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**GROWING TOGETHER**

Reducing rural poverty  
in Myanmar

**POLICIES FOR SHARED PROSPERITY IN MYANMAR**



Policies for shared prosperity in Myanmar

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# GROWING TOGETHER: Reducing rural poverty in Myanmar

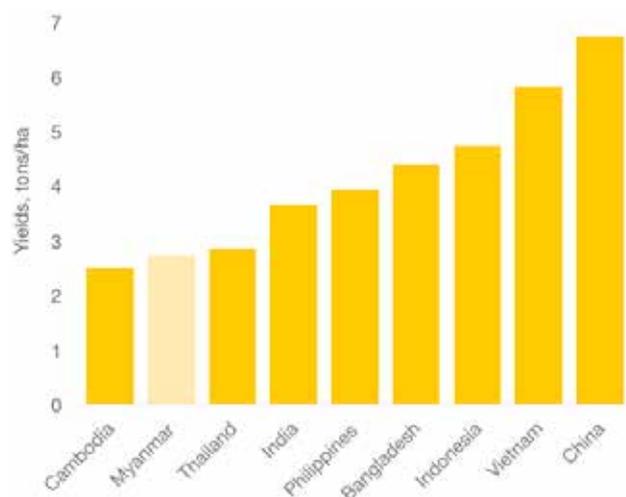
**Policies that enable rural communities to participate in expanding economic opportunities can be central to inclusive growth in Myanmar.** Rural communities are home to the majority of Myanmar's population, the majority of its many ethnic groups, and 70 percent of its poor. Development in rural areas is constrained by low returns to agriculture, and significantly lower levels of public service delivery and human development outcomes relative to urban areas.

Reforms to enhance agriculture productivity are necessary though not sufficient for improving the welfare and livelihoods of rural communities. These have to be complemented with increased access to social and economic services that can raise human and physical capacity to create the conditions necessary for the growth of a dynamic rural non-farm sector. These reforms could help to not only reduce the drag on rural growth and poverty reduction, but also contribute to structural economic transformation so that the welfare of all people in Myanmar can grow together.

