

## Ex-ante Evaluation

### 1. Name of the Project

Country: The Republic of the Union of Myanmar

Project: Thilawa Special Economic Zone (Class A Area) Development Project (Private Sector Investment Finance)

Agreement: April 23, 2014

Investment Recipient: Myanmar Japan Thilawa Development Ltd. (MJTD)

### 2. Background and Necessity of the Project

Democratization and the transition to a market economy have rapidly progressed in the Republic of the Union of Myanmar (hereinafter, “Myanmar”) since the Thein Sein Administration was inaugurated in March 2011. To realize economic growth leading to a higher income per capita, the Myanmar government places importance on inviting foreign direct investment, especially demonstrating policies that attract foreign companies through the development of the Thilawa, Dawei, Kyaukpyu, and other Special Economic Zones (SEZ). In particular, the Thilawa SEZ, which is adjacent to the Yangon metropolitan area, enjoys advantages such as an abundant labor force, industrial network, and availability of a port; Myanmar government has announced its intention to prioritize development of the Thilawa SEZ in the near future. Furthermore, the government expects Japanese companies will take part in this development because Japanese companies, which possess strong technological capabilities, have successfully generated employment in various SEZs throughout Asia.

In December 2012, a Memorandum of Cooperation was signed between the Japanese and Myanmar governments, whereupon it was confirmed that the Thilawa SEZ would be developed as a national project through the cooperation of both governments. Moreover, the Project is in line with Japan’s Projected Economic Cooperation to the Republic of the Union of Myanmar (announced in April 2012), which stipulates a policy of “assistance to development of infrastructure and systems necessary for sustainable economic growth” because the Project aims to promote foreign direct investment for the development of the SEZ in the Thilawa area, thereby contributing to sustainable economic growth.

As described above, the Project is based on the Memorandum of Cooperation signed between the Japanese and Myanmar governments; it is expected to bring about strong development effects, including an increase in direct investment and generation of employment. Moreover, the Project is consistent with the development policy of the Myanmar government as well as the aid policy of the Japan and JICA. Therefore, JICA’s assistance for the Project is highly necessary.

### 3. Project Description

#### (1) Project Objective

The Project targets the Class A area (approximately 400 ha), which is the early-stage

development area of the Thilawa SEZ (approximately 2,400 ha) located in the vicinity of Yangon City (approximately 23 km southeast from the city center) in Myanmar. The Project involves development, sales, and management activities for an industrial park as well as encourages companies to move into the area. Eventually, it will contribute to sustainable economic growth for Myanmar, including reinforcement of the country's industrial foundation and generation of employment.

(2) Project Site: Thilawa area in the Yangon region

(3) Project Outline

(i) Summary of the Project Plan: In this project, MJTD is to implement construction, sales, management, and maintenance activities in the Class A area of the Thilawa SEZ.

(ii) Investment Ratio: 10%

(4) Project Implementation Schedule: To be started in 2015

(5) Investment Recipient: Myanmar Japan Thilawa Development Ltd.

(6) Necessity of JICA Private Sector Investment Financing

The Project is based on the Memorandum of Cooperation signed between the Japanese and Myanmar governments; it is expected to bring about strong development effects, including an increase in direct investment and generation of employment. However, the just recently democratized Myanmar is still a high-risk country for Japanese companies. The Project, the first instance of large-scale SEZ construction in Myanmar, requires various types of cooperation from Myanmar government in terms of both tangible and intangible aspects (e.g., establishment of relevant laws and infrastructure development), and it is difficult for the private sector to take sole responsibility for promoting the Project. Therefore, JICA is expected to assume some political and business risks which the private sector cannot handle alone, and thus there is a strong need for assistance through JICA private sector investment financing.

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

(i) Environmental and Social Considerations

a) Category: A

b) Reason for Categorization: The Project falls under the category of an industrial development sector with highly influential features as described in the JICA Guidelines for Environmental and Social Considerations (published in April 2010).

c) Environmental Permit: The Environmental Impact Assessment (EIA) Report relating to the Project was prepared by Japanese investors and approved in December 2013 by Myanmar government (specifically, the Ministry of Environmental Conservation and Forestry).

d) Anti-pollution Measures: During construction, air quality impact, noise, vibration, and waste, etc. will be minimized by implementing pollution reduction measures (e.g., sprinkling water around the conservation area,

imposing time and area restrictions on construction in terms of standard limits, and recycling waste). Once each lot is ready to use, air quality impact, water quality impact, waste, noise, and vibration, etc. will be minimized by each occupant through pollution reduction measures based on the description of EIA/IEE in Myanmar's laws. Impacts will be further minimized by additional pollution reduction measures, including centralized treatment of drainage provided after primary treatment is finished by each occupant as well as securing of buffer zones between the conservation area and the lots occupied by companies.

