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Investing in rural people

The Republic of the Union of Myanmar

Eastern States Agribusiness Project (ESAP)

Negotiated financing agreement

Executive Board — 114th Session
Rome, 22-23 April 2015

For: Information

Negotiated financing agreement: "Eastern States Agribusiness Project (ESAP)"

(Negotiations concluded on 9 April 2015)

Loan Number: _____

Grant Number: _____

Project Title: Eastern States Agribusiness Project (the "Project")

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

and

The International Fund for Agricultural Development ("IFAD")

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

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1), and the Allocation Table (Schedule 2).
2. IFAD's General Conditions for Agricultural Development Financing dated 29 April 2009 and amended as of April 2014 (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. IFAD 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. (a) The amount of the Loan is twenty million Special Drawing Rights (SDR 20 000 000).
(b) The amount of the Grant is one million one hundred thousand Special Drawing Rights (SDR 1 100 000).
2. The Loan is granted on Highly Concessional Terms as defined in the Policies and Criteria for IFAD Financing dated 14 February 2013.
3. The Loan Service Payment Currency shall be the United States dollar (USD).
4. The first day of the applicable Fiscal Year shall be 1 April.
5. Payments of principal and service charge shall be payable on each 15 June and 15 December.
6. There shall be two (2) Designated Accounts denominated in USD opened and maintained by the Borrower/Recipient, in a bank acceptable to IFAD, to receive the Loan and the Grant proceeds respectively (the "Designated Account").

7. The Borrower/Recipient shall provide counterpart contribution for the Project, equivalent to approximately four million and nine hundred thousand United States dollars (USD 4 900 000), covering the cost of, inter alia, part of land development works, part of the Project-related personnel salaries, and taxes associated with the implementation of the Project. The contribution(s) of co-financier(s) are estimated at USD 29.2 million. The beneficiaries' contributions are estimated at USD 2 million.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture and Irrigation (the "MOAI").
2. Project management shall be decentralized to state level: a Project Implementation Office shall be established in each of the project states for this purpose.
3. Additional Project Parties shall include, inter alia, the implementing entities referred to in Schedule 1 hereto.
4. The Lead Project Agency shall contract the United Nations Office for Project Services (UNOPS) Myanmar to execute the grant on its behalf, subject to satisfactory negotiations between the two parties.
5. The Project Implementation Period shall be six (6) years.

Section D

The Financing shall be administered and the Project supervised by IFAD. A Mid-Term Review shall be carried out jointly by IFAD and the Borrower/Recipient in accordance with Section 8.03 of the General Conditions.

Section E

1. The following are designated as additional grounds for suspension of this Agreement:
 - (a) The Project Implementation Manual (the "PIM") referred to in Schedule 1 hereto, or any provision thereof, has been waived, suspended, terminated or modified without the prior consent of IFAD, and IFAD 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 IFAD for institutional changes to the National Project Steering Committee (the "NPSC") and/or the State Project Coordination Committee and/or the central Project Coordination Unit (the "PCU") and/or the state-level Project Implementation Office (the "PIO"), referred to respectively in Schedule 1 hereto, and IFAD has determined that any such change has had, or is likely to have, a material adverse effect on the Project.
2. The following are designated as additional general conditions precedent to withdrawal:
 - (a) The Project Director and Financial Manager, both acceptable to IFAD, shall have been selected.
 - (b) A computerized accounting system, acceptable to IFAD, shall have been installed at the PCU.

3. The following are designated as additional specific conditions precedent to withdrawal:

- (a) No withdrawal shall be made in respect of expenditures under the guarantee line (Category V) until a draft subsidiary agreement to be signed between the Project and the participating financial institution(s) has been approved by IFAD.
- (b) No withdrawal shall be made in respect of expenditures under the Matching Grants (Category IV) until a draft subsidiary agreement between the Project and the service provider(s) has been approved by IFAD.

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

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

For the Borrower/Recipient:

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

For IFAD:

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

This Agreement has been made in the English language in two (2) original copies, one (1) for IFAD and one (1) for the Borrower/Recipient.

