5.2.4 Crowd-funding

This is an approach whereby an individual or organization interested in promoting an idea or implementing a project seeks support from the broadest range of stakeholders through social media. Since the contributor base is large, even modest contributions can aggregate into significant amounts.

5.3 Prerequisites for implementation of the resource mobilization strategy

The following pre-conditions determine the extent of success of a resource mobilization strategy (modified from SADC, 2012):

- ❖ Having a robust framework for resource management;
- ❖ Strong planning, monitoring and evaluation function in a manner that maximizes the resource absorptive capacity and optimally utilize resources;
- ❖ Enhanced project appraisal system and project monitoring process by introducing a programme/ project management cycle with clear guidelines and criteria;
- ❖ Strong coordination and mobilization of financial and technical resources, systematic resource mobilization framework and guidelines;
- ❖ Broadened resource channels by exploring the alternative sources of funding;

- ❖ Established respective organs/committees with a mandate to support procedures and processes necessary to implement resource mobilization activities; and
- ❖ Enhanced commitment to dialogue, coordination and information sharing with the International Cooperating Partners to provide increased support while maintaining the leadership and ownership of the process.

5.4 Guiding Principles and Sustainability of Fund Flow

The following principles will guide resource mobilization in the context of ASDP II:

- ➢ Resource partnership agreements comply with Tanzania's rules and regulations;
- ➢ All resources mobilized are monitored and accounted for, thus strengthening close relations with resource partners, and build trust and mutual accountability;
- ➢ Resource partners are engaged in a strategic dialogue;
- ➢ All resources are mobilized to support ASDP II implementation;
- ➢ All resource mobilization efforts are coordinated and harmonized by establishing a supportive internal enabling environment;
- ➢ Resource mobilization efforts build on national, regional and international synergies; and
- ➢ Resource mobilization promotes efficiency and effectiveness.

For these principles to be realized the following actions ("pillars") will have to be institutionalized:

- ✓ Creating an enabling environment for mobilizing resources;
- ✓ Building and strengthening the capacity of internal human resources;
- ✓ Adopting results-based programming and implementation;
- ✓ Instituting planning, budgeting, monitoring and evaluation;
- ✓ Broadening the resource channels; and
- ✓ Sustaining a framework of dialogue with international cooperating partners.

6. FRAMEWORK FOR RESOURCE MOBILIZATION

Framework for resource mobilization refers to the main efforts in mobilization of resources. This will need to have entities/personal (in this regards the Resource Mobilization Expert at the National Coordination Unit is suggested to take charge) to oversee the day to day operation. It is proposed RMS to have Resource mobilization officer/executive secretary; resource mobilization secretariat; and resource mobilization steering committee.

Resource mobilization officer/executive secretary: Responsible for coordination of resource mobilization efforts: manages all resource mobilization activities; leads or supervises business development/proposal development; provides leadership and input to strategic planning activities; represents ASLMs at high level functions/ meetings, takes lead in the resource mobilization efforts of the Secretariat - integrating resource mobilization into the budgetary process; reaching out to decision makers in donor countries and donor organizations; ensuring internal oversight of the management of extra-budgetary resources. Also, contributes to proposal development; monitors relevant trends and developments; provides leadership and input to strategic planning activities.

Resource mobilization Secretariat: technocrats/experts – categorizes approaches in immediate; short run; medium term and long term; prioritizes activities in relation to reliable fund availability and projections; contribute to budget development and financial projections; maintains awareness of donor and implementing partner actions at local level; maintains relationship with local government and communities. To ensure accountability and efficiency the resource mobilization secretariat need to operate guided by the following Terms of Reference (ToR).

i) Ensure that funds flow on regular basis;
ii) Ensure alignment of external resources to county priorities;
iii) Consolidate and offer a collective county voice which informs effective design and implementation of programmes supported by external resources;
iv) Advocate for direct funding for development programmes by development partners;
v) Increase linkages between LGAs and funding/investment opportunities;
vi) Widen the resource base for the programmes;

vii) Participate in Resource Mobilization Intergovernmental Forums and sector working groups;

viii) Represent LGAs in national, regional and international dialogue/learning on effective foreign aid/investment;

ix) Strengthen information sharing and knowledge management mechanisms and a channel of reference on LGAs resource mobilization.

Resource mobilization Steering Committee: this is an executive Committee which creates enabling environment; provides political direction; ensures intergovernmental oversight; approves extra-budgetary funding; networks with potential donors/implementing partners. It is proposed that this Committee members should be drawn from Agricultural Steering Committee (ASC) of ASDP II.

6.1 Monitoring and Evaluation

A Monitoring and Evaluation Framework (M&E) for resource mobilization will need to be developed. The Monitoring and evaluation experts in collaboration with the Resource Mobilization expert at the National Coordination Unit (NCU) and other key government officials will ensure the existence of functional and updated M&E framework which will track success and failure of the Resource Mobilization Strategy.

6.2 Proposed Budget

The execution of this plan requires the commitment of human and financial resources to executive various activities to respond to the intended goals. Such resources are required for conducting various meetings, preparation of investment plans and running investors forum among others.

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APPENDIXES

Appendix 1: Cash Flow for Cage Fish Farming Project

Revenue is forecasted at TZS **1,876,050,000** billion in the first year of operations, TZS **3,698,600,000** billion in the second year, TZS **3,698,600,000** billion in the third year, onwards as indicated in Cash flow table below.

SIX MONTH CYCLE			SIX MONTH CYCLE		
Cost of Investment			**Cost of investment**		
Items	**Unit price**	**Total Amount**	**Items**	**Unit price**	**Total Amount**
300 Fish Cage	6,000,000	1,800,000,000	Fish Cage		
Business Plan	2,000,000	2,000,000	Plan		
Survey by TAFIRI	1,800,000	1,800,000	Survey by TAFIRI		
EIA Report	5,000,000	5,000,000	EIA Report		
Site acquisition for cage installation	100,000	100,000	Site acquisition for cage installation		
Water use right permit	100,000	100,000	Water use right		
Outboard Engine	3,000,000	3,000,000	Outboard Engine		
Boat	6,000,000	6,000,000	Boat		
Sub total		**1,820,000,000**	**Sub total**		
Cost of Production			**Cost of Production**		
Items	**Unit price**	**Total Amount**	**Items**	**Unit price**	**Total Amount**
Fingerlings – 2,250,000pc	300	675,000,000	Fingerlings price – 2,250,000	300	675,000,000
Fish feeds - 1,687,500kg	2,500	4,218,750,000	Fish feeds – 1,687,500kg	2,500	4,218,750,000
Labour cost (salaries) – 6	800,000	4,800.000	Labour cost (salaries) – 6	800,000	4,800,000
Miscellaneous	1,000,000	1,000,000	Miscellaneous	1,000,000	1,000,000
Fuel (500L)	2,300	1,150,000	Fuel (500L)	2,300	1,150,000
Labour cost (wages) -17	150,000	2,550,000	Labor cost (wages) - 17	150,000	2,550,000
Sub Total		**4,903,050,000**	**Sub Total**		**4,903,050,000**
TOTAL COST		**6,723,250,000**	**TOTAL COST**		**4,903,050,000**
REVENUE FOR FISH SALES			**REVENUE FOR FISH SALES**		
Fish at Harvest – 1,125,000kg	6,000	6,750,000,000	Fish at Harvest – 1,125,000kg	6,000	6,750,000,000
		6,750,000,000			**6,750,000,000**
PROFIT		**26,750,000**	**PROFIT**		**1,849,300,000**

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