

Document: EB 2014/111/R.9/Sup.1
Agenda: 5(b)(ii)
Date: 26 March 2014
Distribution: Public
Original: English

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Investing in rural people

Republic of the Union of Myanmar

Fostering Agricultural Revitalization in Myanmar (FARM)

Negotiated financing agreement

Executive Board — 111th Session
Rome, 8-9 April 2014

For: Information

Negotiated financing agreement: "Fostering Agricultural Revitalization in Myanmar (FARM)"

(Negotiations concluded on 17 March 2014)

Loan Number: [number]

Grant Number: [number]

Project Title: Fostering Agricultural Revitalization in Myanmar (the "Project")

The Republic of the Union of Myanmar (the "Borrower/Recipient")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

This Agreement (hereinafter referred to as the "Agreement") is made on _____ between the Republic of the Union of Myanmar and the International Fund for Agricultural Development.

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a loan (the "Loan") and a grant (the "Grant") to the Borrower/Recipient (collectively the "Financing"), which the Borrower/Recipient shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is twelve million one hundred fifty thousand Special Drawing Rights (SDR 12 150 000).
2. The amount of the Grant is five hundred ten thousand Special Drawing Rights (SDR 510 000).
3. The Loan is granted on Highly Concessional Terms as defined in Section 5.01(a) of the General Conditions.
4. The Loan Service Payment Currency shall be the United States dollar (USD).
5. The first day of the applicable Fiscal Year shall be 1 April.

6. Payments of principal and service charge shall be payable on each 15 June and 15 December.

7. The Borrower/Recipient shall provide counterpart contribution for the Project in a total amount equivalent to approximately five million and three hundred thousand United States dollars (USD 5 300 000), in order to cover, inter alia, machinery for works under Component 1, extension staff salaries and allowances under Subcomponent 2.1, and taxes and duties levied on the implementation of the Project.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Irrigation (the "MOAI").

2. Additional Project Parties shall include, inter alia, the participating government agencies, Yezin Agricultural University (the "YAU"), and the Non-Governmental Organizations (the "NGOs") and contracted service providers selected to implement the Components of the Project.

3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Project supervised by the Fund. In addition to supervision missions which shall normally be carried out, the Fund, jointly with the Borrower/Recipient, shall conduct two (2) mid-term reviews at the end of the second and fourth years of Project implementation respectively.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:

(a) The Project Implementation Manual (the "PIM"), or any provision thereof, has been waived, suspended, terminated or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination or modification has had, or is likely to have, a material adverse effect on the Project.

(b) Any competent authority has taken action without the prior consent of the Fund for institutional changes to the National Project Steering Committee (the "NPSC") and/or the Project Coordination Unit (the "PCU") referred to respectively in paragraphs 7 and 11 of Schedule 1 hereto, and the Fund has determined that any such change has had, or is likely to have, a material adverse effect on the Project.

2. The following is designated as an additional general condition precedent to withdrawal: the Project Director and Financial Manager, both acceptable to the Fund, shall have been selected.

3. In accordance with Section 13.01 of the General Conditions this Agreement shall enter into force upon signature by both Parties.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower/Recipient:

Ministry of Finance
Building No. 26
Nay Pyi Taw
Republic of the Union of Myanmar

For the Fund:

President
International Fund for Agricultural Development
Via Paolo di Dono, 44
00142 Rome, Italy

This Agreement has been made in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower/Recipient.

FOR THE REPUBLIC OF THE UNION OF MYANMAR

[Authorized Representative]
[Title]

FOR THE INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Population.* The Project area consists of: (i) the command areas of six (6) irrigation schemes (Paunglaung, Chaungmange and Madan in Tekhina district; and Yezin, Ngalit and Sinthay in Ottra district) in Nay Pyi Taw Union Territory within the area of five (5) townships (Lewe, Ottrathiri, Pyinmana, Tatkon, Zeyathiri); and (ii) rainfed lowlands and uplands located around these command areas. The Project's target groups consist of poor rural women and men, specifically: (i) women and men farmers in the command areas of the six (6) targeted irrigation schemes; (ii) women and men farmers with landholdings only in rainfed areas; and (iii) poor landless women and men living in the Project area and interested to invest in rural micro-businesses. Women-headed households and ethnic groups' households will be given priority in Project planning and implementation.

2. *Goal.* The goal of the Project is to improve the economic status of poor rural women and men in the Project area.

3. *Objective.* The objective of the Project is to increase the incomes of smallholder and landless households.

4. *Components.* The Project shall consist of the following three (3) Components.

