

Document:	<u>EB 2017/121/R.17/Sup.1</u>
Agenda:	<u>9(b)(ii)</u>
Date:	<u>4 September 2017</u>
Distribution:	<u>Public</u>
Original:	<u>English</u>

E



Investing in rural people

The Republic of the Union of Myanmar

Eastern States Agribusiness Project

Negotiated financing agreement

Executive Board — 121st Session
Rome, 13-14 September 2017

For: Information

Negotiated financing agreement: "Eastern States Agribusiness Project"

(Negotiations concluded on 31 August 2017)

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 (the "Fund" or "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), the Allocation Table (Schedule 2) and the Special Covenants (Schedule 3).
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. 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. (a) The amount of the Loan is forty million and four hundred thousand Special Drawing Rights (SDR 40 400 000).
(b) The amount of the Grant is one million and 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 February and 15 August.

6. There shall be a Designated Account denominated in USD opened and maintained by the Borrower/Recipient to receive the Loan proceeds (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 and all of Government personnel salaries associated with the implementation of the Project.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture, Livestock and Irrigation (the "MoALI"). The Focal Department will be the Irrigation and Water Utilization Management Department (the "IWUMD") of the MoALI.

2. A Project Management Unit (the "PMU") will be established within the IWUMD in Nay Pyi Taw and will be integrated with the IWUMD structures. A Project Implementation Office (the "PIO") shall be established in each of the Project states.

3. Additional Project Parties shall include, inter alia, the implementing entities referred to in Schedule 1 hereto.

4. The Lead Project Agency shall enter into an agreement with 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 Completion Date shall be six years from the date of entry into force of this Agreement.

Section D

The Financing shall be administered and the Project supervised by the Fund. A mid-term review shall be carried out jointly by the Fund 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 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 State Project Coordination Committees (the "SPCCs") and/or the state-level PIOs, referred to respectively in 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 from the Loan account:

The Project Director and Finance Officer, both acceptable to the Fund, shall have been selected by MoALI from the IWUMD and assigned for the Project.

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:

Minister for Planning and Finance
Ministry of Planning and 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 two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

REPUBLIC OF THE UNION OF MYANMAR

[Authorized Representative]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
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 MoALI, in its capacity as the Lead Project Agency, shall have the overall responsibility for the Project's implementation. The Irrigation and Water Utilisation Management Department (IWUMD) will be the focal department of the Project.

6. Governance. The Project's governance framework shall consist of the NPSC and a SPCC in each Project state. The Project's management and coordination framework shall consist of the central PMU within ID, and a PIO in each Project state.

7. NPSC. The NPSC shall be chaired by the MoALI Deputy Minister. Its membership shall include senior representatives of the MoALI Office of the Minister, relevant MoALI departments, and representatives of MoPF and MoNREC. Representatives of the state-level MoALI shall be represented in the NPSC to the extent feasible. The Committee shall convene in Nay Pyi Taw. Its responsibilities shall be to provide strategic and policy guidance, oversee implementation, approve annual work plans and budgets, oversee external audit, and endorse consultants' selection.

8. SPCCs. A SPCC shall be constituted in each state. It shall be chaired by the respective State Minister of MoALI. Members shall include representatives from the Office of the Chief Minister, Home Affairs, relevant state-level Ministries and MoALI departments, and community organizations. At state level, its responsibilities shall be to provide guidance, oversee implementation, approve annual work plans and budgets, endorse consultants' selection, review progress reports, and ensure coordination. The SPCCs shall convene in Hpa-An (Kayin) and Taunggyi (Shan) respectively as required.

9. Management. The Project's management structure shall consist of (i) a central level Project Management Unit (PMU), located in Naypyidaw; and (ii) a Project Implementation Office (PIO) in each Project state.

10. PMU. The PMU shall be established within the IWUMD and shall be integrated with ID structures. It shall be responsible for Project implementation, fiduciary management (including financial management, procurement and contracting, and legal compliance), work planning and budgeting, monitoring and evaluation, and progress reporting. The PMU shall be headed by a Project Director from the IWUMD appointed by MoALI. A Project Manager shall be recruited from the market through a competitive process, and shall coordinate daily operations. The PMU shall be staffed by: (i) relevant assigned officers from IWUMD, DRD, and other MoALI departments as required; and (ii) a set of competitively recruited consultants on annual contracts (agribusiness/value chains; rural finance; community development and gender; financial management; accounting; procurement; Monitoring & Evaluation (M&E)).

11. The PMU shall be supported by a strong technical assistance team financed through the IFAD grant. The grant shall be executed by UNOPS on the basis of an Agreement with MoALI. UNOPS shall competitively recruit, subject to IFAD prior review, the technical assistance necessary to strengthen ID and MoALI in relevant areas. It shall provide a medium-term Project Management Advisor (PMA) and specific short-term TA inputs.

12. Project financial management shall be administered by the existing Finance Unit of the IWUMD. The IWUMD shall assign a Finance Officer and accounts staff from its existing staff specifically for the Project, who shall work under the supervision of the Unit's Finance Director. For the purposes of the Project, the IWUMD's Finance Unit shall be supported by two consultants in the PMU, namely a Financial Management specialist and an Accountant. The PMU shall operate a computerized accounting system, acceptable to the Fund, for the purposes of the Project.

