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INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY**

COUNTRY PARTNERSHIP FRAMEWORK

FOR

MYANMAR

FOR THE PERIOD FY15-17

31 March 2015

**Myanmar Country Office
Southeast Asia Country Management Unit
East Asia Pacific**

**The International Finance Corporation
Asia Pacific**

The Multilateral Investment Guarantee Agency

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	IDA	IFC	MIGA
Vice President:	Axel van Trotsenburg	Karin Finkelston	Keiko Honda
Director:	Ulrich Zachau	Vivek Pathak	Ravi Vish
Task Team Leader:	Nikolas Myint	Catherine Martin and Vikram Kumar	Paul Barbour

LIST OF ACRONYMS

ADB	Asian Development Bank
ASEAN	Association of Southeast Asian Nations
CBM	Central Bank of Myanmar
CESR	Comprehensive Education Sector Review
CPF	Country Partnership Framework
CSO	Civil Society Organization
DSA	Debt Sustainability Analysis
DTIS	Diagnostic Trade Integration Study
EITI	Extractive Industries Transparency Initiative
ESIA	Environmental and Social Impact Assessment
FDI	Foreign Direct Investment
FESR	Framework for Economic and Social Reform
GSP	Generalized System of Preferences
ICA	Investment Climate Assessment
ICT	Information and Communications Technology
IDP	Internally Displaced People
IHLCA	Integrated Household Living Conditions Assessment
INGO	International Non-Governmental Organizations
JICA	Japan International Cooperation Agency
KIO	Kachin Independence Organization
KNU	Karen National Union
MADB	Myanmar Agricultural Development Bank
MDRI	Myanmar Development Resource Institute
MEB	Myanmar Economic Bank
MFI	Micro Finance Institution
MPLCS	Myanmar Poverty and Living Conditions Survey
MPT	Myanmar Posts and Telecommunications
MSME	Micro Small Medium Enterprise
NGO	Non-Governmental Organization
NSDS	National Strategy for the Development of Statistics
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Public-Private Partnership
QSEM	Qualitative Social and Economic Monitoring
SCD	Systematic Country Diagnostic
SEE	State Economic Enterprise
SEZ	Special Economic Zone
SME	Small and Medium Enterprise
SMP	Staff Monitored Program
SOE	State Owned Enterprise
SWG	Sector Working Group

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FY15-17 Country Partnership Framework for Myanmar

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EXECUTIVE SUMMARY

Context: Supporting a Historic Transition

1. The proposed Country Partnership Framework (CPF) will succeed the Myanmar Interim Strategy Note (FY13-14) and be the first full country strategy for Myanmar since 1984. This CPF comes at a time of great opportunity for Myanmar; over the three year period covered in this CPF, the reforms initiated in 2011 have the potential to bring Myanmar into a new era of peace and prosperity.

2. Myanmar's history, ethnic diversity, and geography combine into a unique set of development challenges and opportunities, including (i) emergence from a long period of international isolation; (ii) widespread poverty, despite rich land, water, and mineral resource endowments; (iii) a strategic location in the fastest-growing region in the world; (iv) the role of the military and associated groups in the economy; and (v) long standing armed conflict and ethnic and religious tensions. Myanmar is on a path of fundamental transformation, seeking to address all these challenges and opportunities simultaneously.

3. Despite its potential, Myanmar today is one of the least developed countries in Southeast Asia, with a legacy of conflict, isolation, and ineffective policies. With a population of 51.4 million, the country has a per capita GDP of US\$1,105. The poverty rate in 2010 was estimated at between 25.6 and 37.5 percent, with the lower rate reflecting the Government's methodology—which showed a 20 percent decline since 2005—and the higher rate reflecting a more broad based methodology used by the World Bank.¹ Poverty in Myanmar is largely a rural phenomenon, with at least 70 percent of the country's poor living in rural areas. Through this CPF the World Bank Group (WBG) will scale up its engagement with Myanmar to support two critical transformations underway: towards openness and integration, and empowerment and inclusion. Together, these two socioeconomic shifts offer a historic opportunity and hold the key to reducing extreme poverty and boosting shared prosperity in Myanmar.

