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Investing in rural people

President's report

Proposed Loan and Grant to the Republic of the Union of Myanmar for the Western States Agribusiness Project

Note to Executive Board representatives

Focal points:

Technical questions:

Omer Zafar
Country Programme Manager
Asia and the Pacific Division
Tel.: +39 06 5459 2348
e-mail: o.zafar@ifad.org

Dispatch of documentation:

Deirdra McGrenra
Chief
Governing Bodies
Tel.: +39 06 5459 2374
e-mail: gb@ifad.org

For: Approval

Contents

Abbreviations and acronyms	ii
Map of the project area	iii
Financing summary	iv
I. Strategic context and rationale	1
A. Country and rural development and poverty context	1
B. Rationale and alignment with government priorities and RB-COSOP	1
II. Project description	2
A. Project area and target group	2
B. Project development objective	2
C. Components/outcomes	2
III. Project implementation	4
A. Approach	4
B. Organizational framework	4
C. Planning, monitoring and evaluation, and learning and knowledge management	4
D. Financial management, procurement and governance	5
E. Supervision	6
IV. Project costs, financing, and benefits	6
A. Project costs	6
B. Project financing	6
C. Summary benefit and economic analysis	7
D. Sustainability	7
E. Risk identification and mitigation	8
V. Corporate considerations	8
A. Compliance with ifad policies	8
B. Alignment and harmonization	8
C. Innovations and scaling up	8
D. Policy engagement	9
VI. Legal instruments and authority	9
VII. Recommendation	9

Appendices

- I. Negotiated financing agreement
- II. Logical framework

Abbreviations and acronyms

DoA	Department of Agriculture
DRD	Department of Rural Development
FARM	Fostering Agricultural Revitalization in Myanmar
IWUMD	Irrigation and Water Utilization Management Department
KC	knowledge centre
M&E	monitoring and evaluation
MoALI	Ministry of Agriculture, Livestock and Irrigation
PMU	project management unit
PIO	project implementation office

Map of the project area

Myanmar

Western States Agribusiness Project



The designations employed and the presentation of the material in this map do not imply the expression of any opinion whatsoever on the part of IFAD concerning the delimitation of the frontiers or boundaries, or the authorities thereof.

IFAD Map compiled by IFAD | 17-06-2016

Republic of the Union of Myanmar
Western States Agribusiness Project

Financing summary

Initiating institution:	IFAD
Borrower:	Ministry of Finance
Executing agency:	Ministry of Agriculture, Livestock and Irrigation
Total project cost:	US\$20.26 million
Amount of IFAD loan:	US\$8.98 million
Terms of IFAD loan:	Highly concessional: 40 years, including a 10-year grace period and a service charge of three quarters of one per cent (0.75 per cent) per annum
Amount of IFAD grant:	US\$3.98 million
Financing gap	US\$4.47 million
Cofinancier(s):	Implementing partners
Amount of cofinancing:	US\$1.05 million
Terms of cofinancing:	Grant
Contribution of borrower:	US\$0.99 million
Contribution of beneficiaries:	US\$0.78 million
Appraising institution:	IFAD
Cooperating institution:	Directly supervised by IFAD

Recommendation for approval

The Executive Board is invited to approve the recommendation for the proposed financing to Republic of the Union of Myanmar for the Western States Agribusiness Project, as contained in paragraph 54.

Proposed loan and grant to the Republic of the Union of Myanmar for the Western States Agribusiness Project

I. Strategic context and rationale

A. Country and rural development and poverty context

1. Emerging from 50 years of isolation, Myanmar has embarked on a comprehensive path of political and economic reforms since 2011. These aim to introduce elements of popular representation into the political sphere, foster economic growth and inclusive social development, improve the business environment, attract foreign investment and reduce poverty.
2. Myanmar's population was estimated at 53.9 million in 2015, of which some 66 per cent is rural. Myanmar is ethnically diverse, with eight major ethnic groups and 135 subgroups.
3. Despite being resource-rich, Myanmar is one of the poorest nations in South-East Asia. An estimated one third of the population were living below the poverty line in 2005, but this proportion had dropped to one fourth by 2014. The 2015 Human Development Report ranked the country 148th among the 188 nations rated, with a human development index of 0.536. Myanmar's per capita gross national income was estimated at US\$1,160 in 2015. The annual growth rate of gross domestic product accelerated from 4.8 per cent in 2011 to 7.2 per cent in 2015, while inflation was reported at 8.4 per cent at the end of that year.
4. The agriculture sector is the core of the economy, generating 37 per cent of GDP and employing about 70 per cent of the working population in 2015. There is a strong association between agriculture and poverty; and there is significantly greater poverty in rural areas. The incidence of poverty is also higher among ethnic groups compared to the majority population.
5. Disparities exist among and within states and within communities. Rural poverty is largely a function of poor resource endowments. The rural poor are typically landless people and small and marginal farmers, usually owning between less than one and five acres of land. They lack access to adequate food and to essential non-food items and services. Many of the poorest live in isolated hill tracts and upland areas of ethnic states, which were previously ravaged by decades of civil conflict that left them isolated and without development investment.