13. PIO. One PIO shall be established in each State (in Hpa-an and Taunggyi), mainstreamed within the state-level IWUMD. The PIO shall be responsible for coordinating implementation at state level and for monitoring and reporting on progress. The PIO shall be headed by a state Project Coordinator, to be assigned by IWUMD from its state-level staff. Daily operation of the PIO shall be the responsibility of a state Project Implementation Officer (agriculture specialist) recruited from the market through a competitive process. The PIO shall be staffed by: (i) assigned officers from relevant state MoALI departments and other relevant Ministries (such as MoNREC); and, (ii) a set of competitively recruited consultants on annual contracts (rural finance, community development and gender, accounting, and M&E).

14. The PIOs shall be supported by a strong technical assistance team to be financed through the IFAD grant. UNOPS shall competitively recruit, subject to IFAD prior review, the technical assistance necessary to strengthen state level ID and MoALI in relevant areas. In each state, it shall provide a Project Implementation Advisor for the durations required, and specific short-term TA inputs.

15. State-level financial management shall be administered by the existing Finance Unit of state-level IWUMD. The state-level IWUMD shall assign a Finance Officer and accounts staff from its existing staff specifically for the Project, who shall work under the supervision of the Unit's Finance head. For the purposes of the Project, the IWUMD Finance Unit shall be supported by an Accountant (consultant) in the PIO.

B. Implementation of Components

16. 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 PMU on a competitive basis in consultation with the PIOs. Land development shall be implemented by state-level MoALI IWUMDs (which can sub-contract specific works if required). A qualified 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 state-level IWUMDs, PIOs, farmers' groups, and the service provider(s).

17. Sub-component 1.2: Community Agroforestry. The activities under Sloping Agricultural Land Technology (the "SALT") will be implemented by the respective KCs where applicable, with support from a service provider. Investment in community facilities such as tubewells, solar powered pumps and drinking water networks shall be designed and implemented either by DRD or a contracted service provider.

18. Sub-component 2.1: Knowledge and Technology. KCs shall be constructed by local contractors selected on competitive basis by the PMU in consultation with the PIOs.

Where feasible, community contracting using local labour shall be considered. KCs shall be supported by TA and 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.

19. Sub-component 2.2: Agribusiness Development and Financing. The Agribusiness Fund (the "ABF"), as defined in the PIM, shall be managed by the PMU with external support as required, and with NPSC oversight. Funding decisions shall be made by an independent ABF committee. Guarantee deposits in financial institutions will be managed by an audit firm selected by the PMU following due diligence. A Guarantee Committee shall review claims and approve pay-outs. Participating financial institutions shall be selected by the PMU. The process will include public announcement, expressions of interest, shortlisting, submission of proposals, due diligence and evaluation, and clearance by NPSC and IFAD. 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") on the basis of an Agreement with the PMU.

C. The PIM

20. Preparation. The PMU shall prepare a draft PIM outlining the standard operating procedures for the implementation of the Project, including for financial management, accounting and procurement, in line with international best practices. Once prepared, the PIM shall be first approved by the relevant departments of MoALI, before being presented to the NPSC for approval and IFAD for concurrence. The PIM shall include a section on financial management and procurement, and shall detail procedures for the provision of matching grants.

21. Approval and Adoption. The Lead Project Agency shall forward the draft PIM to IFAD for its clearance. 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.

Schedule 2

Allocation Table

1. Allocation of Loan and Grant Proceeds. (a) The Table 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:

Category	Loan Amount Allocated (expressed in SDR)	Grant amount (expressed in SDR)	% of Eligible Expenditures to be Financed
I. Works	23 000 000		100%
II. Equipment and Materials	1 270 000		100%
III. Training	1 960 000		100%
IV. Consultancies	1 710 000	1 100 000	100%
V. Goods and inputs	760 000		100%
VI. Matching grants	3 300 000		100%
VII. Guarantee scheme	1 910 000		100%
VIII. Recurrent Costs	2 440 000		100%
IX. Unallocated	4 050 000		
Total	40 400 000	1 100 000	

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

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

“Matching Grants” under Category VI of Table A, shall mean competitive grants to agribusinesses to set up processing facilities close to production areas, under the Agribusiness Fund.

“Guarantee Scheme” under Category VII of Table A shall mean a scheme set up to guarantee loans provided by financial institutions.

“Recurrent Costs” under Category VIII of Table A, shall mean eligible expenditures incurred related to recurrent operating and maintenance costs, remuneration of personnel except for salaries of government staff assigned to the Project, and allowances.

2. Retroactive Financing. As an exception to Section 4.08(a)(ii) of the General Conditions, specific eligible expenditures up to the equivalent of USD 150 000 incurred after the date of approval of the Project by IFAD Executive Board but before the entry into force of this agreement may be pre-financed by the Government and reimbursed from the Loan Account after the Financing Agreement has entered into force and the conditions precedent to withdrawal have been met. These specific eligible expenditures consist of (i) capacity building for PMU/PIO staff and target groups; and (ii) consultancy services.

3. Start-up Costs. The Project may request an advance withdrawal of up to USD 250 000 equivalent from the Loan Account to incur start-up expenditures before the conditions precedent to withdrawal are met. Eligible expenditures shall cover: (i) capacity building for PMU/PIO staff and target groups; (ii) consultancy services; (iii) remuneration of key PMU/PIO personnel; and (iv) any rental expenditures for the PMU 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, the Fund 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 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 the investments in land development and agro forestry are targeted to smallholders and poor forest households, who shall not be expropriated from their land or forest areas thereafter; and
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 shall be eliminated.