4. Beginning in 2011, Myanmar launched major political and economic reforms aimed at increasing openness, empowerment, and inclusion. The past years have seen a dramatic increase of political and civil liberties and a significant reduction in armed conflict, although conflict continues in Kachin and northern Shan States. At the same time, new tensions and challenges have emerged, including outbreaks of unrest affecting the country's Muslim minorities and particularly those who identify themselves as Rohingya in Rakhine State. Parliamentary elections are scheduled for late 2015, and the coming years offer opportunities to deepen reforms further.

¹ The share of the population considered to be poor includes those who are unable to meet their basic needs. The poverty rate reflects the definition of basic needs used, and there are multiple ways of defining an acceptable standard of living. In 2011, a group of international technical experts and advisors, working closely with the Government of Myanmar and international organizations, estimated absolute poverty in Myanmar to have stood at 25.6 percent in 2009/10. In 2014, the World Bank estimated the poverty rate in 2010 at 37.5 percent. This higher estimate is based on a broader welfare aggregate that includes spending on health care and the use value of assets, and on alternative assumptions on adult equivalence scales and spatial price deflators. No trend data are available for this methodology. A nationwide household survey is being conducted to update both of these poverty estimates, working in collaboration with the Government.

5. Myanmar has also begun removing constraints on commerce, trade, and private enterprise that long held back the economy. Economic reforms have included the unification of the exchange rate, removal of a host of import and export restrictions, new legislation that provides greater autonomy for the central bank, and increased transparency including publication of the Government budget. Overall macroeconomic performance has strengthened, with growth at 8.3 percent in 2013 and estimated around 8.5 percent in 2014 (up from an average of 5.1 percent between 2005 and 2010), inflation down to 5.7 percent in 2013/14 (from 22 percent in 2008/09), and external debt down to 19.2 percent of GDP in 2013/14 (from 37.7 percent in 2008/09). However, major obstacles remain, including an underdeveloped financial sector, infrastructure gaps and limited capacities to manage shocks.

Proposed WBG Program: Pathways for Poverty Reduction

6. The CPF outlines how WBG global knowledge, financing, and convening services can support Myanmar and its people in transforming their country, reducing extreme poverty and boosting shared prosperity.

7. This CPF draws on the findings of the recent Systematic Country Diagnostic (SCD) carried out by the WBG, lessons learned since the WBG re-engagement in Myanmar in 2012, and extensive consultations with a wide range of stakeholders conducted in 2014.

8. With Myanmar's poverty rate estimated to have been between 25.6 and 37.5 percent in 2010, the group of poor overlaps significantly with the bottom 40 percent of the consumption distribution. The SCD identified two main pathways out of extreme poverty. The first is promoting sustainable private sector-led growth for more jobs. The second entails promoting universal access and empowerment for inclusive growth, particularly in rural areas.

9. Starting from the development priorities identified in the SCD, the CPF uses three selectivity criteria to identify a CPF program of activities for WBG engagement. The three selectivity criteria are: comparative advantage; impact on achieving the twin goals of absolute poverty reduction and shared prosperity; and the risk-reward ratio. The resulting CPF program for the WBG is focused in three areas: reducing rural poverty; investing in people and effective institutions for people; and supporting a dynamic private sector to create jobs. Activities in these focus areas will integrate four cross-cutting issues that are important for the achievement of the WBG twin goals: gender, conflict, governance and climate change/disaster risk.

- ***Reducing rural poverty.*** At least 70 percent of Myanmar's poor live in rural areas, reducing poverty and boosting shared prosperity will entail increasing access to essential services, economic opportunities and markets. The WBG expects to provide support to help increase agricultural incomes and productivity, rural electrification, community-driven investments in local infrastructure and services, improve Ayeyarwaddy River navigation and flood control, and reduce vulnerability to shocks.
- ***Investing in people and effective institutions for people.*** Successful empowerment and inclusion will depend on citizens who are able to make a better future for themselves and on transparent institutions that allow people to do so. The WBG expects to provide targeted support to help Myanmar approach universal access to and improve the quality of essential

social services, especially health and education and, over time, skills development to empower people to participate in a growing economy. The WBG also expects to provide support for state institutions to deliver services effectively, including at the local level. This support is expected to contribute to improved governance in selected sectors as well as more broadly for the citizens of Myanmar.

- ***Supporting a dynamic private sector to create jobs.*** Reducing poverty and boosting shared prosperity will entail diversification beyond extractive-based industries to inclusive growth that creates jobs. Increased openness and integration will result in higher growth as labor reallocates to more productive sectors and trade drives innovation and productivity. The WBG will seek to foster inclusive growth and a vibrant private sector that will create jobs through investments and support for markets, trade and modern financial institutions.