B. Rationale and alignment with government priorities and RB-COSOP

6. IFAD's strategy in Myanmar is to support the Government in creating a model for agricultural modernization and rural transformation in each agroecological zone of the country. The first investment – the Fostering Agricultural Revitalization in Myanmar (FARM project) – created the model for agricultural development, service delivery and enterprise growth in the central dry zone. This model is now being scaled up by development partners and the Government across the entire dry zone. The second investment – the Eastern States Agribusiness Project – establishes the

model for agribusiness development and community agroforestry, and will create farming and employment opportunities across the eastern hilly zone for ethnic groups, indigenous people, ex-combatants, and returning migrants. The third investment – the Western States Agribusiness Project – to be financed under the 2016-2018 performance-based allocation system (PBAS) cycle – creates the model for climate-resilient agricultural transformation from subsistence to commercial livelihoods, to be implemented across the western upland areas and forests. With these projects, IFAD is fulfilling its strategic objective of helping the Government create optimal models for modernizing agriculture across agroecological zones, with a strong focus on the ethnic states.

7. The project's rationale is anchored in the Government's policies to reduce economic and social disparities in rural areas. It is consistent with the National Comprehensive Development Plan, the Framework for Economic and Social Reforms, and the Poverty Alleviation and Rural Development Action Plan. The project's rationale has four dimensions: (i) to provide a systemic structural response to the challenges of, and opportunities for, rural transformation in southern Chin and northern Magway; (ii) to create a model for the environmentally sustainable modernization of agriculture in degraded sloping areas, which generates economic benefits for poor households; (iii) to rehabilitate productive infrastructure in ways that optimize sustainable use of the natural resource base; and (iv) to forge pathways for communities to transition from subsistence to commercial livelihoods through better access to inputs, knowledge and services. Activities for livelihood-support and nutrition-sensitive agriculture have also been included, to address important needs among local communities.

II. Project description

A. Project area and target group

8. The project is located in southern Chin State and the northern Magway Region, which share a common river basin. These areas have among the highest concentrations of poverty in Myanmar. Chin State is located in the hilly western border area. Its people belong to the Chin ethnic group and its 53 officially recognized subgroups. Southern Chin is home to some of the most remote and isolated communities in the country. Magway Region is situated in the central dry zone, and its population is mostly of the Bamar ethnic group. The region is poor and food-insecure, and has suffered a series of natural calamities and major harvest losses in recent years.
9. The project's target groups consist of: (i) small and medium-scale farming households in upland and lowland areas; (ii) livestock producers; and (iii) non-farming and landless households. Women and women-led households will be prioritized; and youth, as the primary agents of change at the community level, will be the focus of activities involving technological innovation and commercialization.

B. Project development objective

10. The project's goal is to improve the social and economic status of rural households in a climate-resilient manner in the northern Magway Region and southern Chin State. Its objective is to increase household incomes and enhance food security and nutrition quality. Its investments focus on commodities and services that have comparative advantage, market demand and growth potential.

C. Components/outcomes

11. The project's two expected outcomes are: (i) access to productive and social infrastructure is improved; and (ii) technological, financial and policy environment for small farmers and agribusinesses is enhanced.

12. Component 1: Infrastructure. The project will finance strategic investments in productive and social infrastructure.
13. Subcomponent 1.1: Productive infrastructure. The project will finance: (i) rehabilitation of irrigation schemes to ensure an adequate and reliable supply of water to farms; (ii) rural access roads linking farms to markets; (iii) irrigation technology for home gardens to ensure food security and nutritional diversity; and, (iv) land consolidation on a pilot basis. These investments will generate opportunities for increased incomes, reduce on-farm and off-farm production costs, and improve food security for communities and households. They will also improve water management, reduce water conveyance and application losses by 30-40 per cent, improve drainage and reduce siltation, and conserve groundwater.
14. Subcomponent 1.2: Social infrastructure. The project will invest in social infrastructure facilities mainly at the household level, particularly targeting the needs of women and the poorest households. Domestic water supply, rainwater harvesting, and renewable energy solutions will be eligible for support. Scheme selection will be participatory, sensitive to cultural considerations, and subject to social, technical, financial and environmental feasibility. The ownership, management, operation and maintenance of all facilities constructed will be optimized to ensure sustainability.
15. Subcomponent 1.3: Capacity-building. The project will build capacities in the Irrigation and Water Utilization Management Department and the Department of Rural Development of the Ministry of Agriculture, Livestock and Irrigation (MoALI) – responsible for productive and social infrastructure respectively. This will be done through the provision of technical assistance; strengthening of staffing and office facilities; awareness of water, sanitation and hygiene issues; awareness of nutritional diversity; and capacity development for social mobilization.
16. Component 2: Services. The project will invest in agricultural modernization and enabling services to optimize resource management, productivity and benefits in areas of infrastructure investment.
17. Subcomponent 2.1: Agricultural modernization. The project will invest in a range of agriculture, livestock and technical services to modernize production and trigger improvements in food security and nutrition, livelihoods, and economic returns. Services delivered to farming households will include land titling, technology transfer, skill development, access to inputs and supplies, access to markets and information, contractual linkages, and access to financial resources. Climate-resilient sloping agricultural land technology will be promoted. Services delivered to the landless will focus on technical and business management skills, microenterprise development and private-sector linkages.
18. Subcomponent 2.2: Financial services. Building on FARM experiences, the project will support financial inclusion for small farmers, livestock owners and the landless, ensuring equal access for ethnic groups and women. It will invest in: (i) savings and credit groups, promoting financial literacy; (ii) a rural business fund to support microenterprises; (iii) an agribusiness fund to help agribusinesses set up processing facilities in the project area; and (iv) a line of credit to refinance project-related agriculture, livestock and enterprise-lending operations by licensed financial institutions.
19. Subcomponent 2.3: Policy engagement. The project will contribute to an inclusive and evidence-based policy framework for rural development in Myanmar, specifically related to the project's implementation experiences. It will focus on: (i) transition from shifting to sedentary agriculture and associated customary land laws; (ii) re-categorization of high-value commercial crops from non-timber forest products to agricultural or industrial crops; and (iii) agricultural service delivery and market linkages.