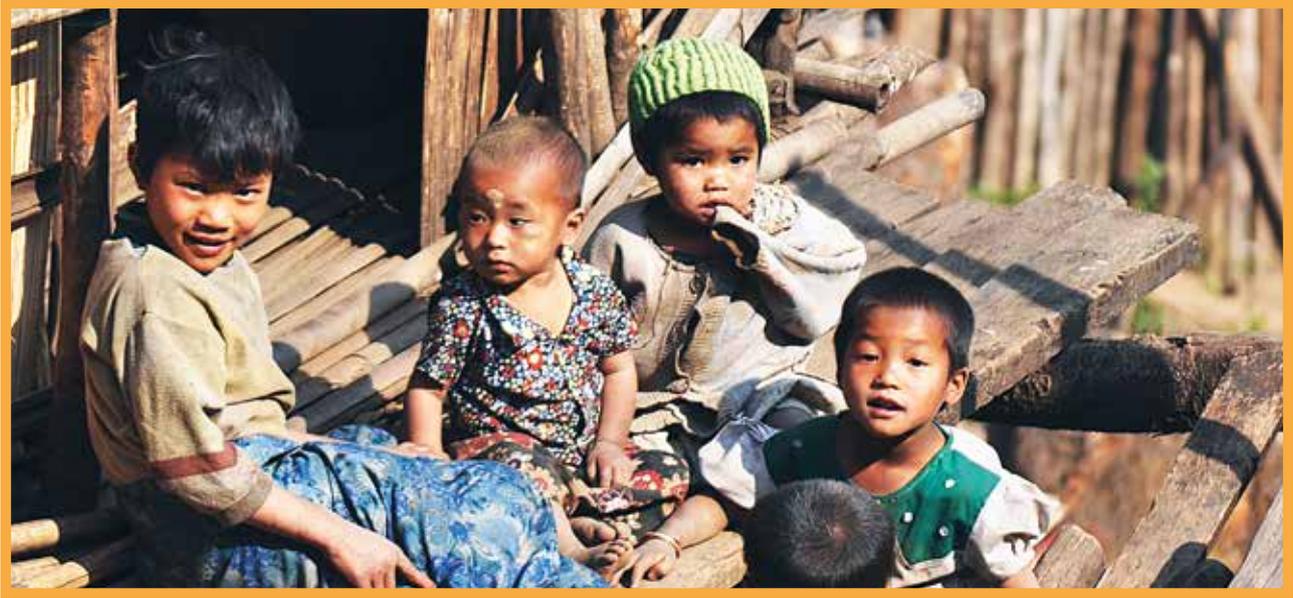
## CONTEXT AND OPPORTUNITIES FOR CHANGE

**Poverty is prevalent throughout Myanmar's rural areas; the majority of the poor earn their incomes from agricultural activities and casual work.** More than half of Myanmar's labor force works in agriculture, but the country has yet to experience the agricultural revolution needed to raise living standards and to support a structural shift towards higher-value manufacturing and services. Agriculture accounted for around 31 percent of GDP in 2014, but the sector suffers from low productivity. The average yield of the dominant crop, paddy, is amongst the lowest in Asia (Figure 1). In addition, one hectare of monsoon season rice from the Delta region in Myanmar generates on average US\$ 140 of profits (defined as revenues less all production costs, including family labor), compared to US\$ 340 in Cambodia and US\$ 430 in Vietnam.

Fig 1: Paddy yields, selected countries in Asia, 2014-2015

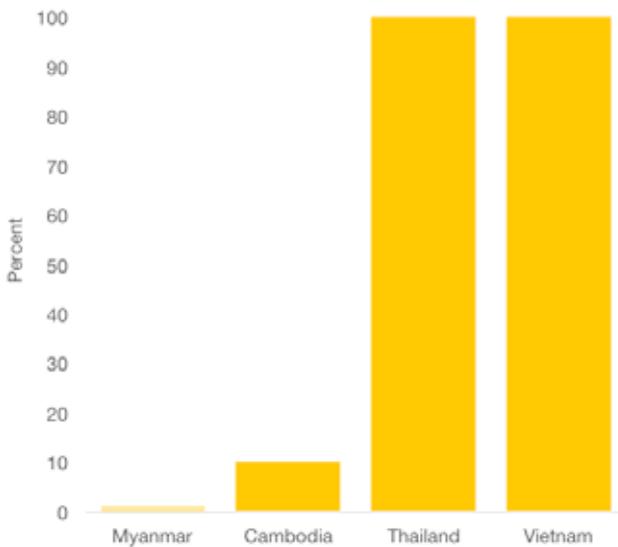


Source: US Department of Agriculture.



**There is much scope to enhance agriculture productivity through the use of quality seeds.** Seed multiplication promoted by the public sector however is currently very limited. The private sector on the other hand is constrained to invest in seed production due to a lack of: clear investment rules and procedures; protection of intellectual property rights; and public services such as quick registration and quality tests. As a result quality seeds for both paddy and other crops are in very short supply. Only 1 percent of the demand for paddy seed is estimated to be met by supply in Myanmar, which is extremely low when compared to other countries in the region (Figure 2).

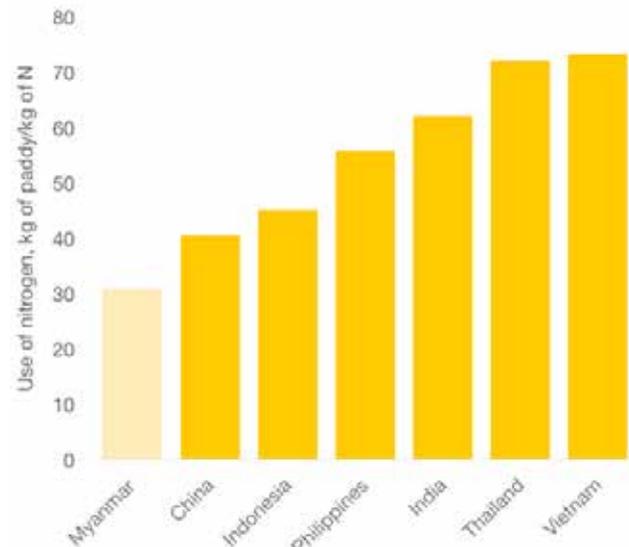
Figure 2: Supply to demand ratio of paddy seeds, selected countries in Asia, 2013-2014



Source: World Bank estimates.

