1. Introduction
The External Grant Committee requested information on external reviews or evaluations related to the Business Sector Programme Support, Phase IV, and clear information on the linkage between the lessons learned and the present activities. Additionally, the Committee asked for further information regarding indicators. The latter has been addressed by the updated results framework annexed to the country programme document. Below is an attempt to highlight the most important literature and lessons learnt informing the BSPS IV design.

2. External Reviews, Evaluations and Research.
When preparing BSPS IV, numerous analyses were made based on experience and available literature, including reviews, evaluations and research. It is difficult to assess how each and every specific work has influenced the design of the BSPS IV. It has been partly inspirational, partly used to confirm the embassy’s accumulated experience. Denmark has been an active player in the Business Sector Development in Tanzania for the last 15 years, and has collaborated with like-minded development partners including DFID, SIDA, CIDA, Irish Aid and The Netherlands. Most interventions in the BSPS IV are multi-donor efforts, experience, lessons learnt and analysis are shared.

In much of the literature on how to break the Tanzanian agricultural sector’s vicious circle of low productivity and lack of diversification toward high value produce there is strong evidence that opportunities for commercialization and increased productivity go together, and that successful economies have implemented systems to connect their farmers to markets.

Evaluations show that the Tanzanian government has not been successful in doing so despite substantial focus on the national reform agenda supported by the development partners. Recent research attributes this to lack of intent from elites, rent seeking and the continuous existence of quasi-monopolies in commodity marketing, trade or processing. Emerging commercial farmers, including farming entrepreneurs and organisers of outgrowers, may help counter this, together with better organized and better informed farmer organisations.

Litterature points to the need to help farmers through support to specific reforms and not generic policy work, to act through private sector change agents, and to work through development of specific value chains. Still, many reviews and evaluations of value chains have shown that most programmes, instead of working to change the context within which the enterprises operate, have been focusing on the enterprise level issues. The value chain development approach provides the opportunity to also address external and cross-cutting
blockages to the enterprise, by undertaking thorough analysis of the whole value chain to address the causes rather than the symptoms.

In phase IV of the BSPS, the actual implementation of programme activities are now fully imbedded with the private sector partners. Support through central government, including donor-government general policy discussions and consultancies have been discontinued (BEST). It is the businesses themselves and/or their associations, who will implement the chosen measures to remove constraints and blockages and discuss reforms with government. One implication of this is that the programme focus has moved from national level to more geographical and sector focused constraints.

Furthermore, the reviews and evaluations have recommended the use of grant competition instead of just grants giving. Grant competition is an important feature of the BSPS IV as AMDT, FSDT and LIC will mostly use competition to award grants. This approach will help ensure that projects are of good quality and therefore have highest chance to succeed. This will also help to screen the projects, so that only those with public good elements are supported.

In short, the strategy is therefore as follows:
- Connect farmers to markets through value chains and Making Markets Work for the Poor (M4P) approach. The programme will thus support specific agricultural produce/commodities by addressing the constraints from the point of production to the point of consumption by supporting functions and rules of the market system. The means are the private Agricultural Markets Development Trust (AMDT) and the Local Investment Climate (LIC) development engagements.
- Strengthen the presently weak public-private dialogue by building capacity in the private sector organisations to advocate and influence the national policy for a better business environment. The means are the BEST-DIALOGUE, supported by the market and value chain information provided by AMDT.
- Improve both access to credit and capacity of the financial sector to meet the needs of micro, small and medium enterprises, including the rural poor people. The means are the Private Agricultural Sector Support (PASS) Trust and the Financial Sector Deepening Trust (FSDT).

Recent literature, which has been used in the design of BSPS IV, includes:
- Tanzania Economic Update. Spreading the Wings: From Growth to Shared Prosperity, October 2012, World Bank. The document analyses the factors required for the structural transformation of the Tanzanian rural economy; Commercialization of the agricultural sector; diversification to high value produce and off-farm activities, and; migration to the cities.
✓ Tanzania Growth Diagnostic. Partnership for Growth, July 2011, US State Department, USAID and Govt. of Tanzania. The document is a constraints analysis to identify significant obstacles to growth, and points i.a. to lack of access to finance, electricity and rural roads. Another interesting aspect of the document is identification of a statistically significant correlation at the community level between increased business registration and annual employment growth. This is of interest considering that most enterprises in Tanzania are informal.