Implementation: Resources and Partnerships, Risks and Opportunities

10. This CPF covers a period of three years, coinciding with the IDA 17 period. It will include a performance and learning review, planned for late FY16, to allow for mid-course adjustments based on changes in country context, a review of lessons learned, and the availability of new data (including a nationally representative household survey). Should the performance and learning review indicate continuity in Myanmar's development priorities outlined in the CPF, the WBG may at that time decide to extend the CPF.

11. Myanmar's provisional IDA 17 allocation is US\$1.6 billion. The CPF identifies an indicative program based on this amount, with frontloading. In addition, IFC expects to provide up to US\$1 billion in investments over the CPF period and US\$20 million in technical assistance. MIGA will provide insurance against political risks based on demand by private investors.

12. The Government has taken the lead in donor coordination, establishing a set of sector working groups bringing together development partners in Myanmar. The World Bank Group has developed the CPF within this framework to ensure alignment with Myanmar's development priorities, the Government's reform agenda, and support provided by development partners. As such, the CPF focuses on areas where the WBG can add unique strengths (through knowledge or financing), seeks to create platforms for joint engagements between Government and development partners, and to achieve tangible impact on poverty and shared prosperity, including reducing rural poverty and increasing access to services.

13. Along with unique opportunities, the CPF supported program will also face substantial risks. Political risks associated with the elections in late 2015 include a polarization among stakeholders, policy discontinuity, and a slow-down of reforms. The national peace process to resolve decades-old conflicts remains fragile. On the economic front, risks include vulnerability to volatile oil and gas prices, spending pressures, an underdeveloped financial sector, and a weak regulatory framework, while overall capacity constraints may limit the country's ability to effectively manage macro-financial shocks. The design of the WBG program will help manage and mitigate these risks, and the WBG will regularly review risks and opportunities and adapt the CPF during implementation as warranted. A Performance and Learning Review planned for late FY16 will facilitate the adaptation of the WBG program to country developments as needed.

I. INTRODUCTION

14. The proposed Country Partnership Framework (CPF) will succeed the Myanmar Interim Strategy Note (FY13-14) and will be the first full country partnership framework for Myanmar since 1984². This CPF comes at a time of great opportunity for Myanmar: over the three-year period covered in this CPF, the reforms begun in 2011 have the potential to bear fruit in bringing Myanmar into a new era of peace, prosperity and stronger participation internally and on the international stage. This CPF aims to outline how the full range of resources of the World Bank Group can help the country and its people in this transition and in achieving sustainable poverty reduction and shared prosperity. In doing so, the CPF draws on the findings of the recent Systematic Country Diagnostic carried out by the World Bank Group, lessons learned from implementation since the beginning of WBG re-engagement in 2012, and extensive consultations with a wide range of stakeholders conducted in 2014.

15. Myanmar’s history, ethnic diversity, and geography combine into a unique set of development challenges and opportunities: (i) emergence from a long period of international isolation; (ii) widespread poverty, despite rich land, water, and mineral resource endowments; (iii) a strategic location in the fastest-growing region in the world, with prospects for rapid economic growth and “catch-up” improvements in the lives of people; (iv) the role of the military and associated groups in the economy, and (v) long standing armed conflict and ethnic and religious tensions. Moreover, Myanmar is on a path of fundamental transformation, seeking to address all these challenges and opportunities simultaneously.

16. Through this CPF the WBG will accelerate and scale up engagement with Myanmar to support two critical transformations underway: towards openness and integration, and toward empowerment and inclusion. Together, these two socio-economic shifts offer a historic opportunity and hold the key to reduce poverty and boost shared prosperity in Myanmar.³ In an environment of limited absorptive capacity and complex risks, selectivity is critical in shaping a rapidly growing WBG program of support. Among many important priorities, the CPF aims to focus the WBG program on core areas for reducing extreme poverty and boosting shared prosperity.

17. Beginning in 2011, Myanmar launched fundamental political and economic reforms aimed at increasing openness, empowerment, and inclusion. The past years have seen a dramatic increase of political and civil liberties and a significant reduction in armed conflict. At the same time, new tensions and challenges have emerged, including outbreaks of violence. Such tensions and unrest have affected primarily the country’s Muslim minorities, particularly those who identify themselves as Rohingya in Rakhine State, or have been related to ongoing armed conflict, including in Kachin State and northern Shan State. Despite such setbacks, the coming

² Country Program Paper, Burma, 28 June 1984.