**There are a lot of opportunities to improve the application of agricultural technology and techniques.** Farmers currently lack the knowledge of modern agriculture practices for a wide variety of crops. They often use more fertilizer and chemicals than they need, which reduces efficiency (Figure 3) and lowers profitability. Low yields, poor quality, and a weak agro-processing sector constrain Myanmar's ability to play a large role in export markets, even though it was able to do so in the past. Weak rural financial services also constrain farmers from adopting new technologies and diversifying crops: only 37 percent of farmers and 10 percent of farm workers report having access to formal credit.

Figure 3: Nitrogen use efficiency, selected countries in Asia, 2013/14



Source: LIFT and World Bank.



**More secure land tenure could further promote the use of technology and private investments that can have dynamic effects on agriculture productivity.**

Most of Myanmar's farms are small, up to 2 hectares, with 2-3 fragmented land plots, which makes it difficult for them to exploit economies of scale in mechanization and marketing. Insecure land tenure prevents a land rental market from emerging, which is necessary for the kind of market-based consolidation that has enabled other countries to overcome similar problems. Myanmar has a small number of very large farms, usually for plantation tree crops, though land tenure security in these instances also is not strong.

**Meanwhile, improving access to essential services could deepen human capital,<sup>1</sup> improve access to markets and expand non-farm livelihood opportunities.**

Around 84 percent of the rural population lack access to electricity,<sup>2</sup> 37 percent of people lack access to clean drinking water, and only 12 percent of roads are paved, which can make them impassable in the rainy season. This contributes to rural isolation, and limits access of rural people to markets, job opportunities, and services.

Overcoming such constraints, if done in a way that empowers rural communities, could also help reduce geographic isolation and foster national unity by demonstrating the state's support for lagging regions. This includes in particular ethnic minority and border areas, which have been affected by conflict and where the presence of the state remains limited and sometimes contested.

**Growth in urban and peri-urban areas can help to expand markets for rural products and provide job opportunities for rural-urban migrants.**

One in four households in Magway region, and one in five households in Ayeyarwady, currently have a member who has migrated elsewhere, primarily for urban jobs in the informal sector, including in construction, restaurants, and tea shops. Migrants in Myanmar overwhelmingly move in search of a better life rather than family or educational reasons: 74 percent of households in Ayeyarwady region and 71 percent in Magway region report that their migrating members are moving to look for a job or for work, and an additional 20 percent move in response to economic shocks faced by their households.

1 For a discussion on rural-urban disparity in access to social services, please refer to the policy note "Closing the gap: Expanding access to social services."

2 Please see Policy Note on "Energizing Myanmar: Enhancing Access to Sustainable Energy for All."

## RECENT DEVELOPMENTS

**Since 2011, Myanmar has pursued policies to promote agriculture as one of the driving forces of rural growth.** The liberalization of foreign exchange markets and trade, including policies to promote exports, have helped to stimulate agricultural growth. There are no large agricultural subsidies or other distortions; agricultural and food prices are largely determined by market forces. The 2015 Rice Sector Development Strategy seeks to increase rice production and productivity, with a focus on quality, export competitiveness, and private public partnerships.

Banking sector credit to the agriculture sector has also increased in recent years. Lending by the Myanmar Agricultural Development Bank went from Kyat 94 billion in 2009-2010 to Kyat 1,165 billion in 2014-2015, albeit on subsidized terms and focusing mainly on wet season paddy production, which raises questions about efficiency and financial sustainability<sup>3</sup>. The private sector has played a growing and important role in providing inputs to farmers, and in trading commodities and processed products. Important land legislation was developed (i.e. two land laws) and initiated (i.e. land policy framework and law), and many farmers have already received land user right certificates<sup>4</sup>.

These positive reforms have contributed to higher agricultural growth, which rose from 1.7 percent in real terms in 2012-2013 to 3.6 percent in 2013-2014 and 5.6 percent in 2014-2015.

**To complement this, there has been a renewed focus on rural poverty reduction after decades of underinvestment in rural areas.** The Framework on Economic and Social Reforms (which aims to achieve sustainable and inclusive growth in Myanmar) and the Rural Development Strategic Framework (which outlines support for rural communities and remote areas) aim to deliver public services in rural areas in a responsive, transparent and accountable manner.