- e) Natural Environment: The area used for the Project is not an area or vicinity, including national parks, that is vulnerable to the surroundings, and the impact on important parts of the natural environment to be conserved is considered to be minimal. As for ecosystems, no endangered species or equivalent species have been confirmed, but as a risk-reduction measure, green space will be developed alongside the streets of business sites, etc. when each lot is ready to use.
  - f) Social Environment: The Project involves involuntary relocations of 81 households (including 16 households that have only farmland and goat keeping facilities in the area), but an agreement was reached with all households in December 2013 regarding the details of compensation and support relating to the relocations. The relocations will be carried out in accordance with the Resettlement Work Plan prepared based on the JICA environmental guidelines. Overall and individual discussions with residents were conducted several times; there were no major objections to the implementation of the Project. Details of compensation and support were considered based on the opinions of the residents concerned.
  - g) Other/Monitoring: Based on an environmental monitoring plan and the monitoring form accepted at the time of screening, monitoring of air quality, water quality, noise, vibration, etc. will be performed by a contractor during construction and by MJTD once each lot is ready to use.
- (ii) Promotion of Poverty Reduction: Regional residents' living standards are expected to improve thanks to the employment generated by the companies invited to the SEZ.
  - (iii) Promotion of Social Development: During the construction process, HIV/AIDS prevention measures will be implemented by MJTD and occupants.
  - (iv) Other: The Project plan considers how to reduce potential flood risks due to climate changes; therefore, it contributes to measures to adapt to climate change.
- (8) Collaboration with Other Schemes and Donors: The development of the Thilawa SEZ is positioned as one of the core pillars of assistance for Myanmar; multi-level

assistance is provided through multiple schemes. Examples include Advisors for the Development of Legal system and Institution for Special Economic Zone (SEZ) (since May 2012); ODA loans for infrastructure development around the Thilawa area (ODA loan for Infrastructure Development Project in Thilawa Area Phase 1 was approved in June 2013, and the Japanese government has decided to provide ODA loan for the phase 2 of above mentioned project and the Greater Yangon Water Supply Improvement Project (including water supply to the Thilawa area)); and assistance for residents' relocation associated with the implementation of the Project (since May 2013). There are no specific partnerships with other donors.

#### **4. Targeted Outcomes**

##### (1) Quantitative Effects

###### (i) Performance Indicators (Operation and Effect Indicators)

Indicator	Reference value (2012) (Actual value)	Target value (2024) (10 years after investment)
Area developed	0 ha	396 ha
Area sold	0 ha	319 ha
Number of people employed	0 people	60,000 people

##### (2) Qualitative Effects:

- (i) Promotion of Economic Exchanges with Myanmar: Investment in the Project is intended to provide direct assistance for the industrial park established as a joint venture between Japan and Myanmar. Moreover, because many Japanese companies will be invited to the industrial park, this will also have significant effects on promoting economic and technical exchanges between Japan and Myanmar, including increased Japanese investment in Myanmar and expansion of trade.
- (ii) Technology Transfer to Myanmar's Private Sector: Three Japanese trading companies investing in MJTD (which performs management of the industrial park, etc.) have experience in construction and management of numerous industrial parks, most of which are in Southeast Asia. Their knowledge and experience can be transferred to Myanmar government and investment companies.

#### **6. External Factors and Risk Control**

##### (1) Project- and Project Management-related Risks

With regard to the development of related infrastructure, responsibilities will be divided between the government and private sector. The government will be responsible for the development of infrastructure such as that for electricity, water supply, ports, and roads. A request will be made to the Myanmar government to ensure on-schedule completion of construction and use of each lot so that development can be carried out in a timely manner.

With regard to the sale of each lot in the industrial park, activities for inviting companies will be conducted using a domestic and overseas network of Japanese investors having abundant experience, thereby ensuring the lots will smoothly be occupied by companies.

Any issues with the Myanmar government's policies and legal systems related to the Project will be handled mainly through coordination between JICA and the Myanmar government and through the framework of the Thilawa SEZ Coordination Committee, which is comprised of relevant ministries from both the Japanese and Myanmar governments.

## (2) Exit Strategy

Exit will be considered once management has stabilized in the operational phase following the sold out of the development area. On the other hand, exit will also be considered if business performance significantly worsens with no prospect for recovery.

## **7. Results of Evaluations and Lessons Learned from Past Projects**

Lessons have been learned from the construction and management of an industrial park in Vietnam. A core company demonstrated a strong commitment to project management, and a smooth decision-making system was developed among shareholders; these proved useful in facilitating the project. Furthermore, since the industrial park was able to invite a famous Japanese company in the targeted business category, the value of the industrial park was enhanced, and relevant parts and other manufacturers also became attracted to the industrial park. Combined with a global economic upturn, this contributed to early completion of sales activities.

Another lesson was learned from industrial park projects in the Philippines and other countries. The number of occupants engaged in manufacturing was lower than the estimated number in the original plan, and the industrial park was mainly occupied by companies in the IT service sector. Accordingly, the volume of sewage treatment was significantly lower than the estimated volume, resulting in excessive treatment facility capacity. Consideration should be given to such cases as well.

In this Project, three Japanese trading companies and Myanmar companies have shown strong initiative as core companies and are promoting sales activities as well.

## **8. Plan for Future Evaluation**

### (1) Indicators to be Used for the Next Evaluation

- (i) Area developed (ha)
- (ii) Area sold (ha)
- (iii) Number of people employed

### (2) Timing of Next Evaluation

Two years after all lots have been sold in the industrial park