³ The term “triple transition” was used to describe the changes in Myanmar since a new administration took office in 2011: from a military system to democratic governance; from a centrally-directed, closed economy to a market-oriented one; and from 60 years of conflict to peace in the border areas. The SCD focuses on the “dual shift” toward opening and integration, and toward inclusion and empowerment, to highlight the socio-economic changes associated with the triple transition.

years offer opportunities to further deepen the reforms, including in the 2015 parliamentary elections.

18. The success of Myanmar’s reforms will depend on the extent of progress with inclusion and integration, so all of Myanmar’s people benefit. The key challenge will be to ensure that the political, economic and peacemaking transformation gives voice to the whole population, benefits the country’s most needy and vulnerable, and develops the non-state sector to support broad-based economic growth.

19. In supporting Myanmar’s unique transformation, the World Bank Group will leverage the combined knowledge and financing resources of IDA, IFC and MIGA. In doing so, this CPF is grounded in a vision of development as supporting the dual transformation to openness and integration, and to empowerment and inclusion. In this vision, development builds knowledge and empowers people, in particular the poor, by increasing access to opportunities. The CPF sets out a planned program of activities to achieve these goals to reduce poverty and boost shared prosperity. It does so with a commitment to bring the best WBG global knowledge and adapt it to the Myanmar context, yet in humility at the scale of the transition underway.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

20. Despite its potential, Myanmar is one of the least developed countries in Southeast Asia, a legacy of conflict, isolation, and ineffective economic policies. In 2013/14, the country’s GDP was US\$56.8 billion. With a population of 51.4 million, the country had a per capita GDP of US\$1,105 compared to US\$5,779 in Thailand and US\$1,911 in Vietnam. The poverty rate in 2010 was estimated at between 25.6 and 37.5 percent, with the lower rate reflecting the Government’s methodology—which showed a 20 percent decline since 2005—and the higher rate reflecting a more broad based methodology used by the World Bank.⁴ The Government’s estimated poverty headcount rate in 2010 represented a reduction from 32 percent in 2005 (the higher end of the range reflects recalculated 2010 data not available for 2005).

2.1 Social and Political Context

21. The unfolding shift from state control and exclusion to empowerment and inclusion is perhaps most evident in the political realm, where reforms have expanded political space in Myanmar, at both the individual and institutional level. Following the National League of Democracy’s (NLD) decision to participate in the 2012 parliamentary by-election, the NLD and

⁴ The share of the population considered to be poor includes those who are unable to meet their basic needs. The poverty rate reflects the definition of basic needs used, and there are multiple ways of defining an acceptable standard of living. In 2011, a group of international technical experts and advisors, working closely with the Government of Myanmar and international organizations, estimated absolute poverty in Myanmar to have stood at 25.6 percent in 2009/10. In 2014, the World Bank estimated the poverty rate in 2010 at 37.5 percent. This higher estimate is based on a broader welfare aggregate that includes spending on health care and the use value of assets, and on alternative assumptions on adult equivalence scales and spatial price deflators. No trend data are available for this methodology. A nationwide household survey is being conducted to update both of these poverty estimates, working in collaboration with the Government.

other opposition parties continued to open new offices, recruit members, and revive their internal structures following decades of being prohibited from legal operations.

22. In parallel, the Government introduced media freedoms and transparency after decades of censorship. Beginning in December 2012, the Government has issued licenses for 26 new daily newspapers, along with over 200 weekly news journals. The Government also continued the practice of publishing the budget as well as parliamentary debates, the President instituted monthly radio addresses to the nation, and state owned media began a transition to public service media, including more critical reporting on Government policies and political, economic and social challenges in the country. While there is opportunity for further progress in this realm (given recent instances of Government restrictions of the press), the past years have seen a fundamental transformation of public information in Myanmar.