III. Project implementation

A. Approach

20. Based on an institutional assessment at the state level, experience in similar contexts and the country strategy, the project's implementation approach is to: (i) strengthen MoALI and other relevant agencies at the state level, and increase their responsibilities for implementing activities in a sequenced manner; (ii) engage with reputable implementing partners to serve as lead technical agencies and to gradually devolve responsibilities to public agencies as their capacities mature; (iii) establish small state-level project implementation offices (PIOs) for coordinating implementation at state level and for monitoring and reporting on progress ; and (iv) establish a project management unit (PMU) in the Department of Rural Development (DRD) that will be integrated within DRD structures. The PMU will be responsible for project implementation, fiduciary management, work planning and budgeting, monitoring and evaluation (M&E), and policy interface functions. It will manage contracts with implementing partners and public and private entities.

B. Organizational framework

21. MoALI, in its capacity as lead project agency, will be responsible and accountable for the project. The DRD of MoALI will be the project's focal department. The Ministry of Planning and Finance will enter into subsidiary financing agreements (SFA) with selected licensed financial institutions for administration of the credit line.
22. The project will be governed by a National Project Steering Committee and two project coordination committees (one in each location). It will be managed by the central PMU established within DRD and the two decentralized PIOs (one in each location).
23. The project will be executed by implementing partners, MoALI at the state level, and the private sector. They will lead social mobilization, community interfacing and policy engagement. Infrastructure will be implemented by the Irrigation and Water Utilization Management Department (IWUMD) and DRD, in collaboration with private-sector engineering firms and contractors, as required. Agricultural modernization will be implemented by MoALI knowledge centres (KCs), brokering services and markets for the target groups, in collaboration with producer associations and community organizations. Financial services will be provided by licensed financial institutions.

C. Planning, monitoring and evaluation, and learning and knowledge management

24. Planning. The annual work plan and budget will be the key management tool for planning, monitoring and reporting on the implementation of activities. It will be based on project design, cost tables and the implementation manual; and it will be informed by operational experiences and challenges. The logical framework will constitute the main reference for framing annual work plan and budgets, to create clear linkages among proposed activities, budget requirements and expected outputs, outcomes and impacts. A participatory planning approach will be applied, to ensure that project investments reflect the target groups' needs and aspirations.
25. Monitoring and evaluation. The project's M&E system will be designed to provide reliable information to facilitate results-based management. It will be aligned with the M&E system developed under the FARM, and will help strengthen MoALI's system for monitoring the effectiveness of official development assistance. The M&E system will have a three-tier structure: (i) output monitoring, focusing on physical and financial inputs, activities and outputs; (ii) outcome monitoring, focusing on the use of outputs and measurement of benefits at the household and community

levels; and (iii) impact assessment, evaluating impacts against objectives. All M&E data, analysis, and reporting will be disaggregated by poverty status, gender, and ethnicity.

26. Learning and knowledge management. The project's learning system will be structured at the state, region and central levels. It will capture information on progress, lessons and solutions to implementation constraints. A consolidated annual project review will be performed towards the end of each fiscal year, to assess physical and financial progress against the targets and towards the objectives.
27. Knowledge management will be a systematic feature throughout the project. To enable effective knowledge management and sharing, results and lessons from the project will be systematically documented through specific studies and knowledge products commissioned by the PMU and/or the PIOs. The M&E system will be a key knowledge source. Innovations observed during implementation will be documented for possible scaling up. The MoALI and PMU will be responsible for sharing knowledge documents through dedicated websites, workshops and seminars.

D. Financial management, procurement and governance

28. As fiduciary risks are high in Myanmar, the project will apply a number of mitigating measures: (i) financial reporting based on automated systems; (ii) competitive recruitment of qualified staff; (iii) use of a financial management manual integrating controls with operations; (iv) technical assistance and external oversight; (v) a control framework integrating periodic internal audits and independent external audits; and (vi) a good governance framework to ensure accountability and transparency.
29. Financial management. The PMU will be responsible for all aspects of project financial management, including budgeting, financial statements and reporting, withdrawal applications for IFAD disbursements, and the coordination of audit processes.
30. Flow of funds. Designated accounts in United States dollars will be opened for the IFAD loan and the IFAD grant, and will be operated using the imprest method. Bank accounts denominated in local currency will be opened at the PMU level, with signatories at appropriate level for operational efficiency.
31. Financial reporting. The PMU will maintain separate accounts for the project, in accordance with the cash basis of accounting. The financial statements prepared for the project will be supplemented with additional data as necessary, so as to provide minimum disclosures under international accounting standards.
32. Project expenditure will be recorded using the accounting software currently used by the PMU of another ongoing project in MoALI. Further customization is foreseen to enhance the software's reporting capability.
33. Taxes. IFAD's General Conditions for Agricultural Development Financing, adopted in 2009 and amended in 2014, allow IFAD financing to be used to pay taxes. The payment of taxes with IFAD funding is foreseen for the project. The Ministry of Planning and Finance has formally requested IFAD to cover taxes on the basis that tax exemption is impractical and the tax burden is low.
34. Audit. The project will be audited by the Office of the Auditor General of the Union (OAG), which has adopted INTOSAI audit standards. OAG conducts mostly financial audits, with some procurement and performance audits.
35. Procurement. IFAD procurement guidelines will apply to the project. The programme implementation manual will specify detailed procurement requirements and procedures. The procurement methods, prior review arrangements, cost and time estimates, and risk mitigation measures will be defined in the Letter to the

Borrower and reflected in the procurement plan. Technical assistance will be provided to develop PMU and PIO procurement capacities.