4.1. **Component 1: Agricultural Infrastructure**

The Project shall contribute to the ongoing expansion of irrigated areas under the command of the MOAI's primary and secondary canals, with complementary investments in land development identified through a participatory process. The objectives of Component 1 are: (i) to improve equity of irrigation water distribution; (ii) to create opportunities for crop diversification; and (iii) to improve field access (for machinery and transport). Areas for which land user rights have been approved and land titles issued or are in the process of being issued shall be eligible for land development. Farmer empowerment shall be fostered, particularly in scheme operation and maintenance.

4.2. **Component 2: Agricultural and Business Services**

This Component consists of two (2) Subcomponents: (i) Investing in Knowledge; and (ii) Financing Growth.

Subcomponent 2.1: Investing in Knowledge. The Project shall promote a conducive environment for rural households to access services and technologies which enable them to improve their productive and economic activities. It shall support: (i) the creation of a pluralistic participatory extension platform in support of smallholder households; and (ii) services to landless entrepreneurs to start and/or develop rural micro-businesses. The expected outcomes are enhanced skills and increased incomes of farming and landless households.

Subcomponent 2.2: Financing Growth. The Project will foster enabling conditions for the growth of sustainable rural micro-businesses and small and medium sized enterprises. Two (2) competitive grant funds shall be established, the first, namely the Rural Business Fund (the "RBF"), in support of rural businesses operated by landless households, and the second, namely the Agribusiness Fund (the "ABF"), in support of value chain integrators, which may be transformed into a public-private-producers partnership model when farmers' organizations are sufficiently developed. Access of smallholders and the landless households to financial services shall be improved by attracting microfinance institutions to the Project area and by promoting contract farming; and financial intermediaries such as savings and credit groups shall be fostered.

4.3. **Component 3: Project Management and Coordination**

Component 3 shall be in support of financing Project management and coordination, as described below.

II. Implementation Arrangements

A. Organization and Management

5. *Lead Project Agency.* The MOAI, in its capacity as the Lead Project Agency, shall have the overall responsibility for the Project's implementation.

6. *Governance.* The Project's governance framework shall consist of: (i) the NPSC; (ii) the Project Working Committee (the "PWC") at the MOAI level; (iii) the Township Project Coordination Committees (the "TPCC"); and (iv) the Village Tract Facilitation and Monitoring Groups.

7. *NPSC.* The NPSC shall be co-chaired by the MOAI Deputy Minister for Irrigation and the Deputy Minister for Agriculture. Other members may include the Director-Generals of relevant MOAI departments as well as representatives from the Ministry of National Planning and Economic Development (the "MNPED"), the Ministry of Finance (the "MOF"), the Ministry of Livestock, Fisheries and Rural Development (the "MOLFRD") and the Nay Pyi Taw Council. The NPSC shall be based in Nay Pyi Taw. Its responsibilities shall be to provide policy and strategic guidance, review and approve annual work plans and budgets (the "AWPBs"), review and endorse annual reports, review and approve sizeable contracts and financial transactions, endorse staff selection, review audit reports and ensure that corrective actions are taken, and resolve any disputes arising from the implementation of the Project.

8. *PWC.* The PWC shall serve as the MOAI committee to provide guidance and oversight for Project implementation. It shall be established by the Minister of the MOAI, and shall consist of deputy Director-Generals of relevant MOAI departments and the Project Director. It shall oversee the appointment of Project staff (except the Project Director and Manager) and the recruitment of Knowledge Centre (the "KC") Managers.

9. *TPCC.* In each Project township, a TPCC shall be established, co-chaired by a local officer of the Department of Agriculture (the "DOA") of the MOAI and a local official, with other members representing relevant MOAI departments, implementing agencies and farmers' organizations. It shall coordinate the activities of Ministries and Departments, participate in drafting AWPBs, review progress reports, support KCs, and guide field staff.

10. *Village Tract Facilitation and Monitoring Groups.* In Project village tracts, facilitation and monitoring groups shall be established, chaired by the village tract leader, and include representatives of partner NGOs, the KCs, and community organizations, as well as a staff member of the DOA. It shall be tasked with ensuring that an effective participatory approach is applied, that poverty targeting and gender mainstreaming are equitable and effective, that AWPBs are responsive, and that monitoring is participatory.