23. Increased freedoms and better access to information have facilitated greater citizen engagement. Access to information has improved both due to increases in media freedoms and largely unfettered access to social media sites as well as liberalization for example in the telecoms sector, with prices of SIM cards falling from US\$250 in 2012 to US\$1.5 by 2015. The mix of increased availability of information and better means of communication has facilitated public action, including public protests over infrastructure projects, displacement from land, and proposed legislation. These debates have in turn influenced discussions in Parliament and Government decision-making. While incomplete, this initial opening marks the beginning of new feedback loops between citizens and the country's political institutions. This progress is ongoing and uneven, with continued reported shortcomings in the effective functioning of an independent judiciary and the consistent application of the rule of law.⁵

24. The Government is pursuing efforts to bring an end to the multiple conflicts in ethnic areas. Talks between Government and ethnic armed groups to bring about a national ceasefire ahead of a political dialogue are continuing, with the Government signaling a willingness to consider decentralization and devolution to accommodate some of the long-standing grievances voiced by ethnic armed groups. Following the signing or renewal of a series of ceasefires, the Government and ethnic armed groups made progress in their peace talks through a number of leadership meetings starting in late 2013. A number of ethnic armed groups joined the Government in signing a February 2015 "Deed of Commitment" which reiterated the commitment of the signing parties to find a political solution to the conflict, and in late March 2015 representatives of Government and ethnic armed groups appeared to have reached tentative agreement on a national ceasefire agreement that would pave the way for political dialogue. However, the intensification of the conflict with the Kachin Independence Organization (KIO) in 2014, with armed clashes in both Kachin and parts of northern Shan State that displaced over 5,000 people, as well as renewed conflict in the Kokang region of Shan State in early 2015 underlined the continued fragility of the peace process and the importance of a successful resolution to establish peace and security across the country.⁶

⁵ Report of the Special Rapporteur on the Situation of Human Rights in Myanmar, UNOHCHR, April 2014

⁶ As of September 2014, UNHCR estimated that there were 97,000 internally displaced persons in Kachin State in total. UNHCR Fact Sheet, September 2014. <http://www.unhcr.org/50001cf99.html>

25. While peacemaking in the Myanmar context has long been focused on the armed conflicts with ethnic minority groups, the recent opening of political space has brought to the fore other potential fault lines and areas of conflict. This most notably includes recurrent incidents of communal violence over the past two years, where finding sustainable solutions is important not only to address violent conflict and citizen security, but also to address broader issues of social inclusion.

26. Establishing peace and security across the country will involve finding a sustainable solution to address the exclusion of the Muslim minority that identifies itself as Rohingya in Rakhine State. The Government considers members of this Muslim minority to be illegal migrants from neighboring Bangladesh and does not recognize them as an ethnic group. Following outbreaks of violence directed against this minority in the summer of 2012 that killed 89 people and displaced over 110,000, the Government established temporary camps where most of the displaced continue to live today.⁷ Subsequent violence took place against Muslim minorities in Rakhine in 2013 and 2014, which spilled over into broader anti-Muslim violence in other parts of Myanmar in 2013 and evolved into widespread protests against international aid workers in Rakhine in 2014, demonstrating that the issue remains far from resolved.⁸

27. While members of various Muslim minorities were affected by the violence and unrest in Rakhine State and elsewhere, those who identify themselves as Rohingya additionally face the particular challenge of lacking citizenship. Finding a way forward on this issue presents a major challenge for Myanmar, and at the same time an opportunity to help define a broader national identity that is more inclusive of other minorities in Myanmar, including minorities identified through ethnicity, religion or sexual orientation, all of which have suffered varying degrees of discrimination.

28. Myanmar's fundamental reforms and ongoing historic transformations are complex processes. Key events over the coming years will test cohesiveness of support for the transformation and its durability. The national parliamentary elections in 2015 present a watershed moment for Myanmar's reform efforts. Yet they also present risks, both in the potential for tensions in the run up to the elections, and a politicization of sensitive issues, and in testing the fragile political compromises that have held over the past three years. One unresolved question is the eligibility of the leader of the opposition for high office.

2.2 Economic Context

29. Since the beginning of Myanmar's transition in 2011, significant progress has been made in removing obstacles that long held back the economy. Key reforms include:

- the unification of exchange rates and liberalization of the foreign exchange market;

⁷ *Situation of Human Rights in Myanmar*. Report of the Special Rapporteur on the Situation of Human Rights in Myanmar, UN Office of the High Commissioner for Human Rights. September 2014. See also *Myanmar: The Politics of Rakhine State*. International Crisis Group, October 2014.

