

Republic of the Union of Myanmar

Ministry of Agriculture, Livestock and Irrigation (MOALI)

Country Response to the Independent Review of the Investment Plan

MOALI is grateful for the valuable recommendations and comments provided by the independent review of the investment plan. MOALI will take into consideration all the suggestions provided and incorporate them in the revised version of the investment plan. The Agriculture Development Strategy (ADS) and the investment plan will go through new consultations next year before being finalized by the beginning of the next fiscal year (April 2017). As highlighted by the reviewer, MOALI is committed to consider both the ADS and the investment plan as living documents and therefore review them every year in order to take into consideration any new development. Here below are provided more specific responses to each comment of the reviewer.

***Comment 1.** The amount of activities proposed and the ambition of the achievements seem to me to exceed the relatively modest amount of money of the investment plan.*

Response to Comment 1. The resources indicated in the investment plan are preliminary estimates and will be reviewed. For MOALI is the first time to follow a budgeting exercise based on international standard and to follow a planning methodology. It is therefore to be expected that some estimates require further review. In fact, in the new draft of the investment plan which is under preparation some of the estimates have been revised upwards. It should also be noted that the numbers in the investment plan are considered within the range of public expenditures that are perceived to be realistic by the Government at this point in time.

***Comment 2.** The main question therefore is whether the investment programs will help Myanmar to start to reorient its agrifood action strategies and policies toward a quantum jump in agrifood sector growth and poverty reduction. I think the basic answer is “yes,” I do think the basic ideas of the plan in general align with that objective. There is room throughout the plan to adjust the activities, and pare down and prioritize some actions per pillar. But I think that the sounding board system and the evaluation methods should help to do those things as the programs roll out.*

Response to Comment 2. MOALI agrees that there is room for improving, readjusting activities, and prioritizing actions. MOALI is reviewing the existing Investment Plan and is planning to hold new consultations early next year with a broader range of stakeholders to ensure the plan is shared, owned, and improved.

***Comment 3.** The Plan could be improved in certain ways that I see as adjustments to a broadly sound program approach. There could be more emphasis on working with and finding ways to help the “off-farm components of the food system” that have already emerged and are playing a crucial role in food supply chain and rural transformation.*

The Plan recognizes, but somewhat underemphasizes, the extreme importance of the off-farm components of the supply chains – the wholesalers, the truckers, the processors, the agricultural services like custom combine services, the groundwater tubewell drillers, and so on. Our research and observations show that the business environment for these SMEs is fundamental to meeting farm sector growth and rural poverty reduction. Linking to these actors and finding ways to support them would further strengthen the Plan.

Finding ways to “leverage” and support those small/medium scale private investments, and build partnerships and alliances with these players, seems to me to be crucial to the success of the proposed programs. Leveraging is important and possible: we have found in our research that the small and medium enterprises (SMEs) in these segments are investing a lot already in building services for farmers (both upstream of farmers and downstream) and are perhaps the main drivers of change in Myanmar’s food supply chains. Our field research in the Delta, CDZ, and Shan, shows that there is already a large amount of growth and development and transformation occurring already, including in areas where there are many poor. The document justifying the Plan underplays the emergence and existence of this mass of activity by farmers (already starting to diversify, commercialize, intensify), agricultural services (such as the rapid emergence (outside projects and government activity) of tubewell installers and mobile combine services, for example), and post-farmgate services (such as the rapid spread of beans/pulses processors, agriculture product transport services, warehouses, wholesale, ice factories, and so on).

I see this in the Plan in several places in the Investment Plan Matrix in Pillar 3: (1) improve market and logistics infrastructure at the level of rural towns, with a major contribution by private sector; (2) establish incubators; (3) good business environment; (4) a very large sum of investment in community development initiatives and projects. In the ADS in Pillar 3 there is some fleshing out of what the latter would entail; there is mention of community (village) level storage and value-added facilities being established. Given the importance of the latter investments (in community development activities in general and apparently (I say apparently as it is only briefly discussed in the document) specifically in community-level investments in storage and processing), I turn to more discussion of the latter below.

Response to Comment 3. MOALI fully agrees with the importance of the off-farm component of the agricultural system. In fact, this is emphasized at different points in the ADS and Pillar 3 on competitiveness is built on the premise that competitiveness cannot be built only with farmers, but requires the key participation of agroenterprises. The ADS provides considerable investment in the activities already mentioned, namely: Output 3.8 (markets and logistics infrastructure) even proposes the establishment of an Agribusiness Division; Output 3.15 (Growth of small and medium enterprises supported with initiatives such as (i) agribusiness incubators; (ii) matching grants; (iii) innovation funds; (iv) programs for youth, women, and disadvantaged agroentrepreneurs; Output 3.6 (Rural communities empowered); and Output 3.1 (Business environment).