Examines the impact of political competition, patronage, and foreign aid on agricultural policy outcomes in Tanzania. The report examines the effects of these factors on agricultural policy formulation and implementation in Tanzania through the lens of two initiatives, the Agricultural Sector Development Programme (ASDP) and the National Agricultural Input Voucher Scheme (NAIVS). The two initiatives examined are examples of the tendency of donors to finance policies and practices that do not meet their formal market-based principles or fail on practical grounds. It concludes that, in the final analysis, national interests trump donor attempts to exert policy leverage. Patronage and rent-seeking undermine official policies and aid serves the political purposes of the ruling elite. Possible forces for change in the existing policy regime include the gradual emergence of a class of commercial farmers, growing external strategic and commercial interests in acquiring land for biofuel and food production for export.

✓ Political economy of the Investment Climate in Tanzania, B Cooksey & T. Kelsall, APP, 2011

Finds that the rent seeking of the elite in Tanzania is decentralized and short term, not allowing long term transformational growth. The main reason is a collective action problem within the CCM itself. In other words, although the CCM monopolizes the main forms of rent-creation, rent-management within CCM is decentralized, it is not effectively coordinated by a single individual or group at the apex of the state. The result is a tragedy of the commons type problem whereby individual cadres seek rents at a level that is probably not sustainable, which will damage their collective interests over the long run. It further argues that CCM’s fixation on political stability, together with a political-cultural hostility to private, especially non-African capital, runs counter to donor advice on strengthening the investment climate in Tanzania, which misconceives the nature of the steps early developers must take to stimulate capitalist development.

✓ Continuity and change in Tanzania’s ruling coalition: legacies, crises and weak productive capacity. O. Therkildsen and F. Bourgouin DIIS 2012

Sets out a very thorough description and analysis of the political settlement over time in Tanzania. Especially in relation to agriculture, it concludes that smallholders are not part of the ruling coalition nor are the organized groups of entrepreneurs in productive sectors. The power of productive entrepreneurs is growing, but remains relatively weak,
while informal links between import/export traders and commercial business people within the ruling coalition are stronger.

✓ *The Agricultural Finance Markets Scoping (AgFIMS), Tanzania, 2011, Financial Sector Deepening Trust.* The document provides specialised information about agricultural markets in Tanzania with focus on financial markets. It analyses both the demand and supply side and shows that potentially there could be more than half a million commercially viable agricultural enterprises, which represent new market potentials for financial institutions. Moreover, it shows that agri-business owners are more inclined to use credit, to take risks and to want more engagement in financial services than was previously recognised.

✓ *Donor approaches to supporting pro-poor value chains, January 2007, The Donor Committee for Enterprise Development (DCED).* The document identifies strategies and interventions for value chains development, that contribute to economic growth and poverty reduction.

✓ *Effects of Contract farming on Production and Income of Sunflower Farmers, Mzumbe University, Ongoing research 2011-14.* Explores the effects of contracts on technical efficiency of production and incomes of small-scale sunflower farmers. Contract farmers are slightly more efficient and earn more than non-contract farmers. Contracts reduce production and marketing transaction costs and help farmers mitigate production and marketing risk. However, in a sector – like sunflower – where there are many buyers, the contract farmers often sell to any buyer who provides a higher price than the contract price. Results also show, that agribusiness firms play an important role in the development of crop value chains. However, the institutional environment is still not conducive for contract enforcement, and it is recommended that an appropriate judicial framework to cater for contract needs be put in place.

✓ *Rural-Urban Complementarities for the Reduction of Poverty (RUCROP), Sokoine University 2011.* RUCROP explores the role of rural-urban complementarities in reducing poverty and provides important insights into the complex and diverse transformation processes of emerging urban centres (EUCs) from rural villages to townships. The value chain dynamics of a dominant crop has been found very important for the initial growth and transformation of the EUCs. Linkages, such as mobility of people, remittances and investments, between the growing EUCs and their immediate as well as distant rural hinterlands are evident, and the resulting diversities in economic activities have proven to be instrumental in both rural and urban poverty reduction. It is also found that formal savings and credit facilities have limited contribution to growth of investments in EUC compared to income from the dominating crops.