⁸ International Crisis Group, Myanmar Crisis Watch, April 2014. < <http://www.crisisgroup.org/en/publication-type/crisiswatch/crisiswatch-database.aspx?CountryIDs=%7b7E12FB4D-6C23-449D-AF08-550AD5FD2F2E%7d#results>>

- removal of various restrictions on imports and exports;
- promulgation of new economic laws, including a Foreign Investment Law that offers improved incentives to foreign direct investment;
- a new Central Bank Law that provides for greater autonomy of the Central Bank;
- greater transparency in public financial management, including publication of the budget and adoption of an “open tender” system for public procurement;
- improvements in public financial management, including moves towards fiscal decentralization;
- increased budgetary allocations to health and education, as well as the introduction of new poverty reduction funds;
- opening of the banking sector to foreign banks;
- licensing for two new telecom operators to drive down communication costs, in a process lauded for its transparency; and
- successful implementation of an IMF supported Staff Monitored Program, and publication of World Bank and IMF mission reports.⁹

30. In part as a result of these reforms, the economy has started to bounce back, with the estimated growth rate increasing from 5.3 percent in 2010/11 to 7.3 percent in 2012/13. Growth in 2013/14 is estimated to have risen further to 8.3 percent, driven by a construction-related boom, continued rebound in manufacturing output, and the resulting expansion in the services sector. Myanmar’s gas sector has also been a key source of revenues and growth, with natural gas exports accounting for around 7.4 percent of GDP in FY2013/14. Inflation has stabilized but remains moderately high, with inflationary pressures starting to rise in the second half of 2014 (6.1 percent y-o-y in November) due to the depreciation of the Kyat, increases in food prices and utility price hikes.

31. The removal of trade and foreign exchange restrictions, coupled with rapidly rising domestic demand, have contributed to widening trade and current account deficits. Imports nearly doubled from an estimated US\$8.1 billion in 2010/11 to US\$14.9 billion in 2013/14. Exports grew by 50 percent over the same period from US\$8.8 billion to US\$12.2 billion, a third of which was exports of natural gas. The current account deficit in 2013/14 reached around 5.1 percent of GDP, up from an estimated 4.3 percent in 2012/13. Capital account inflows, especially foreign direct investment (FDI) and one-off license fees paid by telecom operators, have been sufficient to finance the growing current account deficit. FDI inflows have been fluctuating in recent years at around 4 to 5 per cent of GDP. The growing current account deficit has put downward pressure on the Kyat, which depreciated in the second half of 2014. Foreign exchange reserves have fallen to under three months of import cover, which is below prudential levels and exposes the country to external vulnerabilities.

32. The government went through a period of fiscal consolidation between 2010/11 and 2013/14, but has more recently adopted an expansionary fiscal policy. The consolidated public sector deficit fell from 5.4 percent of GDP in 2010/11 to 1.6 percent in 2013/14. This was largely due to a sharp increase in revenue from one-off receipts (e.g. telecom licenses) amounting to

⁹ IMF, “Myanmar—IMF Completes Second Review of Staff Monitored Project,” <<http://www.imf.org/external/np/sec/pr/2014/pr14142.htm>>

roughly two percent of GDP and exchange rate liberalization, which led to a more accurate accounting of Kyat denominated receipts from gas exports. The draft 2015/16 budget, however, included measures added by Parliament that envisage a doubling of the public sector wage bill, reaching around 3.5 percent of GDP. The government has taken steps to cut back on capital and goods and services spending, reduced tax exemptions, and reduced subsidies to SEEs. Nonetheless, with elections scheduled for November 2015, there are likely to be continued pressures on the fiscal stance. Such pressures, together with the proposed increase in the wage bill, could contribute to a widening of the fiscal deficit to just over six percent of GDP. Such rapid expenditure growth poses risks to fiscal sustainability.

33. The government has in the last two years targeted increased spending on the social sectors. Although still low by international standards, spending on health increased from 0.2 percent of GDP in 2012 to 1.5 percent in 2013; similarly in education it went up from 0.8 percent to 1.7 percent over the same period. The shares of recurrent expenditures in the health and education sectors in total expenditure have plateaued in the 2014/15 budget. Compared to 2013/14, the approved budget for 2014/15 shows only a slight increase in the recurrent allocation to education, both as a share of GDP and a share of total expenditures – 1.4 percent and 8.4 percent, respectively. For the health sector, the shares have remained flat compared to 2013/14 – 0.6 percent of GDP and 3.7 percent of total expenditure. The government is also pursuing efforts to delegate more fiscal responsibilities to States and Regions in accordance with the Constitution.