Moreover, it provides further investment on creating linkages between farmers and agroenterprises in rural areas through the Output 3.11 on Value Chain where one of the key ideas is to establish partnerships and alliances with the private sector; Output 3.13 (Improving

financial services) where the credit should be used not only for farmers but also for agribusiness SME; and Output 2.7 on Mechanization where the handover of mechanization services from the public to the private sector is clearly indicated as one of the activities. The ADS also proposes various forms of public private partnerships (PPP) in different parts of its investment matrix, including in fertilizer, energy, infrastructure and logistics, and value chain development. The next version of the ADS and the investment plan will further emphasize the importance of off-farm activities.

Comment 4. *From our observations in the CDZ, Shan State, and the Delta, it is very clear that villages and rural households are very involved in labor markets, product markets, and input markets that cut across the spatial continuum stretching from secondary cities to towns to village tracts to villages. We have observed strong integration between the community/village economy and the village tract, town, and secondary city agrifood economies, such as one sees in CDZ. This integration is apparent for example in the pulse market in CDZ: when a farmer sells his/her pulses, they move from a broker who is based in the village tract or township to the district level quickly. There they are stored or sold. The same integration is apparent in wholesale and warehousing. For example, beans/pulses and paddy go from rural areas right to township level mills and/or warehouses.*

One cannot thus think of and plan a program as if a community/village is in isolation; if it produces a product or service those will compete with similar products and services from other townships. Competitiveness as well of integration of activities over space in the village to secondary city continuum need to be taken into account, not just innate desirability of an activity. For example, as we observed in field research, the widespread and rapid development of the trader network to buy beans/pulses and move them from villages all over the CDZ and move them to the considerable and sustained domestic markets for chickpea, the green gram market in China, the pigeonpea market in India – all this network places the most modest village in a mesh of market relations. Invest in the quality of infrastructure and the policy environment of that mesh and the whole zone grows together.

There is a challenge inherent in producing value added products and wholesale/warehouse activities at village level. An overarching principal should be to first assess what processing, storage, handling, and agricultural services are already operating, what the threshold investments are for rural people to enter into them, and what sort of scale and technology is needed to compete and survive in these lines. In a rapid reconnaissance in the CDZ, we found that there are already a lot of existing services for processing, handling/brokerage, transport, and storage of rice and beans/pulses. Much of this activity appears now to be in the townships and district cities. Let us focus for example on the processing enterprises. We observed many medium and small processing facilities in these towns in the CDZ. A number of them, especially the smaller facilities, are operating below capacity and losing money or just breaking even. It is hard to believe that smaller firms operating under even more sharp seasonality, with smaller catchment areas for feedstock, and lower capacity utilization, would be profitable. That would mean that a program that facilitated the start of many micro enterprises in rice or beans/pulses milling and oil making would probably see the great majority of them go out of business in a year or two. This is in fact what is happening in the past several years in rural Vietnam, India, and Bangladesh, as village mills rapidly disappear and these activities flourish only at the

township or district city level where they can achieve minimum economies of scale to survive. Similar considerations go for warehousing and wholesaling. It is thus important for the Program to make clear (and apportion budget) at what level (place) the processing and wholesale/distribution interventions will take place.

Response to Comment 4. MOALI agrees and will integrate these suggestions in the next revised version of the investment plan. We know that as markets become more integrated, competition affects any stage of the value chain up to the village level. Micro, small, medium, and large enterprises cannot survive unless they are able to be competitive. The ADS pillar 3 is on competitiveness. Its output 3.11 on value chains starts with the prioritization of a limited number of value chains and in each value chains it tries to establish the linkages that make each actor in the value chain more competitive and able to gain a larger share of value added. To that purpose, one of the activities of Output 3.11 is to establish indicators of competitiveness at the value chain level, which implies to carry out competitiveness analysis at each stage of the value chain including input providers, farmers, traders, processors, logistic agents, storage operators, wholesalers, exporters, retailers, etc.

In Output 3.10 on logistics, the ADS indicates the need of coordinate logistics planning and market infrastructure, including wholesale markets and agroindustrial parks, in coordination with the Industrial Policy and the development of transport and economic corridors (north-south and east-west). The ADS highlights the need of integrating villages, even remote villages, with the national and international transport network.

