

Ex-ante Evaluation

1. Name of the Project

Country: The Republic of the Union of Myanmar

Project: Thilawa Special Economic Zone (Zone B Phase 1) Development Project (Private Sector Investment Finance)

Loan Agreement: August 14, 2017

Borrower: Myanmar Japan Thilawa Development Ltd. (“MJTD”)

2. Background and Necessity of the Project

Since the return to international community after long-standing international isolation from March 2011, the Republic of the Union of Myanmar (“Myanmar”) has been under rapid democratization and transition to a market economy. To realize economic growth leading to a higher income level for citizens, the Myanmar government emphasizes the importance of promoting foreign direct investment (“FDI”), and has been implementing the development of Special Economic Zones (“SEZ”) to attract foreign companies. Among several SEZs in the country, the Thilawa SEZ (2,400ha in total) located near the Yangon metropolitan area can enjoy advantages such as an abundant labor force, accumulated industrial clusters, and availability of an adjacent Thilawa port. Acclaiming Japan’s track record of successful SEZ development and operation across Asia, the Myanmar government demonstrated expectation for Japanese companies to take a leading role in the Thilawa SEZ, and thus has been advancing its development with high priority as a national project between Myanmar and Japan.

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. Upon this confirmation, MJTD was established in January 2014, and JICA has decided on equity invest in MJTD through private sector investment finance (“PSIF”) in April 2014. MJTD has been operating the Zone A area since September 2015, and has already decided to further develop Zone B Phase 1 (101 ha) among its shareholders.

Although the Zone A area was initially planned to be fully sold by 2022, accrual sales reach 312 ha (93% of the Zone A salable area with 75 companies to decide investment) by the end of July 2017. The rest is anticipated to be reserved within 2017.

From the policy perspective, as the Thilawa SEZ aims to promote FDI and contribute to sustainable economic growth of Myanmar, the Project is in line with Basic Policy of Japan’s Assistance to Myanmar (announced in April 2012), which stipulates a policy of “assistance to development of infrastructure and systems necessary for sustainable economic growth”.

In summary, JICA’s assistance for the Project developed under the Memorandum of

Cooperation between two governments is highly necessary since it is in line with both the development policy of Myanmar and Japan's assistance policy to the country for promoting FDI and employment generation. Moreover, the Project will likely contribute to Sustainable Development Goal 8 (Decent Work and Economic Growth), Goal 9 (Industry, Innovation and Infrastructure), and Goal 17 (Partnerships for Goals).

3. Project Description

(1) Project Objective

The Project aims to attract foreign and domestic private companies into Myanmar through development of the Thilawa SEZ Zone B Area Phase (101 ha) located near Yangon metropolitan area, therefore contributing to sustainable economic development of Myanmar with strengthening industrial foundation and employment generation.

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

(3) Project Outline

MJTD is to implement construction, sales, management, and maintenance activities in the Zone B Phase 1 area of the Thilawa SEZ.

(4) Project Implementation Schedule:

Loan Agreement signed in August 2017. Zone B Phase 1 area is expected to start operation at the end of 2018.

(5) Necessity of JICA Private Sector Investment Financing

The Project developed under the Memorandum of Cooperation signed between the Japanese and Myanmar governments is expected to bring in strong impacts on FDI and employment generation. Although the Thilawa SEZ Zone A area has shown successful operation and sales results, Myanmar is yet recognized as a high risk country under the political and economic transition by private financiers. Also, the first ever large-scale SEZ in Myanmar still requires a wide range of supports from Myanmar government such as establishment of relevant laws and related infrastructure development, and thus it is difficult for MJTD to promote the Project alone. Therefore, there is a strong need for JICA's assistance through PSIF to assume and complement political and project risks which the private company cannot take.

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

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 MJTD and approved in June 2016 by Myanmar government.

- d) Anti-pollution Measures: During construction, air pollution, water pollution, noise and vibration, and waste, etc. will be minimized by implementing pollution reduction measures (e.g., sprinkling water around the project area, installing water treatment tank, avoiding construction at night). In operation phase, air pollution, water pollution, waste, noise, and vibration, etc. will be minimized by each occupant through pollution reduction measures based on the description of EIA and laws in Myanmar. Impacts will be further minimized by additional pollution reduction measures, including centralized treatment of drainage provided after primary treatment is finished by each occupant.
- 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.
- f) Social Environment: The Project involves involuntary resettlement of 78 households (303 people) and land acquisition of approximately 30 ha (Total Project Affected Persons(PAPs) are 98 households (385 people).The resettlement, land acquisition and compensation will be carried out at the replacement cost in accordance with the Resettlement Work Plan prepared based on the JICA environmental guidelines.
Resettlement area will be Myaing Tharyar Area where is the same location of on-going Zone A Project. The Income Restoration Program such as job training will be provided to the people who lose income resources.
Stakeholder meetings were conducted several times; even though some compensation fee issues are left, there were no major objections to the implementation of the Project. Details of compensation and support were considered based on the opinions of the PAPs.
- g) Other/Monitoring: Based on an environmental monitoring plan and the monitoring form, monitoring of air quality, water quality, noise, vibration, etc. will be performed by MJTD during construction and by MJTD and each tenant in operation phase. YRG/TSMC will conduct the social monitoring.

(7) Collaboration with Other Donors: None

(8) Other Important Issues: None

4. Targeted Outcomes

(1) Quantitative Effects

Performance Indicators (Operation and Effect Indicators)

| Indicator | Reference value (2016) (Actual value) | Target value (2024) (4 years after all areas sold) |
|------------------|--|---|
| Development area | 0 ha | 101 ha |

| | | |
|------------|----------|--------------|
| Sales area | 0 ha | 80 ha |
| Employment | 0 people | 6,055 people |

(2) Qualitative Effects:

Promotion of economic relations between Myanmar and Japan. Technology transfer to Myanmar's private sector.

5. External Factors and Risk Control

(1) Related Infrastructure Risks

With regard to the development of related infrastructure, the Myanmar government will be responsible to provide sufficient electricity, water supply, ports, roads and telecom networks to the Thilawa SEZ. MJTD and other stakeholders will monitor the progress of such infrastructure development by the government through Thilawa SEZ Coordination Committee.

(2) Sales Risks

Sales on the Zone A area has been going strong beyond the initial business plan, and the trend is expected to continue in the Zone B Phase 1 area, backed by the evidence that several companies with a high level of interest on leasing the Zone B lots are already in the active pipeline. In addition, MJTD made a business plan for the Zone B Phase 1 more conservative than that of the Zone A. Moreover, business environment will remain comfort since the economic growth is expected to be continuously high while other competitors in Myanmar have yet materialized the SEZ development. Therefore, downside risk of the sales plan is considered as limited.

6. 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.

7. Plan for Future Evaluation

(1) Indicators to be Used for the Next Evaluation

- (i) Development area (ha)
- (ii) Sales area (ha)
- (iii) Employment (number of person)

(2) Timing of Next Evaluation

Four years after all the sales lots in Zone B Phase 1 have been sold.