34. Growth is expected to remain relatively strong over the medium-term. Assuming continued growth in gas sector, and expansion of services from the gradual liberalization of the telecom and banking sectors, Myanmar could continue growing at around eight percent, like other countries that have successfully transitioned to market economies. Maintaining a competitive exchange rate will be important. Continued progress in developing institutional capacity for exchange rate management with support from the IMF will be important. Moving toward exchange rate flexibility can help ease pressures on the trade balance and reserves. The impact of increased competitiveness and regional integration will depend in part on regional and global growth, with the recent economic slowdown, including in China's growth rate, potentially affecting important markets.

35. However, there are downside risks to sustaining high growth. Continued government spending growth along current trends may raise fiscal sustainability challenges. Although external public debt is still within sustainability thresholds, as noted in the last joint Fund-Bank Debt Sustainability Analysis, overall public debt sustainability is vulnerable to lower real GDP growth and fiscal slippages. This risk is heightened by recent international commodity price developments. Although the effects of these have not yet transmitted through to Myanmar, there is a major risk that natural gas prices on Myanmar exports follow the same trend as oil prices. A sustained downturn in gas prices would adversely impact government revenues and export earnings, and may negatively affect future investments in the oil and gas sectors, and thereby economic growth. Having said this, preliminary indications, based on industry feedback, are that production is likely to increase faster than currently anticipated from fields that have come on stream recently and production sharing contracts entered into in the past year. This increased production could mitigate possible falls in natural gas prices.

36. Agriculture is critical for both inclusive growth and poverty reduction. At least 70 percent of the poor live in rural areas, and agriculture generates over half of employment and 37 percent of GDP. Yet labor productivity in agriculture is the lowest among all sectors, due in part to the low use of mechanized services and modern inputs. Rice is the main agricultural product covering about 60 percent of total cultivated areas, and its yield gap with neighboring countries is large. Closing the yield gap is handicapped by weak irrigation services and overall ineffective agricultural public expenditures, as well as low usage of fertilizer (with an average of only 60kg/Ha, compared to 300 kg/Ha in Thailand and 690 kg/Ha in Vietnam). The majority of rice mills in Myanmar employ antiquated technology, with less than one-fourth of them being capable of producing medium-to-high quality rice. This situation limits the market segments which Myanmar can supply abroad, leads to relatively low unit values for rice exports, and results in low prices paid to farmers. Historical factors—including periodic or sustained bans on rice exports and heavy state enterprise involvement in the trade—inhibited private investment in the sector while policy uncertainties continue to deter some potential investors.

37. Recent steps towards economic openness can support a move towards inclusive growth. A significant portion of industrial activity has been directly or indirectly controlled by the military Government. Since the initial economic opening began in the early 1990s, this included the presence of a small number of firms with close connections to the military that benefitted from business contracts and other economic opportunities. Since 2011, the Government has undertaken a number of measures to open the economic space to a broader range of private sector actors and to reduce corruption, including the formation in January 2013 of an Anti-Corruption Committee and the enactment of an Anti-Corruption Law in July 2013. However, significant gaps remain, including in the consistent application of the rule of law, and Myanmar continues to rank low on the Corruption Perceptions Index, at 156 out of 174 in 2014 (although its rank has improved from 172 out of 174 in 2012). Similarly, in the 2014 Investment Climate Assessment conducted by the WBG, the proportion of firms reporting the giving of informal gifts or making payments one of the highest in the region.

38. Going forward, sustainable management of its natural resources will be critical for Myanmar's future economic development. This includes the transparent use of revenues from natural resources and environmentally sustainable practices, including reducing impacts on land degradation from mining, forestry, and oil and gas extraction. Myanmar's abundant natural resources account for the majority of export earnings, mostly from sales of gas. Total reported exports from extractive industries – till 2014 mostly from natural gas and gemstones – amount to around US\$10 billion. Myanmar is the world's largest producer of jade and extracts significant quantities of other gems and minerals. Improved governance, particularly addressing under-reporting, undeclared exports, and ineffective taxation, particularly in the jade and gemstone sectors, could generate significant revenues for the state.¹⁰ Lack of transparency not only deprives Myanmar of revenues and further constrains public sector management capacity, but threatens the longer term prospects of these sectors.¹¹ The Government of Myanmar has demonstrated interest in addressing these issues through, for example, passage of an environmental conservation law and

¹⁰ *Choosing Survival: Finding a Way to Overcome Current Economic and Political Quagmires in Myanmar.* Harvard University, Kennedy School, Ash Center for Democratic Governance and Innovation, February 2014

¹¹ International Growth Centre, "Natural Resources and Subnational Governance in Myanmar," Subnational Governance in Myanmar Discussion Series, June 2014.

accession to the Extractive Industries Transparency Initiative. Developing the economy will need to take account of sustainable environmental management practices and strengthening governance of the natural resources which drive the country's economy and on which the livelihoods of Myanmar people depend. This includes measures to smooth government expenditure over commodity price cycles, which are key to help ensure fiscal sustainability and reduce the risks of Dutch Disease discussed above.