**Increased credit to the agricultural sector**

**Redistribution of fiscal resources**



<sup>3</sup> See the Policy Note “Financing the Future: Building an Open, Modern and Inclusive Financial Sector” with the proposal of the MADB’s restructuring as a part of the broader financial sector’s reform.

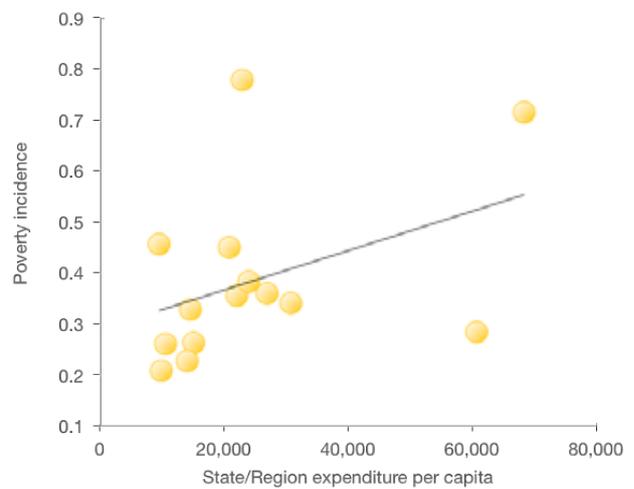
<sup>4</sup> The recent land laws do not, however, address the lack of security over customary lands in the upland areas, the significant reasons for conflicts. The security of even individual plots with land user right certificates is also weak due to the lack of information data bases and infrastructure to properly reflect actual land use situation.

**To help implement these and promote rural investments, there has been some fiscal decentralization to States and Regions.** State and Region spending as a share of overall public sector expenditure is relatively low at around 10 percent, but their expenditure assignments cover important economic services (e.g. agriculture, local transport and communications, cottage industry, small scale energy projects), which are critical to rural development. Some of the States and Regions with higher levels of poverty also spend more on a per capita basis (figure 4), which could be a reflection of efforts to expand services in areas with the biggest gaps in access to services.

There have been preliminary efforts to develop a formula-based system of fiscal transfers, which should help to redistribute fiscal resources according to development needs. The level of general purpose transfers has increased from 0.6 percent of GDP in 2011-2012 to 2.3 percent in the 2014-2015 Union Budget. This level increase has been linked to development conditions across States and Regions. This helps to offset fiscal capacity constraints for some poorer States and Regions, which also have relatively lower tax payments per capita (figure 5).

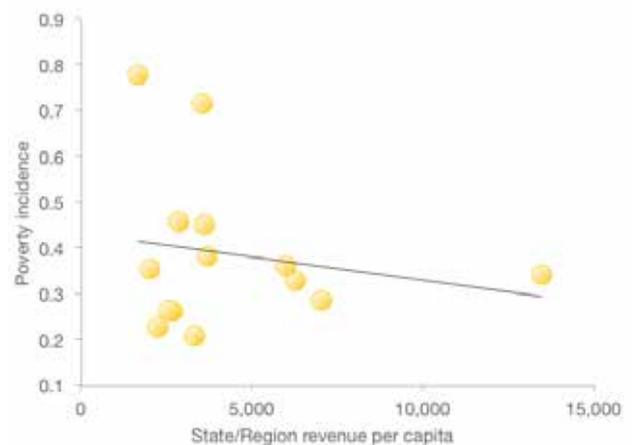
**To complement these efforts, Myanmar launched a national community-driven development program (NCDDP) in 2013, which is showing early positive results in reducing poverty in rural areas.** The NCDDP supports communities to formulate development plans and transfers grants for community-level infrastructure directly to village tract committees, elected by secret ballot with gender parity. This program is being rolled out in an initial set of 27 rural townships across the country. So far, some 700,000 people have gained access to improved community infrastructure through the program. Over two thirds of households in project communities participating in planning, decision-making and implementation of subprojects, and 75 percent of community members, have reported high or very high satisfaction levels with project implementation and results.