THE REPUBLIC OF THE UNION OF MYANMAR

[Authorized Representative]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project's Target Population consists of poor rural women and men in selected areas of Kayin and Shan (South) States (the "Project Area"). Specifically, it includes: (i) farmers in irrigated lowlands with medium, small and marginal landholdings ranging from less than one (1) acre to up to ten (10) acres each; (ii) farmers in the rainfed uplands with medium, small and marginal landholdings ranging from less than one (1) acre to up to ten (10) acres each; (iii) agro-forestry households in mountainous areas of northern Kayin; and (iv) landless households that have access to job opportunities as agricultural labourers or as workers in agribusinesses. The Project shall ensure that employment opportunities facilitate the economic reintegration of returning migrants, ex-combatants and displaced people.

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 agroforestry households in the Project Area in an environmentally sustainable manner.

4. **Components.** The Project shall consist of the following two (2) Components.

4.1. Component 1: Strategic Investments

This Component shall finance strategic investments in land development and community agroforestry.

Sub-component 1.1: Land Development. The Project shall contribute to the expansion of irrigated areas served by primary and secondary canals, with complementary investments in land development identified through a participatory approach. The objectives are to improve the drainage networks, irrigation water delivery and field access, and to create opportunities for crop diversification in response to market signals.

Sub-component 1.2: Community Agroforestry. Project investment in agroforestry aims to improve living conditions and generate economic benefits in forest and upland villages. Agroforestry activities funded by the Project shall protect ecosystems, reduce encroachment on primary forest, increase soil water infiltration and reduce soil erosion. Sloping upland and agroforestry activities shall be defined and implemented on the basis of a participatory and culturally sensitive approach.

4.2. Component 2: Enabling Investments

This Component shall improve target group access to services and markets, and maximise the benefits generated from the strategic investments.

Sub-component 2.1: Knowledge and Technology. The Project shall improve farmer access to the technologies, inputs and services necessary for improving productivity of staple crops, fodder crops and high value crops. A network of Knowledge Centres (the "KCs") shall be established to broker service delivery to farming and forest households through linkages with public institutions and the private sector.

Sub-component 2.2: Agribusiness Development and Financing. Smallholders and entrepreneurs shall be provided with access to markets and to adapted and affordable financial products. Contractual arrangements between farmers and agribusinesses, such as contract farming or outgrower schemes, shall be promoted for profitable commodities. A competitive grant scheme shall attract processors to the Project Area, and a credit guarantee mechanism shall improve smallholder access to bank financing. Financial inclusion shall be promoted by fostering savings and credit groups and by providing financial literacy training to rural households.

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 State Project Coordination Committees (the "SPCCs"); and (iii) the village groups (the "VGs"). The Project's management and coordination framework shall consist of: (i) the central PCU; and (ii) a PIO in each Project state.

7. NPSC. The NPSC shall be co-chaired by the MOAI Deputy Minister for Agriculture and Deputy Minister for Irrigation. Other members shall include the Director-Generals of relevant MOAI departments as well as representatives from the Ministry of National Planning and Economic Development (the "MONPED"), the Ministry of Finance (the "MOF"), the Ministry of Livestock, Fisheries and Rural Development (the "MOLFRD") and the Ministry of Border Affairs (the "MOBA"). Its responsibilities shall be to provide strategic and policy guidance, endorse Project staff selection, approve annual workplans and budgets (the "AWPBs"), and oversee the external audit process.

8. SPCCs. An SPCC shall be constituted in each state. It shall be chaired by the respective State Minister of Agriculture and Irrigation. Members shall include Directors of relevant state-level departments and representatives of community organizations. Its responsibilities shall be to approve state AWPBs and staff selection, review Project progress reports, ensure coordination among stakeholders, and provide guidance.

9. VGs. In participating villages, VGs shall be organized and chaired by the village leader. They may include representatives of partner Non-Governmental Organizations (the "NGOs"), KCs, farmers' groups, women's groups, and the Department of Agriculture. They shall be responsible for ensuring a participatory approach, monitoring implementation, and ensuring poverty focus and gender equality. VGs are expected to meet on regular basis.