11. *PCU.* The PCU shall be established by the Lead Project Agency and managed by the Project Director. The PCU shall be responsible and accountable for the management of the Project and the achievement of its results. It shall be an autonomous entity reporting to the NPSC, and will be located in Nay Pyi Taw. Its structure shall reflect Project Components and investments, and it shall enjoy a certain level of financial autonomy in order to fulfil its mandate. The PCU shall consist of three (3) units: (i) the Administration Office responsible for financial management, accounting, procurement and contracting, headed by a Financial Manager; (ii) the Investment Office responsible for investment activities, consisting of a Rural Finance Specialist and an Irrigation/Water Management Specialist; and (iii) the Capacity Building Office responsible for mobilizing communities and strengthening their organizations, consisting of a Community/Gender Specialist.

12. *Project Director and other Project Personnel.* The Project Director shall be a senior officer seconded from the MOAI. The Project Director shall be supported by a Project Manager (an agriculture specialist) and other Project personnel. The selection of the Project Director, Project Manager and Financial Manager shall be subject to the NPSC's approval and concurrence of the Fund. All key Project personnel, including those specified above, shall be recruited through a competitive process.

13. A specific committee composed of the PCU management shall be created to address any grievances arising from the implementation of the Project.

B. Implementation of Components

14. The Project shall be implemented under the leadership of the Lead Project Agency through partnerships with relevant government agencies, NGOs, contracted service providers and the private sector. Partners and service providers shall be appointed on performance-based contracts, with performance assessed by the PCU and beneficiary representatives.

15. Component 1: Agricultural Infrastructure

15.1. Participatory planning for land development shall be implemented by a local NGO experienced in Participatory Land Use Planning (the "PLUP") and Free, Prior and Informed Consent (the "FPIC") approaches, selected by the PCU on a competitive basis and contracted for an aggregate period of up to four (4) years. It will work with MOAI's Settlements and Land Records Department for the issuance of new land titles and user rights once the re-configuration of farm plots has been completed and accepted by the farmers concerned.

15.2. Participation in land development under PLUP and FPIC approaches shall be organized by the NGO and PCU to ensure that farming households: (i) participate in the design of all civil works; (ii) set up mechanisms for sharing losses of cultivable land arising from civil works; (iii) redefine the boundaries of each household's plot of land for land re-titling purposes; and (iv) elect a Project implementation committee to monitor execution and accept works. Farming households shall be responsible for the realignment of earth bunds.

15.3. Civil works for land development shall be implemented through direct contract with MOAI's Irrigation Department (the "ID"). The ID shall execute the design, civil works and supervision of tertiary canals, drainage networks and farm roads. An internationally recognized service provider with expertise in infrastructure shall be duly contracted by the PCU to support engineering design work, assess construction norms, verify unit costs, supervise civil works (complementing ID and beneficiary supervision), and provide technical assistance to ID for capacity building and modernisation purposes.

15.4. The full package of design, implementation and training services for micro hydro turbines shall be provided by a specialized international entity duly contracted by the PCU through an international bidding process. This activity shall not start before the second Project Year.

16. Subcomponent 2.1: Investing in Knowledge

16.1. The rehabilitation and/or construction of KCs shall be undertaken by a local firm duly selected through national competitive bidding. Beneficiary representatives shall participate in site selection and the design of KC facilities.

16.2. A legal advisor contracted by the PCU shall facilitate the selection of beneficiary representatives as well as the electoral process for the formation of the KC boards.

16.3. KC managers shall be responsible for facilitating and brokering arrangements between farming households and commodity stakeholders (input suppliers, agents, buyers, processors) and for organizing technical assistance and training to farming households.

16.4. A local NGO shall be duly selected through a competitive procurement process and contracted by the PCU to provide: (i) capacity building for KC managers; (ii) advisory services for farming households focusing on commodity analyses, contract arrangements with other value chain actors, and membership in representative farmers' organizations; (iii) value chain analyses to assess proposals received by the ABF for input supply, processing, packaging and storage; (iv) advisory services to landless entrepreneurs focusing on business management training, business plan development and technical training; and (v) market studies to assess proposals received by the RBF in key off-farm and non-farm sectors.

16.5. Demonstrations and trials shall be organized through agreements among the PCU, the MOAI Department of Agriculture Research (the "DAR"), the YAU, and the private sector as appropriate, based on KC plans. Selected farmers shall manage trials on their plots. KC managers and DAR/YAU staff shall share emerging lessons with the farming community and MOAI. Input suppliers and other stakeholders shall be encouraged to gradually participate technically and financially.

17. *Subcomponent 2.2: Financing Growth*

17.1. The RBF and ABF shall be managed by the PCU. The PCU will issue periodic calls for proposals, analyse the proposals received based on pre-defined eligibility criteria, define possible amounts of Project financing based on resources mobilized by the entrepreneur, submit short-listed proposals to the Grant Committee composed of representatives from the PCU, the MOAI and private sector representatives, and manage financial flows (tranches) to beneficiaries.