Figure 4: Poverty and expenditures per capita by States and Regions



Source: Integrated Household Living Conditions Survey, Ministry of Finance and World Bank staff calculations

Figure 5: Poverty and Own Current Revenues Per Capita



Source: Integrated Household Living Conditions Survey, Ministry of Finance and World Bank staff calculations

## Vietnam

**Vietnam's success in reducing rural poverty may provide some important lessons for Myanmar.**

Vietnam's pace of poverty reduction has been almost unprecedented, with poverty falling from 58 percent in 1993 to 17 percent in 2012. In the 1990s, rural economic growth was the main driver of poverty reduction. Part of this was thanks to increased agriculture productivity and profitability, spurred by long-term investments that were incentivized by land reforms. Vietnam's 1993 land law introduced official land titles, which recognized private land-use rights and allowed transfers of land. In response to these reforms, households invested more in irrigation infrastructure and in multi-year crops. Joint titling between two household members (typically husband and wife) enhanced productivity, as well as improved women's bargaining power in the household.

These were complemented by targeted and pro-poor government expenditures, including for quality basic social services, such as education and health, and significant investments in rural infrastructure such as roads, irrigation and electricity. Vietnam also has an impressive record in keeping rural-urban and regional disparities in check through central transfers aimed at poorer areas. Vietnam faced similar challenges to Myanmar in terms of high poverty among specific socio-economic groups (especially ethnic minorities) concentrated in particular geographic locations. The government in Vietnam has used targeted programs, which have significantly improved the welfare of ethnic minorities, who nonetheless still account for over 50 percent of Vietnam's poor today and around 15 percent of the total population.

## Indonesia

**Indonesia's political transition to democracy beginning in the late 1990s was followed by good progress over the past decade in terms of poverty reduction which could also provide relevant lessons.**

Poverty in Indonesia was halved from 24 percent in 1999 to 12 percent by early 2012. Large-scale government programs for CDD, education, and social assistance have contributed to improved access to services and resilience to shocks. For example, Indonesia's national community-driven development (CDD) program led to greater community participation in local governance and resulted in poor households experiencing a nearly 12 percent increase in consumption. The program also led to decreased malnutrition especially in the more remote areas of the country, as well as improvements in maternal and child healthcare and basic education.



## Cambodia

## & Thailand

**The examples of Cambodia and Thailand have important contrasting lessons for liberalizing agricultural markets.** Between 2009 and 2015, Cambodia was able to increase the FOB rice exports from 12,000 tons to 400,000 tons, with most rice exports being of high-priced aromatic varieties. It also increased exports across the border to Vietnam and Thailand through reforms aimed at liberalizing trade and foreign investment and reducing barriers to private sector growth. Export licenses became available to all traders and rice mills, which expanded the number of rice exporters from 5 to 86.

In contrast, between 2010 and 2014, the Thai government devoted substantial resources to raising prices for farmers, including increasing paddy prices to 50 percent above world market prices with limited success and at a high and ultimately unsustainable cost. The program limited export opportunities, cost \$12.7 billion (or 3.5 percent of GDP) in its first year, and substantially increased the country's fiscal deficit in 2011. Thailand's reputation for exporting high-quality rice was undermined by farmers switching to less palatable varieties with shorter growing seasons and higher yields. The already overbuilt rice milling industry was expanding, which led to the closure of mills not enrolled in the program. Farmers' costs of production and land rents also rose.

These experiences of Thailand and Cambodia highlight the important role of open trade and foreign direct investments. They demonstrate how ability of the private sector can quickly leverage investments, working capital, trading contacts, and new expertise once the enabling environment is in place. At the same time, they also point to the negative impacts of market regulations and interventions.

## Thailand

**In Thailand, investments in the development of the seeds sector and agricultural extension have helped to meet farmers' seed requirements, increased the adoption of better agricultural techniques, and diversified production.** In the 1990s public spending on agricultural research and extension in Thailand was more than 1 percent of agricultural GDP, which is high compared to other countries in the region. Public investments in breeder and foundation seed production have been complemented by the enabling environment for private investments in seed multiplication and distribution. Research and extension staff have been working together to develop and disseminate new farm technologies, making the agricultural innovation system demand driven and participatory.

To complement all this, agricultural extension services cover a wide variety of crops to help promote diversification. They also include support for marketing, not just for production. The public sector works with the private sector and NGO providers to address the specific needs of local farmers, making increased use of ICT for technology transfer.