10. PCU. The central PCU established under the FARM project as defined in the Financing Agreement between the Parties dated 22 October 2014 (Loan No. 2000000649, Grant No. 2000000650) shall be strengthened in order to carry out central interface, coordination and consolidation functions for the Project. It shall support each state PIO in financial management, procurement and contracting, planning, reporting, and knowledge management. The PCU shall be expanded with a Project manager (with agribusiness experience), a monitoring and evaluation (the "M&E") and knowledge management (the "KM") specialist and an accountant. PCU staff recruited under the FARM project shall also support the Project.

11. PIO. In alignment with the national decentralisation policy, Project management is decentralized to the state level. A PIO shall be established in each state, reporting to its respective SPCC. The PIO shall be responsible and accountable for management of the Project and achievement of its results at the state level. The PIO shall be headed by a Project manager, with agribusiness and/or value chain experience, recruited through a competitive process. It will be structured in three (3) units: (i) an administration unit with a finance manager, procurement/contracting specialist, and accountant; (ii) an investment unit with an irrigation engineer, a business/value chain specialist and a rural finance specialist; and (iii) an M&E-KM unit with an M&E-KM officer. The PIO will have a small complement of support staff. In Kayin State the PIO shall be located in Hpa-An while in Shan State it shall be in Taunggyi.

12. Project Personnel. Recruitment of Project staff (PCU and PIOs) shall be on a competitive basis in accordance with IFAD guidance, and subject to IFAD prior review and concurrence. Staff contracts shall be for an initial probationary period in line with the national Labour Law, with the possibility of extension subject to satisfactory performance.

B. Implementation of Components

13. Sub-component 1.1: Land Development. The Participatory Land Use Planning (the "PLUP") and Free, Prior, Informed Consent (the "FPIC") activities, as defined in the PIM, shall be implemented by a service provider (such as an NGO) in each state, selected by the PCU on a competitive basis. Land development financed by IFAD shall be implemented through direct contracts with state-level MOAI Irrigation Departments (the "IDs"). An internationally recognized service provider, with expertise in infrastructure, shall be contracted to support design, assess construction norms, verify unit costs, supervise civil works and provide TA. Supervision shall be multi-level, involving IDs, PIOs, farmers' groups, and the service provider(s). For land development works covered by a co-financier, the procedures of the co-financier shall apply.

14. Sub-component 1.2: Community Agroforestry. The activities under Sloping Agricultural Land Technology (the "SALT") will be implemented by the respective KCs within the Project area of sloping agriculture land with support from a contracted service provider. Investment in community facilities such as tubewells, solar powered pumps and drinking water networks shall be designed and implemented by a contracted service provider selected by each PIO.

15. Sub-component 2.1: Knowledge and Technology. KCs shall be constructed by local contractors selected on competitive basis by the PIOs. Where feasible, community contracting using local labour shall be considered. KCs shall be supported by competitively-selected service providers for capacity building of managers, operational support and brokering arrangements with public and private entities for services to farmers and agro-forestry households. Value chain analyses shall be carried out by contracted service providers such as consulting firms or NGOs.

16. Sub-component 2.2: Agribusiness Development and Financing. The Agribusiness Fund (the "ABF") for Matching Grants, as defined in the PIM, shall be managed by the PCU, in collaboration with each PIO, with NPSC oversight. Funding decisions shall be made by an independent committee. Guarantee deposits in financial institutions will be managed by an audit firm selected by the PCU following due diligence. A Guarantee Committee consisting of a banker, agriculturist, auditor and PIO manager shall review claims and approve pay-outs. Participating financial institutions shall be selected by the PCU on competitive basis.

17. Savings and credit groups shall be developed by the Myanmar Microfinance Association (the "MMA"), which shall be supported by an international Microfinance Institution (the "MFI") contracted by the PCU.

C. The PIM

18. Preparation. The PCU shall prepare a draft PIM outlining the standard operating procedures for the implementation of the Project, which shall be approved by the NPSC before IFAD's non-objection is obtained.

19. Approval and Adoption. The Lead Project Agency shall forward the draft PIM to IFAD for its non-objection. If IFAD 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 IFAD.