E. Supervision

36. The project will be supervised by IFAD. A supervision and implementation support mission will be undertaken annually; and MoALI offices at the central, state and regional levels will participate in these missions. A midterm review mission will be undertaken jointly by IFAD and the Government at the end of the third year of implementation, to assess the progress, achievements, constraints, emerging impact and likely sustainability of project activities, and to make recommendations and any adjustments for the remaining project period.

IV. Project costs, financing, and benefits

A. Project costs

37. The total project cost, including duties, taxes and contingencies, is estimated at US\$20.26 million over a six-year implementation period. Indicative costs for each component are detailed in table 1. Indicative costs by expenditure categories are provided in table 2.

Table 1
Project costs by component and financier
(Thousands of United States dollars)

Component	IFAD loan		IFAD grant		Implementing partners		Financing gap		Beneficiaries/ private sector		Borrower/ counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Infrastructure	4 065	58.6	1 124	16.2			963	13.9	780	11.2			6 932
1.1 Productive infrastructure	3 573	83.2	278	6.5			117	2.7	327	7.6			4 294
1.2 Social infrastructure	146	9.1	627	39.0			383	23.8	453	28.1			1 610
1.3 Capacity-building	346	33.7	219	21.3			463	45.0					1 028
2. Services	3 938	32.4	2 854	23.5	1 050	8.6	3 509	28.9			796	6.6	12 146
2.1 Agricultural modernization	1 148	12.4	2 854	30.8	1 050	11.3	3 427	37.0			796	8.6	9 275
2.2 Financial services	2 708	100.0											2 708
2.3 Policy engagement	81	50.0					81	50.0					163
3. Project management	981	83.2									198	16.8	1 179
Total	8 984	44.4	3 978	19.6	1 050	5.2	4 471	22.1	780	3.8	994	4.9	20 257

B. Project financing

38. The project will be financed by an IFAD loan of US\$8.98 million, an IFAD grant of US\$3.98 million, a government contribution of US\$0.99 million, a beneficiary/private-sector contribution of US\$0.78 million, and implementing partners' cost-sharing of US\$1.05 million. The financing gap of US 4.47 million may be sourced through cofinancing identified during implementation or through a subsequent PBAS cycle.

Table 2

Programme/project costs by expenditure category and financier*

(Thousands of United States dollars)

Expenditure category	IFAD loan		IFAD grant		Implementing partners		Financing gap		Beneficiaries/private sector		Borrower/counterpart		Total Amount
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	
1. Civil works	3 256	91.9	44	1.2			117	3.3	127	3.6			3 554
2. Vehicles	255	100											255
3. Equipment	24	100											24
4. Consulting services	633	21.2	1 489	52.5			861	30.3					2 984
5. Training	661	38.0	303	17.4			777	44.6					1 741
6. Goods, services and inputs	1 615	23.0	2 141	30.5	1 050	15.0	1 528	21.8	652	9.3	29	0.4	7 015
7. Credit	2 276	100											2 276
8. Salaries and allowances	152	8.6					1 189	67.7			416	23.7	1 757
9. Operating costs	104	15.9									549	84.1	652
Total	8 984	44.4	3 978	19.6	1 050	5.2	4 471	22.1	780	3.8	994	4.9	20 257

Disbursement categories will be specified in schedule 2 of the negotiated financing agreement. A maximum of six disbursement categories is envisaged to allow sufficient flexibility during implementation.

C. Summary benefit and economic analysis

39. The project is expected to directly benefit 76,810 households, of which 10,190 in Chin and 66,620 in Magway, encompassing a total of 390,410 rural women and men. Many additional households will indirectly benefit from project activities. The estimated project cost per beneficiary household is US\$327.
40. Project benefits will be generated from improved infrastructure, land tenure, agricultural technology, market access, enterprise growth and financial services. The main beneficiaries will be small farming households, landless/tenant households, and off-farm households. The key results will be higher incomes, additional jobs, better food security and nutrition, and secured climate resilience.
41. The project's economic internal rate of return over 20 years is estimated at 32 per cent.

D. Sustainability

42. The sustainability of project investments is based on the underlying business relationships that the project will generate between small farmers and markets, and between enterprises and markets. Global development experiences have shown that profitable business relationships are an optimal instrument for making investments sustainable and for breaking the cycle of dependency and poverty.
43. Project sustainability is also based on: (i) access to knowledge: KCs will be low-cost facilities that will eventually operate on a cost recovery basis; (ii) access to markets: upgraded commodity chains, contract farming and outgrower schemes will ensure smallholder access to markets; (iii) access to land: the project will invest in securing land tenure and ownership, particularly in Chin State; (iv) access to water: irrigation and drainage improvement, combined with participatory water management, will improve water distribution and operation and maintenance; (v) access to basic needs: social infrastructure will cover underlying needs related to food security, nutrition, and domestic water supply; (vi) access to finance: financial inclusion activities will link smallholders and landless microentrepreneurs to the formal financial sector; and (vii) access to extension: use of MoALI extension officers as KC managers trained by the project will ensure continuity in service delivery.

44. Exit strategy. The project's exit strategy is to strengthen public institutions at the central and state levels, to rely on a range of institutional service providers for implementation, to foster profitable business relationships among producers and markets, and to improve the capabilities of poor rural women and men.

E. Risk identification and mitigation

45. The project's main risks are in the governance, expropriation, fiduciary and capacity areas. They will be mitigated by a robust project governance framework, a set of legal assurances to be negotiated with the Government, substantial technical assistance and capacity-building, and the underlying business relationships to be fostered.