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#### POLICY OPTIONS

**Boosting agricultural productivity:** Reforms that are likely to yield positive results in the near term include measures to promote private sector investments and increase the availability and adoption of modern farm technologies. This would involve among other things: eliminating the current practice of having separate approvals for foreigners wanting to invest in rice mills; improving the legal and regulatory environment to enhance the role of private sector in providing agricultural inputs; and investing in critical public services (e.g. inspections, quality control, laboratories).<sup>5</sup>

Larger and better quality investments in key public goods, especially seeds and extension services, could also play an important role. In 2013-2014, total spending on all programs of the departments of agricultural research, and agriculture and industrial crops, in the Ministry of Agriculture and Irrigation, which includes seed and extension programs, was only 0.22 percent of agricultural GDP (or 0.07 percent of total GDP). The budget for these public programs could at least triple to 0.66 percent of agricultural GDP (or 0.21 percent of total GDP). This would still be below globally recommended norms of 1 percent of agricultural GDP for developing countries.

More generally on public spending in agriculture, when considering investment in irrigation, it will be important to balance the construction of new systems and the improvement of existing systems.

There may also be scope to reallocate public expenditures from rice to programs supporting other crops, livestock and fisheries. But the extent of these spending shifts would need to be informed by a more detailed assessment of agriculture sector expenditure.

Land reform, as illustrated by the experience of other countries, is also likely to be essential for sustained gains in agriculture productivity and poverty reduction. This could be facilitated by launching a land reform policy as early as possible. Although the benefits of such reforms will likely accrue over the long-term because land tenure remains highly insecure, including in conflict-affected areas, and land user right certificates remain contested.

**Increased access to services:** Recent developments on fiscal decentralization, the NCDDP, and other targeted transfers have helped to gradually increase planning, budgeting and spending responsibilities at sub-national and community levels. A mix of top down coordination and bottom up prioritization could help in translating these shifts into more effective service delivery for rural populations.

There are several elements to top down coordination. One element relates to how fiscal decentralization reforms could be implemented with an aim of promoting efficiency in local service delivery. One option is to develop a fiscal decentralization strategy or White

<sup>5</sup> See also the Policy Note “Breaking business as usual: Fostering competitiveness and a dynamic environment for private sector growth.”



Paper that is led and coordinated by the Ministry of Finance and that helps to set out in more detail how to determine: expenditure assignments for States and Regions (e.g. implementation capacity, fiscal capacity); own source revenue and revenue sharing arrangements; and fiscal transfers.<sup>6</sup>

A second element involves budgeting and planning capacity, particularly for public investments, at State and Region level. The latter's capital spending as a ratio of their total budgets is relatively large, with 12 of 14 States and Regions spending at least 40 percent of their budgets on capital projects in 2013-2014. Strengthening capacity for prioritizing and appraising local projects could help to better link these to national level investments in transportation, telecommunications and electricity supply for the benefit of local communications.

The above does not necessarily imply transferring more spending responsibilities to sub-national authorities (i.e. State and Region and below). The decision to transfer spending responsibilities could helpfully be informed by a systematic assessment of sub-national authorities' implementation and fiscal capacities, as set out in a possible fiscal decentralization strategy. What is important is that the services are delivered to the communities in an accountable manner, not just by the Union down to State and Region level, but also from State and Region level down to townships and villages.

6 See also the Policy Note "Participating in change: Public sector accountability to all."

This could be facilitated by increasing the transparency of sub-national budgets<sup>7</sup> and by involving communities in the prioritization process. Prioritization will be particularly important given large service gaps on the one hand and limited resources on the other. Whether public money will be most effective in upgrading a school building, adding a water supply, or improving a village access road will depend largely on local context, and global evidence suggests the utility of an approach that places communities at the center of these decisions. Myanmar has the opportunity to build on the 2012 presidential directive on community based planning by introducing a standard approach to village development plans that can be aggregated at the township level to inform spending priorities.

**Generate knowledge and systems for targeting resources:** Another important element of improved targeting of public resources is data and information, which can help to distinguish different groups (e.g. the poor from the non-poor) and their priority needs. There are several measures that could potentially help to improve the current knowledge base in these areas for better targeting. Two important examples include the need to invest in: (i) more regular and better quality of data on living conditions; and (ii) a household level targeting system that allows the government and its partners to identify and deliver support to those who are most in need.<sup>8</sup> Making use of these to monitor and track changes in welfare and poverty, could play an important role in informing and prioritizing public spending.