Comment 5. *In Myanmar, as in most developing countries, in poor areas, the majority of off-farm employment is in services, not in processing or other manufactures. This is because there is typically low entry barriers for services, and few economies of scale (which processing typically does have). In contrast to products that would require sufficient throughput and plant scale to be competitive, there are a number of agriculture-related services that include both value added processing and other services that we observed to be in short supply and very ripe for SME's in rural areas that would help the Investment Plan goals. These include:*

- *Upstream: Groundwater tubewell drilling and maintenance services (we observed these to be in huge demand and also already spreading for example in the CDZ); this would then reinforce bean/pulse and vegetable production goals;*
- *Upstream: Equipment operation, rental, and provision of services (an example is mobile combine services that are spreading quickly in rice in the Delta and the CDZ).*
- *Upstream: mobile labor teams for land preparation and chemical application, with proper safety gear and equipment;*
- *Upper-midstream: Drying, sorting, cleaning services for paddy and pulses*
- *Lower-midstream: Sorting and handling of vegetables, milk and fish collection, etc.*
- *Midstream: transport services*

Response to Comment 5. MOALI takes good note of this comment and will incorporate it. The distribution of activities suitable for agribusiness SME may vary from region to region. The promotion of these activities depends on sound business plans that are consistent with existing local opportunities and an already emerging number of local agribusiness activities. Local

development plans carried out by communities and townships and supported by the ADS will be able to identify these opportunities.

***Comment 6.** Finally, on water, the Investment Plan and ADS propose primarily development of use of surface water, linking small scale irrigation and pumps for surface water to that. There is some opportunity there, but I think it is dwarfed by the opportunity provided by groundwater. It seems uneconomical to stretch tubes with pumps from rivers or ponds into farm lands; canals are expensive to build and maintain. The big win would be from using much more groundwater which is available to far more farmers. This should be added to the proposal in a big way.*

We found in our field reconnaissance in Central Dry Zone (CDZ) that there appears to be a huge amount of recent investment by small farmers in their own tube wells and pumps. We found massive numbers of farmers both outside the coverage zones of surface water government programs, and even within them, to get inter-seasonal water for pulse and vegetable production. As noted above, the increase in farmers doing this is spectacular based on what we saw in widely disparate areas of the CDZ. It is also spontaneous, not based on government programs or micro lending. It is facilitated by an equally amazing diffusion of small tubewell digging enterprises.

Response to Comment 6. MOALI recognizes the important role of groundwater in the development of irrigation and water management of Myanmar. This will be further emphasized and will be reflected in new activities under Output 2.5 on Irrigation and Water Management.

***Comment 7.** To help link to that community of actors, the Programs of the Plan would do best by shifting a portion of the “impact evaluation” funds to “preliminary assessment” investment. This would include starting with an inventory of the above and assessing the needs of these existing actors and services. Then the Programs could perform leveraging of what is already happening instead of reinventing the wheel by creating redundant activities at the community level and missing spurring farm and off-farm entrepreneur investment in key services that will accelerate the change that has already “taken off.”*

Response to Comment 7. MOALI will integrate this comment in the revised version of the investment plan. MOALI fully agrees on the importance of preliminary assessments especially as part of the Ministry’s effort to improve accuracy of its own data, and increase analytical and statistics capacity of its staff. MOALI is committed to strengthen its capacity in undertaking preliminary assessments, baselines, and evaluations and in M&E more in general in order to use data and information to improve programs management and inform policy makers.

***Comment 8.** As I noted above, a large share of the success of what one can accomplish in the farm sector will depend on the integration with the actions of the actors midstream and downstream in the supply chains, and upstream in the value chains of inputs and agricultural services. If these off-farm components are stymied by poor policy or lack of infrastructure, it will be hard to get agriculture moving. It is thus important for the Program to place even more emphasis than the limited amount it does now on policies that assure a good business environment for SMEs and larger companies in these segments.*

Response to Comment 8. MOALI’s Agriculture Policy highlights the importance of developing value chains and the recent merge of the three former Ministries (Ministry of Agriculture and Irrigation, Ministry of Livestock, Fishery and Rural Development, Ministry of Cooperatives) into

one Ministry (MOALI) is also a clear sign of MOALI's commitment to follow an integrated approach and stop working in silos. MOALI and the Ministry of Commerce have also created a joint committee to be able to respond to the challenges of developing value chains both for domestic and international markets. The National Export Strategy also highlights the importance of all different actors at different levels and the need to follow an integrated approach.

***Comment 9.** An issue is that the Plan notes that institutions like Yezin have yet to be strengthened, yet it would be the universities that should do review of results. It is not clear to me how there will be accountability without an independent neutral and strengthened university system with basic survey skills and budget to assess the Program.*

Response to Comment 9. MOALI recognize the need to strengthen its institutions. It is only in recent years that Myanmar came out from a period of isolation; it is therefore to be expected that our institutions need to be strengthened and that we need to build our capacity. Building people's capacity is very high on the government's agenda and takes time. We have already started this capacity building process with the support of development partners and we hope to receive further support in the future. To ensure accountability and quality in the review of results MOALI will cooperate with international institutions. Cooperating with international institutions will allow us to build our capacity and at the same time ensure independent and quality reviews.