Schedule 2

Allocation Table

1. Allocation of Loan and Grant Proceeds. The Tables below set 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:

Table A-Loan

Category	Loan Amount Allocated (expressed in SDR)	% of Eligible Expenditures to be Financed
I. Works	5 740 000	100% net of Government and co-financiers' contributions
II. Equipment and Materials	240 000	100% net of taxes
III. Goods, Services and Inputs	4 460 000	100% net of taxes, Government, co-financiers and beneficiaries' contributions
IV. Grants and Subsidies	3 370 000	100% net of taxes
V. Credit, Guarantee Funds	1 950 000	100% net of taxes
VI. Operating Costs	2 240 000	100% net of taxes and Government contributions
Unallocated	2 000 000	
Total	20 000 000	

"Equipment and Materials" under Category II of Table A, shall mean eligible expenditures incurred related to vehicles, motor cycles, equipment and materials including furniture and office equipment.

"Goods, Services and Inputs" under Category III of Table A, shall mean eligible expenditures incurred related to goods, services and input, workshops, training and consultancies except for those expenditures financed under Category I and II under Table B below.

"Operating Costs" under Category VI of Table A, shall mean eligible expenditures incurred related to recurrent operating and maintenance costs, salaries and allowances except for salaries of government staff assigned to the Project.

Table B-Grant

Category	Grant Amount Allocated (expressed in SDR)	% of Eligible Expenditures to be Financed
I. Consultancies	560 000	100% net of taxes, and co-financiers and beneficiaries' contributions
II. Training	430 000	100% net of taxes, and co-financiers and beneficiaries' contributions
Unallocated	110 000	
Total	1 100 000	

"Consultancies" under Category I of Table B, shall mean eligible expenditures incurred related to consultancies, technical support, international TAs on capacity building for PCU, states and state institutions, and M&E system.

"Training" under Category II of Table B, shall mean eligible expenditures incurred related to training and capacity building of PCU, PIOs, Project expeditor as defined in the PIM, financial management training, exposure visits and regional workshops.

2. Retroactive Financing. Withdrawals not exceeding in the aggregate the equivalent of SDR 100 000 to pre-finance Project activities may be made from the Loan Account in respect of eligible expenditures for: (i) capacity building for PCU/PIO staff and target groups; (ii) consulting services for studies and field surveys; and (iii) consultancy services. Retroactive expenditures, incurred after the date of IFAD Executive Board's approval of the Project and before the entry into force of the Agreement, are pre-financed by the Borrower/Recipient, and reimbursed from the Loan only after the Agreement has entered into force and the conditions precedent to withdrawal have been met.

3. Start-up Costs. The Project may request an advance withdrawal of up to SDR 200 000 equivalent from the Loan, to incur start-up expenditures before the conditions precedent to withdrawal are met. Eligible expenditures shall cover: (i) capacity building for PCU/PIO staff and target groups; (ii) consulting services for studies and field surveys; (iii) consultancy services; (iv) salaries of key PCU/PIO staff; and (v) rental expenditures for the PCU and PIOs. Any unused balance of this advance shall be considered as part of the initial advance under the authorized allocation.

Schedule 3

Special Covenants

In accordance with Section 12.01(a)(xxiii) of the General Conditions, IFAD may suspend, in whole or in part, the right of the Borrower/Recipient to request withdrawals from Loan Account and Grant Account, if the Borrower/Recipient has defaulted in the performance of any covenant set forth below, and IFAD 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 the investments in land development and agro-forestry are targeted to smallholders and poor forest households, who should not be expropriated from their land or forest areas thereafter.
2. The Borrower/Recipient shall ensure that the investments in agriculture and services will enable farmer self-determination in choice of cropping patterns; instructions on cropping and land classification should be eliminated.
3. The Borrower/Recipient shall ensure that the Knowledge Centres are managed by appointed extension staff, who should not be transferred to positions outside the project area during the implementation period.
4. The Borrower/Recipient shall ensure that all target groups will be supported to obtain proper identification documents enabling them to meet the requirements of financial institutions.