V. Corporate considerations

A. Compliance with IFAD policies

46. The project's goal and objectives are aligned with the Strategic Framework 2016-2025 in terms of market-driven smallholder development and rural business growth. It is compliant with all relevant IFAD policies, strategies and guidelines, and in particular with the Fund's policies on targeting, rural finance, land tenure, Engagement with Indigenous Peoples, and Gender Equality and Women's Empowerment, as well as with the partnership and climate change strategies, and the Policy on Preventing Fraud and Corruption.

B. Alignment and harmonization

47. The project's rationale is anchored in IFAD's poverty reduction mandate and the Government's policy for reducing economic and social disparities in rural areas. It is consistent with Myanmar's National Comprehensive Development Plan, the Framework for Economic and Social Reforms, and the Poverty Alleviation and Rural Development Action Plan. It is closely coordinated with the emerging agriculture sector investments of multilateral and bilateral development partners, and with the Agriculture and Rural Development Sector Working Group.

C. Innovations and scaling up

48. Innovation. The project is the first substantial investment in Myanmar's western states to address the climate change challenges posed by erratic rainfall, intra- and inter-annual drought, and record high temperatures that are undermining farm productivity and the livelihood options of the rural poor. It introduces several innovations in its model for climate-smart agricultural development in the upland/lowland areas of the western states. Key innovations in the Myanmar context include: (i) introduction of sloping agricultural land technology; (ii) promotion of climate-smart agricultural practices and technologies; (iii) livelihood diversification, with potential for greater value-added; (iv) promotion of smallholder-driven small businesses and microenterprises; and (v) support for adapted rural finance products and services.
49. Scaling up potential. Given the transient nature of the current agriculture sector regulatory framework in Myanmar, particularly in view of the major political changes that occurred in 2015, there is an important window of opportunity for scaling up the methodologies and results pioneered by IFAD-financed operations in Myanmar. The country programme is engaging in this in two ways: (i) successful service delivery models are already being replicated and brought to scale in other parts of the country by the Government, partners, and the private sector; and (ii) policy engagement opens avenues for scaling up investments based on implementation experiences, the fostering of stakeholder alliances to capture policy proposals, capacity-building for policy development, and the promotion of policy advocacy within national processes.

D. Policy engagement

50. The project will contribute to an inclusive and evidence-based policy framework for rural development in Myanmar, specifically related to the project's implementation experiences. It will support formulation of the policies and regulations needed to enhance and sustain project investments, and to contribute to the ongoing policy discussions on broader agricultural modernization and rural transformation. Policy engagement will also aim at scaling up successful approaches in other states and regions of the country, and will contribute to the project's exit strategy.

VI. Legal instruments and authority

51. A project financing agreement between the Republic of the Union of Myanmar and IFAD will constitute the legal instrument for extending the proposed financing to the borrower/recipient. A copy of the negotiated financing agreement is attached in appendix I.
52. The Republic of the Union of Myanmar is empowered under its laws to receive financing from IFAD.
53. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

VII. Recommendation

54. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of the Union of Myanmar in an amount equivalent to eight million nine hundred and eighty four thousand United States dollars (US\$8,984,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: that the Fund shall provide a grant to the Republic of the Union of Myanmar in an amount equivalent to three million nine hundred and seventy eight thousand United States dollars (US\$3,978,000) and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Gilbert F. Hougbo
President

Negotiated financing agreement: "Western States Agribusiness Project"

(Negotiations concluded on 18 July 2018)

Loan No: _____

Grant No: _____

Project Title: Western 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")

Whereas IFAD has agreed to extend a loan (the "IFAD Loan") and a grant (the "IFAD Grant") to the Borrower/Recipient for the purpose of financing the Project, on the terms and conditions set forth in this Agreement;

NOW THEREFORE, 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. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter 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 and a 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 eight million nine hundred and eighty four thousand United States dollars (USD 8 984 000).
 - B. The amount of the Grant is three million nine hundred and seventy eight thousand United States dollars (USD 3 978 000).
2. The Loan is granted on highly concessional terms and shall be free of interest but bear a service charge of three fourths of one per cent (0.75%) per annum payable semi-annually in the Loan Service Payment Currency, and shall have a maturity period of forty (40) years, including a grace period of ten (10) years starting from the date of approval of the Loan by the Fund's Executive Board.
3. The Loan Service Payment Currency shall be the United States dollar.

4. The first day of the applicable Fiscal Year shall be 1 October.
5. Payments of the principal and the service charge shall be payable on each 15 February and 15 August.
6. There shall be three (3) designated accounts (the "Designated Accounts") denominated in USD opened and maintained by the Borrower/Recipient, of which two for the Loan and one for the Grant, to receive the Loan and Grant proceeds respectively.
7. The Borrower/Recipient shall provide counterpart contribution for the Project equivalent to approximately one million United States dollars (USD 1 000 000) towards salaries of government staff and operational expenditures.

Section C

1. The Lead Project Agency shall be the Ministry of Agriculture, Livestock and Irrigation (MoALI). The Focal Department for the Project shall be the Department of Rural Development (DRD) of the MoALI.
2. A Project Management Unit (PMU) shall be established within the DRD in Nay Pyi Taw and will be integrated within DRD structures. Two Project Implementation Offices (PIOs) shall be established in southern Chin and northern Magway respectively.
3. The following are designated as implementing partners, in accordance with Schedule 1 part A.12 hereto:
 - (i) CARE in Chin; and
 - (ii) Oxfam in Magway
4. The Project Completion Date shall be six years from the date of entry into force of this Agreement.

Section D

The Financing will 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 (PIM), or any provision thereof, has been waived, suspended, terminated, amended or modified without the prior consent of the Fund, and the Fund has determined that such waiver, suspension, termination, amendment 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 consent of the Fund for institutional changes to the National Project Steering Committee (the "NPSC"), the PMU, and/or the 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 additional general conditions precedent to withdrawal: The Project Director and Finance Officer, both acceptable to the Fund, shall have been selected by MoALI from the DRD 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:

Union 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, dated [click and type], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower/Recipient.

THE REPUBLIC OF THE UNION OF MYANMAR

[insert NAME of the Authorised Representative]
[insert his title]

INTERNATIONAL FUND FOR
AGRICULTURAL DEVELOPMENT

Gilbert F. Houngbo
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. Target Population. The Project shall benefit (i) small and medium size farming households in upland and lowland areas; (ii) livestock producers; and (iii) non-farming and landless households. Women and women-led households shall be prioritised, and youth, as the primary agents of change at community level, shall be the focus of activities involving technological innovation and commercialisation.

The Project is located in southern Chin state and northern Magway region (the "Project Area"); these share a common river basin. It shall be implemented in four townships: (i) Mindat and (ii) Kanpalet townships of Mindat district in southern Chin state; (iii) Pauk and (iv) Myaing townships of Pakkoku district in northern Magway region. During implementation, based on the emerging experiences and availability of financing, Project activities may be scaled up to adjacent townships, such as Yesagyoo Township.

2. Goal. The goal of the Project is to improve the social and economic status of rural households in a climate resilient manner in the Project Area.

3. Objectives. The objectives of the Project are to increase household incomes, food security and nutrition quality.

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

4.1 Component 1: Infrastructure. This Component shall finance strategic investments in productive and social infrastructure.

Sub-component 1.1. Productive Infrastructure. The Project shall finance: (i) rehabilitation of irrigation schemes to ensure adequate and reliable supply of water to farms; (ii) rural access roads linking farms to markets; (iii) irrigation technology for home gardens to ensure food security and nutritional diversity; and, (iv) land consolidation on a pilot basis. These investments shall improve natural resource management, generate opportunities for increased incomes, reduce on-farm and off-farm production costs, and improve food security for communities and households.

Sub-component 1.2. Social Infrastructure. The Project shall invest in social infrastructure facilities mainly at household level, particularly targeting the needs of women and the poorest households. Domestic water supply, rainwater harvesting, and renewable energy solutions shall be eligible for support. Scheme selection shall be participatory, sensitive to cultural considerations, and subject to social, technical, financial and environmental feasibility.

Sub-component 1.3 Capacity Building. The Project shall build the capacities of the Irrigation and Water Utilization Management Department (IWUMD) and Department of Rural Development (DRD) of MoALI - responsible for productive and social infrastructure respectively - through the provision of technical assistance, strengthening of staffing and office facilities, awareness of water, sanitation and hygiene issues, awareness of nutrition diversity, and capacity development for social mobilisation.

4.2 Component 2: Services. The Project shall invest in agriculture modernisation and enabling services to optimise resource management, productivity and benefits in areas of infrastructure investment.

Sub-component 2.1. Agricultural Modernisation. The Project shall invest in a range of agriculture, livestock and technical services to modernise production and trigger improvements in food security and nutrition, livelihoods, and economic returns. Service delivery to farming households shall include land titling, technology transfer, skills improvement, access to inputs and supplies, access to markets and information, contractual linkages, and access to financial resources. Climate resilient sloping agricultural land technology shall be promoted. Service delivery to the landless shall focus on technical and business management skills, micro-enterprise development and private sector linkages. A network of Knowledge Centres (KCs) shall be established to broker service delivery to farming and non-farming households.

Sub-component 2.2. Financial Services. Building on the experiences of the Fostering Agricultural Revitalization in Myanmar Project (the "FARM" project), the Project shall support financial inclusion for small farmers, livestock owners and the landless, ensuring equal access for ethnic groups and women. It shall invest in: (i) savings and credit groups, promoting financial literacy; (ii) a Rural Business Fund to support micro-enterprises; (iii) an Agribusiness Fund to provide competitive grants to agribusinesses to establish processing facilities in the Project area; (iv) a line of credit to refinance Project-related agriculture, livestock and enterprise lending operations of licensed financial institutions.

Sub-component 2.3: Policy engagement. The Project shall contribute to an evidence-based and inclusive policy framework for rural development in Myanmar, specifically related to its implementation experiences.

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 Department of Rural Development (DRD) will be the focal department of the project.

6. **Governance.** The Project shall be governed by a NPSC at Union Level, and a Project Coordination Committee (PCC) each in Magway and Chin.

7. **NPSC.** The NPSC shall be chaired by the MoALI Deputy Minister and shall convene in Nay Pyi Taw. Its membership shall include senior representatives of relevant MoALI departments and representatives of Ministry of Planning and Finance (MoPF), Ministry of Natural Resources and Environmental Conservation (MoNREC) and the Ministers of Agriculture of Chin and Magway. Its responsibilities shall be to provide strategic and policy guidance, ensure efficiency and fiduciary compliance, endorse staff selection, approve annual work plans and budgets, oversee the external audit process, and resolve any emerging problems.

8. **PCCs.** The PCCs shall be constituted in each state/region at the district level. Each PCC shall be chaired by the representatives of MoALI and the Ministry of Home Affairs. Membership shall include representatives of relevant district and township level MoALI departments and the Implementing Partners. Its responsibilities shall be to ensure quality implementation and fiduciary compliance, approve annual work plans and budgets, review progress reports, and ensure coordination. The PCCs shall convene in Mindat (Chin) and Pakkoku (Magway) respectively on regular basis.

9. Management. The Project shall be managed by the central PMU established within DRD and the two decentralized PIOs (one in each in Mindat and Pakkoku).

10. PMU. The PMU shall be established within the DRD and shall be integrated with DRD 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 DRD appointed by MoALI. A Project Manager shall be recruited from the market through a competitive process, and shall coordinate daily operations. A Finance Officer shall be assigned by DRD to oversee the financial management of the project, which will be performed by dedicated staff. 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 and evaluation (M&E)).

11. PIOs. State/regional-level coordination shall be handled by two decentralised Project Implementation Offices (PIOs) in Mindat (Chin) and Pakkoku (Magway) respectively, reporting to the state/regional Ministers of MoALI. The PIOs will be responsible for coordinating implementation at state level and for monitoring and reporting on progress. The PIO will be headed by a state Project Coordinator, to be assigned by DRD from its state-level staff. The PIO will be staffed by assigned officers from relevant state MoALI departments (IWUMD, DoA) and relevant Ministries (such as MoNREC). The Project Coordinator will have the responsibility of coordinating with the Implementing Partners.

12. Implementing Partners. Two Implementing Partners have been identified as cost-sharing partners - CARE in Chin and Oxfam in Magway - to lead social mobilisation, community interface, technical assistance and policy engagement and to coordinate investment activities. The PMU shall enter into an appropriate agreement with each Implementing Partner for the purposes of the Project. Should the PMU and either Implementing Partner fail to reach a mutually acceptable agreement, an alternative suitable and qualified Implementing Partner shall be identified by MoALI, subject to IFAD concurrence.

B. Implementation of Components

13. Sub-component 1.1: Productive Infrastructure. Lead responsibility for irrigation development and pilot land consolidation shall be vested with IWUMD/MoALI. An engineering firm shall be contracted to support design, verify construction norms and unit costs, supervise civil works, and provide technical assistance. Lead responsibility for rural access roads and home garden irrigation technology shall be vested with DRD/MoALI, with design support as required. Civil works may be contracted out to private sector firms as required. Supervision of productive infrastructure schemes shall be multi-level, involving IWUMD/DRD as appropriate, PIOs and community groups. Implementing partners will lead community mobilisation and the free, informed and prior consent (FPIC) process before the commencement of any civil work. Implementing partners, jointly with IWUMD, will also lead the formation of infrastructure O&M groups and water users' groups.

14. Sub-component 1.2: Social Infrastructure. Lead responsibility for social infrastructure shall be vested with DRD/MoALI, with design support where required. Civil works shall be undertaken by private contractors where required. Supervision of social infrastructure schemes shall be multi-level, involving DRD, PIOs and community groups. Implementing partners will lead community mobilisation and the free, prior and informed

consent (FPIC) process before the commencement of any civil work. Implementing partners, jointly with DRD, will also lead the formation of infrastructure O&M groups and mechanisms.

15. Sub-component 1.3: Capacity Building. Lead responsibility shall be vested with the PMU and PIOs, operating through contracted engineering firms for capacity building of ID and DRD. Implementing Partners shall lead activities related to water, sanitation and hygiene (WASH) and nutrition (in partnership with the United Nations Children's Fund (UNICEF) where feasible).

16. Sub-Component 2.1: Agricultural Modernisation. Lead responsibility shall be vested with the MoALI extension service in collaboration with Implementing Partners. KCs shall be constructed by private sector contractors. Operational support for social mobilisation shall be provided by Implementing Partners. Implementing Partners shall lead land tenure activities (in consultation with Department of Agricultural Land Management and Statistics (DALMS)) and value chain development. The Department of Forestry and the Yam Producers Association shall be involved in the coordination and implementation of seedling nursery development.

17. Sub-Component 2.2: Financial Services. Lead responsibility for savings and credit groups (SCGs) shall be vested with the Implementing Partners in collaboration with the KCs, under PMU and PIO oversight, and with support from the Myanmar Microfinance Association. Lead responsibility for Agribusiness Fund (ABF) is vested with the PMU, under MoPF oversight, supported by the PIOs and relevant KCs. Refinancing will be managed by financial institution while refinanced loans will be administered by licensed financial institutions (NGOs, Pact, microfinance institutions (MFIs), commercial banks, Myanmar Agriculture Development Bank (MADB)) under Subsidiary Financing Agreements (SFAs) with MOPF. The SFAs will specify the onlending terms, conditions, repayment procedures and operating procedures. Technical assistance will be provided to MOPF to set up the relevant systems.

18. Sub-Component 2.3: Policy Engagement. Lead responsibility shall be vested with the Implementing Partners, with support from competitively recruited technical assistance as appropriate.

C. The Project Implementation Manual (PIM)

19. 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.

20. Approval and Adoption. The Lead Project Agency shall forward the draft PIM to the Fund for its concurrence. Should the Fund not provide any comment on the draft PIM within thirty (30) days after receipt, it shall be deemed to have no objection. 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 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 USD)	Grant Amount Allocated (expressed in USD)	Percentage net of Government contribution
1. Works	2 950 000	40 000	100%
2. Consultancies	440 000	1 340 000	100%
3. Training	600 000	270 000	100%
4. Goods and services	1 700 000	1 930 000	100%
5. Credit	2 050 000	-	100%
6. Recurrent costs	230 000	-	100%
7. Unallocated	1 014 000	398 000	
TOTAL	8 984 000	3 978 000	

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

"Consultancies" includes studies

"Goods and services" includes vehicles and equipment and services such as land surveys

"Recurrent costs" includes operating costs and staff allowances

"Credit" includes ABF financial services and refinancing

"Unallocated" refers to contingencies that will be transferred to other categories, subject to agreement between IFAD and Government, before they can be disbursed"

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 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:

The Borrower/Recipient shall ensure that:

- investments in infrastructure are targeted to small farmers, who should not be expropriated from their land thereafter;
- investments in agriculture and services will enable farmer self-determination in choice of cropping patterns; instructions on cropping and land classification should be eliminated;
- all target groups will be supported to obtain proper identification documents enabling them to meet the requirements of financial institutions.

Logical framework

	Indicators			Means of verification			Assumptions
	Name	Baseline	End Target	Source	Frequency	Responsibility	
<p>Goal:</p> <p>Improve the social and economic status of rural households in a climate resilient manner in northern Magway and southern Chin</p>	<ul style="list-style-type: none"> Decline in poverty rate in project area by at least 10% by PY6 % of beneficiary households with increased adaptive capacity to climate change and shocks 	<p>Chin: 73% (2012)</p> <p>Magway: 27% (2012)</p> <p>0</p>	<p>Chin: 63%</p> <p>Magway: 17%</p> <p>70% (52,500 HHS)</p>	<p>National statistics</p> <p>RIMS Surveys</p> <p>Outcome surveys</p>	<p>Project start, Mid-term and end project</p>	<p>PMU/DRD</p>	<p>Public sector policies continue to support sustainable smallholder agriculture and small and medium agribusinesses</p>
<p>Development Objective:</p> <p>Increase household incomes, food security and nutrition quality</p>	<ul style="list-style-type: none"> % of all direct beneficiary HHS with an income increase of 20% in real terms by project end 1.2.8 Percentage of women reporting improved quality of their diets 	<p>Approx. MMK 734,000 p.a. (Chin upland)</p> <p>Approx. MMK 390,000 p.a. (Magway lowland)</p> <p>0</p>	<p>60% (45,000 HHS)</p> <p>70% (52,500 HHS)</p>	<p>National and regional statistics</p> <p>RIMS survey</p> <p>Annual outcome surveys</p> <p>Project thematic surveys</p>	<p>Project start, Mid-term and end</p>	<p>PMU/DRD</p> <p>DoA</p> <p>UNICEF data</p>	<p>Project beneficiaries are willing to adopt transferred knowledge</p> <p>Successful partnership with UNICEF's nutrition programme</p>
<p>Outcomes</p> <p>Outcome 1:</p> <p>Improved access to productive and social infrastructure</p>	<ul style="list-style-type: none"> No. of hectares with access to year round water for supplemental irrigation No. of HHS benefitting from access to domestic water 	<p>Baseline will be determined at project inception</p>	<p>2630 ha</p> <p>5,000 HHS</p>	<p>IWUMD, DRD records</p> <p>Project M&E</p>	<p>Annual</p>	<p>PMU/DRD</p> <p>IWUMD</p>	<p>Close collaboration between ID and DRD</p>
<p>Outputs:</p> <p>1.1 Irrigated areas are expanded in a climate resilient way</p>	<ul style="list-style-type: none"> No. of small and medium irrigation schemes established in Chin No. of small irrigation and medium schemes established in Magway 	<p>-</p> <p>-</p>	<p>38</p> <p>28</p>	<p>Project M&E</p> <p>IWUMD, DRD records</p>	<p>Annual</p>	<p>PMU/DRD</p>	<p>Timely availability of necessary equipment for infrastructure work</p>

	Indicators			Means of verification			Assumptions
	Name	Baseline	End Target	Source	Frequency	Responsibility	
1.2 Social infrastructure expanded	<ul style="list-style-type: none"> ▪ No. of domestic water supply systems established ▪ No. of rainwater harvesting systems installed 	- -	53 26	Project M&E DRD records	Annual	PMU/DRD	
Outcome 2: Technological, financial and policy environment for small farmers and agribusinesses is enhanced	<ul style="list-style-type: none"> ▪ 3.2.2 No. of HHs reporting adoption of environmentally sustainable and climate-resilient technologies and practices ▪ 1.2.4 No. of HHs reporting an increase in production" ▪ 2.2.1 No. of new jobs created 	- - -	25,250 HHs 47,000 HHs 5,000 HHs	Project M&E DoA records	Annual	PMU/DRD DoA	Beneficiaries willing to adopt transferred knowledge; Private sector participation
Outputs: 2.1 Improved access for farmers to knowledge, technology and services	<ul style="list-style-type: none"> ▪ No. of KCs established in selected locations of Chin and Magway ▪ No. of HHs receiving services from the KCs 	- -	50 72,000 HHs	Project M&E DoA records	Annual	PMU/DRD DoA	Beneficiaries willing to adopt transferred knowledge; Private sector participation
2.2 Sustainable improvement in land management practices and technologies	<ul style="list-style-type: none"> ▪ 3.1.4 No. of hectares of land brought under climate-resilient management 	-	4856 ha	Project M&E DALMS records	Annual	PMU/DRD DALMS	Close collaboration between CBOs, DALMS and project implementing partners
2.3 Improved access to financial services for small farmers and agribusinesses	<ul style="list-style-type: none"> ▪ No. of credits groups formed ▪ No. of investments supported through the RBF and ABF 	- -	500 3,730	Project M&E MFI records	Annual	PMU/DRD	
2.4 Strengthening policy development for climate smart agriculture	<ul style="list-style-type: none"> ▪ No. of policy-relevant knowledge products completed 	-	4	Project M&E	Annual from PY3	PMU/DRD	