17.2. The PCU shall broker an agreement with a microfinance institution(s) (the "MFI") to establish operations in the Project area and provide financial services to smallholders and the landless.

17.3. The formation of savings and credit institutions shall be organized by a specialized NGO/MFI contracted by the PCU. Training and technical assistance shall be provided in savings and credit management, risk management, portfolio monitoring, product compliance with microfinance best practices, book-keeping and governance.

C. *Project Implementation Manual (the "PIM")*

18. *Preparation.* The PCU shall prepare a draft PIM which shall be approved by the NPSC before the Fund's non-objection shall be obtained.

19. *Approval and Adoption.* The Lead Project Agency shall forward the draft PIM to the Fund for its non-objection. If the Fund does not comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objections. The Lead Project Agency shall adopt the PIM, substantially in the form approved by the Fund, and the Lead Project Agency shall promptly provide copies thereof to the Fund.

20. *Mutual Accountability Framework.* The Borrower/Recipient and the Fund agree to collaborate on the basis of a Mutual Accountability Framework which will be documented in the PIM. Under this Framework, the Borrower/Recipient commits to ensuring a conducive policy environment for smallholder farming, providing its budgeted contribution to the Project on timely basis, and fulfilling the assurances outlined in this Agreement. The Fund commits to promoting national ownership of the Project, building national capacities to fulfil this role, and providing its budgeted financing to the Project on a timely basis. Compliance with this Framework by both Parties will be jointly assessed on an annual basis.

Schedule 2

Allocation Table

1. *Allocation of Loan and Grant Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the Grant; the allocation of the amounts of the Loan and the Grant to each Category; and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Grant Amount Allocated (expressed in SDR)	Percentage*
I Works	5 020 000		100% net of taxes
II Equipment & Materials	240 000		100% net of taxes
III Consultancies		510 000	100% net of taxes
IV Goods, Services & Inputs	2 270 000		100% net of taxes
V Grants & Subsidies	1 870 000		100% net of taxes
VI Operating Costs	1 540 000		100% net of taxes
Unallocated	1 210 000		
Total	12 150 000	510 000	

* All amounts shall be net of government, private sector and beneficiary contributions, as the case may be.

(b) The terms used in the Table above are defined as follows:

- i. "Works" under Category I means eligible expenditures incurred in relation to all direct costs for infrastructure works under Component 1.
- ii. "Equipment & Materials" under Category II means eligible expenditures incurred related to equipment, materials, motor vehicles and motorcycles.
- iii. "Consultancies" under Category III of the IFAD Grant financing means eligible expenditures incurred related to international technical assistance and consultancy activities of participating NGOs.
- iv. "Goods, Services & Inputs" under Category IV means eligible expenditures incurred related to:
 - a. all other technical assistance, research and studies, and training under Components 1, 2 and 3;
 - b. goods, services and inputs related to Component 3;
 - c. design, construction and supervision services for KCs under Subcomponent 2.1;
 - d. market promotion under Subcomponent 2.1 which will be eligible for 50% IFAD financing;
 - e. inputs for demonstration plots under Subcomponent 2.1 eligible IFAD financing will be as follows: (i) 100% in Project Year 1-3; (ii) 50% in Project Year 4; (iii) 25% in Project Year 5; (iv) 0% thereafter.

- v. "Grants & Subsidies" under Category V means eligible expenditures incurred related to the ABF, the RBF and participation of MFIs under Subcomponent 2.2.
- vi. "Operating Costs" under Category VI means eligible expenditures incurred for operating and maintenance costs, and for salaries and allowances for Project personnel, except for (i) base salaries of extension workers and Project support staff; and (ii) rent and utilities for the Project office.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from the Loan Account and the Grant Account if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Project:

1. The Borrower/Recipient shall ensure that Project investments in land development are targeted to smallholders, and shall guarantee that such smallholders shall not be expropriated from their developed farm plots thereafter.
2. The Borrower/Recipient shall ensure that Project investments in agriculture, services and market information will enable farmer self-determination in choice of cropping patterns; and agrees that government instructions on cropping and land classification will be gradually eliminated in Project-supported irrigation areas.
3. The Borrower/Recipient shall ensure that Project investments in KCs are managed by appointed extension staff, who shall not be transferred to positions outside the Project area during the implementation period.
4. The Borrower/Recipient shall ensure that Project beneficiaries, farming and landless households, will be supported to obtain proper identification documents enabling them to meet the requirements of financial institutions.