

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

November 16, 2016  
Report No: 110864

<b>Operation Name</b>	First Stability, Resilience, and Services DPO
<b>Region</b>	East Asia and the Pacific
<b>Country</b>	Myanmar
<b>Sector</b>	
<b>Operation ID</b>	P152734
<b>Lending Instrument</b>	Development Policy Operation
<b>Borrower(s)</b>	The Republic of the Union of Myanmar
<b>Implementing Agency</b>	Ministry of Planning and Finance
<b>Date PID Prepared</b>	November 16, 2016
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<b>Estimated Date of Board Approval</b>	February 2016
<b>Decision Review Decision</b>	

**I. Key development issues and rationale for Bank involvement**

1. In November, 2015, Myanmar voted in national elections, which delivered a landslide victory for the National League for Democracy led by Daw Aung San Suu Kyi. The new administration took office in April 2016 and taken steps to take forward national reconciliation and peace. It has set out its economic policy priorities, including strong public finances, financial sector stability, promotion of private enterprise, and job creation. These have prompted lifting of all remaining US sanctions on trade, investment and financial flows linked to Myanmar.

2. Living conditions have improved between 2009-10 and 2015, though poverty levels remain high. Household surveys indicate average expenditure growth of 3.5 percent, a 39 percent decline in poverty rates, higher ownership of various durable goods, and a substantial increase in household dietary diversity. The potential for poverty reduction in Myanmar remains very high – one in ten is food poor, a third of the population are poor, and a further one in six households is vulnerable to poverty.

3. As a rapidly opening economy, Myanmar faces new challenges to sustaining macroeconomic stability. Economic growth in 2015/16 whilst strong, eased to 7.3 percent from 8 percent in 2014/15 amid a supply shock from heavy flooding, a slowdown in investment, and a more challenging external environment including lower commodity prices affecting Myanmar's main exports. Growth is expected to ease further to an estimated 6.5 percent in 2016/17. External shocks have contributed to rising inflation, and growing external and fiscal deficits.

4. These developments pose new policy and institutional challenges to sustaining macroeconomic stability and delivering public services. These include public debt management,

price stability, financial sector stability, revenue mobilization, State Economic Enterprises, Public Finance Management and the financial viability of the power sector.

5. To help address the above challenges, the SRS DPO would provide concessional budgetary financing and a platform to support the government's efforts to coordinate high priority policy reforms across key economic agencies in the government. The SRS DPO proposes to support efforts to address the twin challenges of sustaining macroeconomic stability (pillar 1) whilst strengthening economic resilience (pillar 2). These are critical for ensuring sufficient fiscal space for essential public services. To ensure that the fiscal space is used in an effective and efficient manner, the SRS DPO proposes to support reforms to improve the implementation and quality of public services (pillar 3).

## II. Proposed objectives

6. To address the above development challenges, the SRS DPO supports Government of Myanmar led reforms to sustain economic stability with improved public services. This objective will be pursued through reforms under 3 pillars: (i) sustained macroeconomic stability (improved public debt management price stability, financial sector stability); (ii) enhanced economic resilience (enhanced revenue mobilization, prudent gas revenue management, State Economic Enterprises' fiscal discipline); and (iii) improved public service delivery (effective Public Finance Management, policy-based budgeting, financial viability of the power sector).

## III. Preliminary description

7. The SRS DPO proposes a set of coordinated policy actions targeted at achieving the Program Development Objective of **sustained economic stability with improved public services**. The DPO aims to: (i) provide concessional financing to support the government's long-term investments and its move away monetization of the budget deficit; (ii) coordinate priority reforms across key economic agencies in government, namely the Ministry of Planning and Finance, the Central Bank of Myanmar and the Ministry of Electricity and Energy; (iii) establish a strong platform for the coordination, communication, predictability and stability of priority economic policy reforms; and (iv) establish a regular process for economic policy dialogue between the government, the World Bank, and other Development Partners.

8. The Program Development Objective will be pursued through policy reforms under three pillars:

- a. **Sustained macroeconomic stability:** Increased economic openness are posing policy and institutional challenges for macroeconomic stability in Myanmar as demand pressures begin to outstrip supply capacity. The SRS DPO supports reforms to sustain macroeconomic stability as this is particularly critical for near term investment, job creation and poverty reduction for a country at Myanmar's stage of development.
- b. **Enhanced economic resilience:** Myanmar's relatively limited fiscal capacity and level of gas sector receipts impact on its ability to manage its increased exposure to external shocks. To complement stability measures, the SRS DPO supports reforms to enhance economic resilience to manage those shocks and protect priority spending on public services.

- c. **Improved public service delivery:** Myanmar has seen a ramping up of public spending on critical services over the past 5 years. There are significant ongoing needs on the one hand and tightening fiscal space on the other. To help effectively manage these competing pressures, the SRS DPO supports reforms to accelerate implementation whilst improving efficiency of public spending.

9. The three pillars are interrelated, as are the actions within them. Policy actions under pillars 1 and 2 are critical for ensuring that the government can create and maintain fiscal space for public services. Policy actions under pillar 3 aim to promote effective and efficient use of that fiscal space.

10. Within pillar 1, improved public debt management is expected to diversify fiscal deficit financing, which is linked to price stability actions that aim to eliminate dependence on Central Bank monetization. Financial sector stability that help mitigate financial sector risks is expected to further contribute to price and macroeconomic stability. Within pillar 2, enhancing domestic revenue is expected to enhance fiscal stability for service delivery. This is directly related to managing the impact of gas revenue volatility on government spending, and on the expenditure side, reducing the fiscal burden of SEEs. Within pillar 3, actions under effective PFM and policy-based budgeting aim to improve the planning, implementation and quality of public services. Energy services are among the most heavily subsidized in the budget, and constitute one of the biggest constraints to service delivery.

#### **IV. Poverty and social impacts and environment aspects**

11. Economic stability, resilience and public services are essential for businesses and households to make informed economic plans and protect poor households from economic shocks. Poor households, particularly those in urban areas, have limited absorptive capacity to mitigate food price inflation or to manage unanticipated changes to output prices. Poorer households faced with economic difficulties report cutting back on the quantity and quality of food that they consume, and also take actions that reduce their longer term ability to bounce back. Households remain highly susceptible to shocks, particularly to climatic variation that influences production in agriculture, health shocks and to overall price and macroeconomic stability.

12. The prior actions for SRS-1 DPO could overall have a beneficial impact on poor or vulnerable people through reduction in price pressures. They are also expected to have a positive impact on the poor over the medium and longer term by improving and extending public services, and providing a more stable macroeconomic environment to enable longer term planning. The reforms supported in SRS-1 DPO seek to mitigate risks to economic stability while also expanding fiscal space and improving public service delivery.

13. This proposed DPO series operation is not likely to have significant negative effects on environment, natural resources, and forestry. However, there are three policy areas that may have an environmental impact. These are: (i) supporting prudent gas revenue management; (ii) promoting fiscal discipline in managing State Economic Enterprises; and (iii) measures aimed ensuring financial viability of the power sector.

14. Policy actions under DPO-1 are expected to have positive impact on environmental aspects. DPO-1 actions are focused on bringing gas revenues on-budget, having a policy for SEEs to reduce reliance on budgetary financing, and establishing electricity regulatory body to progressively develop a pricing policy to ensure financial viability of the power sectors. As such these policy actions are envisaged to improve transparency in gas revenues, reduce financial inefficiencies in SEE, and establish institutional mechanisms for coordination around electricity tariff setting.

#### **V. Tentative financing**

International Development Association	US\$ 200 million
Total	US\$ 200 million

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