39. Higher productivity and job growth, including in manufacturing, can drive poverty reduction and shared prosperity. While growth has accelerated since the transition began, the economy remains centered on extractive industries (which has a more limited impact on job creation) and agriculture, with the latter accounting for 37 percent of GDP, the highest among the countries in the region. In contrast, the contribution of more labor-intensive sectors such as manufacturing and services has been low. However, analyses suggest that by 2030 Myanmar's manufacturing sector has the potential to become the economy's largest, overtaking agriculture, energy and mining, and creating large numbers of jobs.¹² Promoting this shift will require addressing hurdles facing the private sector: the *Doing Business* report in 2015 ranked Myanmar 177 out of 189 countries.¹³ Specific challenges include poor physical infrastructure, corruption, outdated regulation, limited access to inputs, including finance, land and a shortage of skilled labor.

40. Among the obstacles facing the private sector, access to finance is a critical constraint for micro, small and medium enterprises. The Government has encouraged a modernization of the financial sector, with significant progress in the past three years. This includes the licensing of more than 200 micro-finance institutions; a rapid growth in bank deposits (from 2012 to 2013 the share of deposits to GDP doubled); rapid growth in bank lending (increasing to 12 percent of GDP in 2013, up from three percent in 2006); and exponential growth in the number of bank branches, ATMs and other financial infrastructure. In addition, the Government has granted licenses to nine foreign banks in early October 2014. Despite this significant progress, the needs in the financial sector to support a vibrant and diverse private sector remain significant: Myanmar remains an economy in which less than half of SMEs have a banking account – lower than in any comparator country.

41. Both policy reform and foreign direct investment (FDI) can play an important role in supporting inclusive growth. In this context, a recent shift in foreign direct investment from extractives to the manufacturing and services sector signals the potential for FDI to support economic transformation in Myanmar. In 2013, 45 percent of newly approved FDI in Myanmar was in the manufacturing sector, up from 28 percent in 2012. At the same time, new FDI in natural resource extraction fell to 2 percent, down from 49 percent in 2012.¹⁴ Going forward, attracting and deploying investment in light manufacturing and other sectors with significant employment generation potential can play an important role in supporting inclusive growth in Myanmar. In this context, tourism can play an important role: in 2014, over three million tourists visited Myanmar, up from approximately two million visitors in 2013 and around 800,000 in 2011, with tourism-related income increasing to US\$3 billion in 2014, up from under US\$1 billion in 2013.

¹² *Myanmar's Moment: Unique Opportunities, Major Challenges*. McKinsey Global Institute, 2014.

¹³ *Doing Business 2015: Going Beyond Efficiency*. World Bank Group, Washington, D.C.

¹⁴ FDI data from the Myanmar Investment Commission.

42. Regional integration, including in the context of ASEAN, can also promote inclusive growth. Following 50 years of isolation, Myanmar faces very limited integration into regional and global markets. As such, the establishment of the ASEAN Economic Community in 2015 could be a major driver of growth for Myanmar. Beyond the region, economic sanctions have started to be dismantled with key western markets, opening up additional opportunities. The US suspended most sanctions in May 2012 with imports of most goods from Myanmar now authorized and restrictions on banks eased. In May 2013, the US signed a Trade and Investment Framework Agreement aimed at boosting trade, and recently announced its intention to grant Myanmar access to the preferential tariff system of the “Generalized System of Preferences” (GSP). In addition, the EU lifted its sanctions in April 2013 and in July 2013 admitted Myanmar to its Everything But Arms (EBA) scheme, granting zero duties to all goods (besides arms and ammunition) originating from the country. These market access openings present important opportunities for Myanmar to diversify its exports and integrate into global value chains.

2.3 Governance Profile

43. Governance is a key cross-cutting development challenge for Myanmar. