

Ex-Ante Evaluation (for Japanese ODA Loan)

1. Name of the Project

Country: Republic of the Union of Myanmar

Project: Agriculture and Rural Development Two Step Loan Project

Loan Agreement: March 1, 2017

Loan Amount: 15,135 million yen

Borrower: The Government of the Republic of the Union of Myanmar

2. Background and Necessity of the Project

(1) Current State and Issues of the Agricultural and Rural Finance Sector in Myanmar

In Myanmar, almost 60 percent of populations engage in agriculture (2011, FAO) and agriculture sector comprises 27.9% of national GDP (2014, Myanmar Central Statistics Office). Even among industry sector, 65.9 % of registered manufacturing companies are food and beverage processing companies (2009, Myanmar industrial statistics).

The challenge for Myanmar's agricultural sector is agricultural mechanization. The country's agricultural sector depends greatly on casual workers because the amount of production capital, such as the number of tractors owned per farmer, is small (around one-fourth that of Vietnamese farmers in 2007). On the other hand, in the lowland crop production area, farmers may face difficulties unless they shift to labor-saving farming by mechanization. It is becoming increasingly difficult to hire a sufficient number of agricultural labors as labor migration towards urban and foreign labor market occurs and the birthrate in rural area declines. Also, Myanmar is urged to enhance its competitiveness through capital investments aimed at diversification and quality improvement in domestic and foreign market where the demand for food becomes more diverse and sophisticated due to economic development. In order to improve the living standards of farmers in rural areas, it is necessary to access to the growing food market.

However, the Myanmar Agricultural Development Bank (MADB) has focused on seasonal loans to cover recurrent expenses for rice production (such as fertilizer), and neither MADB nor private lenders have granted medium- to long-term loans aimed at investing in production capital, such as agricultural machinery. Although 4 state-owned banks and 24 private banks (including semi-governmental banks) operate in Myanmar as of May 2016, since only a small number of banks have branches in rural areas (at the township level), rural residents have no choice but to rely on informal money-lenders who lend money at interest rate of 3.0-5.0% per month (36-60% per annum). For this reason, MADB, which has already built a network of 208 branches in rural areas (as of May 2016), is expected to strengthen its financial services.

(2) Development Policies for the Agricultural and Rural Finance Sector in Myanmar and Priority of the Project

The new administration established in March 2016 led by the National League for Democracy (NLD), unveiled its new economic policy in July 2016; this policy positioned “Achieving monetary and financial stability, while creating a financial system that can sustainably provide capital to businesses, farmers and households” as one of twelve key policies. The Ministry of Agriculture, Livestock, and Irrigation (MOALI) formulated the Second Five-year Plan for the Crop Sector (2016-2020), setting such goals for mechanization as introducing 10,000 tractors, 1,700 combines, etc. The Project aims to provide medium- to long-term loans for capital formulation in agriculture sector, through MADB which is the Myanmar's only policy financing institute responsible for agricultural and rural financing. The Project aims to build a sustainable financial system for farmers as indicated in the new economic policy and to achieve the goal of agricultural mechanization set in the Second Five-year Plan for the Crop Sector.

(3) Japan and JICA's Policy and Operations in the Agricultural and Rural Finance Sector

One of the priority goals in the Japanese government's economic cooperation policy for Myanmar (formulated in April 2012) is to help improve people's livelihood (including support for ethnic minorities and the poor, agricultural development, and regional development), and the Project meets that policy goal. Thus far, JICA has provided agricultural machinery to MOALI's Agricultural Mechanization Department mainly through the grant aid cooperation program to support poor farmers (in FY2012 and FY2013), thereby supporting Myanmar's government in strengthening its agricultural machinery rental service.

(4) Other Donors' Activities

The World Bank views poverty reduction in rural areas as one of the three main pillars of its Myanmar Country Partnership Framework (2015-2017), and it plans to help MADB to reform its organization through the Financial Sector Development Project (planned for 2016-2020).

(5) Necessity of the Project

While Myanmar's government has positioned the capital formulation for agricultural production as an important agenda, the financial sector regarding agricultural and rural development has failed to meet financial demand for farmers' medium- to long-term capital investments due to an absence of medium- to long-term financing in rural areas and the high interest rates and short repayment period offered by informal lenders. The Project, which aims to supply farmers and other borrowers with medium- to long-term funds through MADB, an institutional financing agency, will contribute to the balanced development of urban and rural areas in the country as well as the modernization of agricultural and rural finance sector in Myanmar. The Project is also

in accordance with Myanmar's development policy and Japan's ODA policy, and it is expected to contribute to SDG 1 (to end poverty) and SDG 2 (to end hunger). Therefore, it is highly necessary for JICA to support the Project.

3. Project Description

(1) Project Objectives

The objective of the Project is to ease the access of farmers/agribusinesses to mid to long-term investment loans and improve the productivities of famers/agribusinesses by establishing an on-lending facility through MADB and supporting the MADB's capacity building, thereby contributing to the balanced development between urban and rural area, and modernization of agriculture and rural financial sector in Myanmar.

(2) Project Site/Target Area

Throughout the country (priority areas in the Project's first year¹: the Sagaing region, the Mandalay region, Naypyidaw, the western Bago region, and the Ayeyarwady region)

(3) Project Components

1) Two-step loans: Two-step loans will supply individual farmers and groups of farmers with medium- to long-term funding. The interest rate for end users will be the lowest deposit interest rate + 0.5% (8.5% per annum as of the end of January 2017). Financing targets include investments related to agricultural production (machinery, warehouses, facilities, means of transport, post-harvest machines, cultivation rights, etc.) and working capital incidental to such investments. The upper limit on funding is 50 million kyats (approximately 5 million yen) for individual farmers and 500 million kyats (approximately 45 million yen) for groups of farmers.

2) Consulting services (project supervision, MADB's capacity building, etc.)

(4) Estimated Project Cost (Loan Amount)

16,073 million yen (including an ODA loan of 15,135 million yen)

(5) Schedule

March 2017 to September 2020 (43 months). The Project will be completed when the JICA's final disbursement for two-step loans is made in September 2020.

(6) Project Implementation Structure

1) Borrower: Government of the Republic of the Union of Myanmar

2) Executing Agency: Myanma Agricultural Development Bank

3) Operation and Maintenance System:

The Project uses surplus funds generated from the difference between the repayment

¹ In its first year, the Project will be launched in Sagaing, Mandalay, Naypyidaw, and Ayeyarwady, the areas JICA designated in its Preliminary Survey for Intensive Agriculture Promotion Programs (FY2015) as ones that have particularly high potential for agricultural development and in which priority should be given to such development, as well as in the western part of the Bago area where the Japanese ODA loan-based Western Bago Area Irrigation Development Project (for which a loan agreement was signed in 2014) is already being implemented. The areas covered by the Project will be reviewed annually taking their funding demand into account.

period for sub-loans and that for the Japanese ODA loan to open a revolving fund account to extend new loans under the same conditions; this account will be managed by MADB.

(7) Environmental and Social Considerations/Poverty Reduction/Social Development

1) Environmental and Social Considerations

① Category: C

② Reason for Categorization:

In accordance with the JICA's Guidelines for Environmental and Social Consideration (April 2010), sector, scale, site and other characteristics of the Project indicate that adverse impact on environment and/or society is minimal.

2) Promotion of Poverty Reduction:

The Project eliminates the lower limit on area requirements for eligible farmers (five acres), allowing even small-scale and/or poor farmers to receive medium- to long-term loans depending on their business plans and so forth. In addition, the Project seeks to create examples by which even small and/or poor farmers without collateral can receive medium- to long-term funding from MADB by further relaxing the collateral requirements through credit guarantee insurance.

3) Promotion of Social Development:

Many female headed households are widows; they require support because of their relatively low household incomes and other reasons. Therefore, during sub loan appraisal, priority order for review will be given to loan applications filed by female headed households.

(8) Collaboration with Other Donors:

The World Bank and JICA coordinate to support MADB; the former will assist in the overall reform of MADB (such as governance and lending diversification), while the latter will help MADB strengthen its appraisal capacity for medium- to long-term loan.

(9) Other Important Issues:

The Project contributes to fostering market for Japanese manufacturer's machineries by improving farmer's financing for the machineries.

4. Target Outcomes

(1) Quantitative Effects

Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline (Recorded in FY2016 ³)	Target (FY2022) (2 years after completion)
Annual income of farmers using sub-loan (kyat/year, average of selected sample farmers/ group of farmers ¹)	Decided when granting sub-loans	Set prior to Project launch

Amount of Agriculture Capital Owned (aggregate number by items of selected sample farmers/ group of farmers ¹)	Decided when granting sub-loans	Set prior to Project launch
Total Amount of term-loan for agriculture capital formulation of Executing Agency (MADB) (million kyat)	0	160,000 ²
Number of sub borrowers for agriculture capital formulation (Yearly number)	0	16,000
Non-performing loan ratio of the sub-loan of the Project (%)	-	Set prior to Project launch

Note 1: A random sample of at least 250 households (at least 50 households from each area) will be used throughout the Project.

Note 2: This indicates the amount of loans outstanding if all loans during the Project period are channeled into secondary funding through the revolving fund.

Note 3: Monitoring will be conducted each year because MADB collects operational statistics on an annual basis.

(2) Qualitative Effects: Capacity Improvement of MADB (ex. appraisal capacity, risk management capacity, etc.), Balanced growth between rural and urban areas, Modernization of Financial Sector

(3) Internal Rate of Return:

This will not be calculated because sub-projects cannot be defined.

5. External Factors and Risk Control

One possible risk is an increase in the number of non-performing loans due to a natural disaster. In the future, if weather index insurance becomes commercially available, MADB will recommend end users to purchase such insurance at the time of appraisal.

6. Lessons Learned from Past Projects

(1) Lessons Learned from Similar Projects

The lesson learned from the evaluation results of two-step loans through the Bank for Agriculture and Agricultural Cooperatives in the Kingdom of Thailand after completion of that project was that it is important to help intermediary financial institutions to improve their appraisal and risk management capabilities to ensure sustainable implementation of such projects.

(2) Application of Lessons Learned to the Project

Since 2013, MADB has reduced its medium- to long-term funding, giving rise to concerns that its practical operation capacity have declined. The Project will relax the collateral requirements and place greater emphasis on borrowers' creditworthiness

and their farming plans at the time of appraisal. For these reasons, based on the aforementioned lesson, the Project will improve MADB's appraisal and risk management capacity through JICA's dispatch of expert and assistance by consulting services.

7. Plan for Future Evaluation

(1) Indicators to Be Used

- 1) Annual income of farmers using sub-loan (kyat/year, average of selected sample farmers/ group of farmers)
- 2) Amount of Agriculture Capital Owned (aggregate number by items of selected sample farmers/ group of farmers)
- 3) Total Amount of term-loan for agriculture capital formulation of Executing Agency (MADB) (million kyat)
- 4) Number of sub borrowers for agriculture capital formulation (Yearly number)
- 5) Non-performing loan ratio of the sub-loan of the Project (%)

(2) Timing of the Next Evaluation

Two years after the completion of the Project