7 Please see Policy Note on "Participating in change: Public sector accountability to all."

8 See the similar points made in the Policy Note "Closing the Gap: Expanding Access to Social Services Opportunities."



This is illustrated in some of the regional examples above, where early investment in data, monitoring and evaluation, helped to improve rural interventions, which had a big impact on poverty reduction. This can be facilitated by having programs and interventions with specific objectives articulated from the outset, and with data collection and monitoring systems in place that allow for real-time monitoring of program implementation and success. Allowing the lessons learned from these evaluations to flow back into program design could help close the loop in terms of improving outcomes.

For example, in Myanmar the poverty incidence is highest in Chin and Rakhine States, both of which are geographically isolated and have extremely low infrastructure bases. In Rakhine State, poverty is high across its entire population. This is compounded by conflict and displacement and by restrictions on movement and trade. These issues, along with a lack of services, infrastructure, and investment, constrain the state's economic potential. The experience of other countries in the region shows that targeted and tailored policy mixes are likely needed in order to reduce poverty among those who live in remote, infrastructure-poor environments or who face social marginalization and exclusion from markets and services. Certain social groups also face exclusion from markets and services, either because of the policy environment or because

of language, social norms, discrimination, and other constraints. It is important know more about these populations and how to support them in a targeted and focused manner.

**Urban and rural reforms are complementary:** Whilst beyond the scope of this Policy Note series, it is important to highlight the complementarity between urban and rural reforms. Myanmar's cities and towns have the potential to act as growth poles and are attracting migrants in search improved livelihoods. Rural-urban migration has been an important driver of poverty reduction in many other countries and is increasingly important as an income source for rural households in Myanmar. Ensuring that rural-urban migration benefit poor people would likely require a focus on urban planning and inclusive services, skills training, and remittances. International experience suggests that migrants often move to the poorer areas of cities, including to informal settlements, and may lack the household documents they need to gain access to key services, such as education for their children. Early investment in urban planning, particularly in health, education, and housing and spatial development, could help cities and towns to prepare to accommodate these rapidly growing populations.



The table below proposes short-term (within 1 year) and long-term (within 3-5 years) policy options for the next five years (2016-2020) to help deliver on the above objectives, namely: (i) boosting agriculture productivity; (ii) increasing access to essential services; and (iii) generating knowledge and systems for targeting resources.

OBJECTIVES	SHORT-TERM OPTIONS	LONG-TERM OPTIONS
<p><b>Boosting agricultural productivity</b></p>	<p>Support the availability and adoption of modern farm technologies by reviewing the budget for seed and agricultural extension programs through analysis of existing public expenditure in agriculture, and improving irrigation infrastructure's management, broadening the coverage to a wide variety of crops to promote diversification.</p> <p>Promote private sector investments by removing the remaining restrictions for foreign direct investments in rice milling industry, and legal and regulatory obstacles to enhance the role of the private sector in providing seed, fertilizer and crop protection products.</p>	<p>Implement strategic land reform by identifying actions to improve land tenure security and implement the forthcoming land policy law.</p>
<p><b>Increasing access to essential services</b></p>	<p>Place communities at the center of local development by building on the 2012 presidential directive to standardize village development planning to allow aggregation at the township level.</p> <p>Adopt a fiscal decentralization strategy that enables townships to implement local development plans either through direct State/Region interventions, or financing (own source revenue and fiscal transfers) that matches their spending assignments.<sup>9</sup></p>	<p>Review capital spending priorities to promote infrastructure investment that helps to go the last mile to link people to markets, and to link markets to each other across the country.</p>
<p><b>Building the evidence base to allocate resources according to needs and improve service delivery</b></p>	<p>Conduct updated living conditions surveys to identify the poor, and design systems to allow improved targeting of public resources according to needs.</p>	<p>Integrate a practice of regular monitoring and evaluation in rural development programs to allow for course correction to program design and to assess whether development goals are being met. This can be done using existing data collection systems.</p>

<sup>9</sup> Please see Policy Note on "Participating in change: Public sector accountability to all."



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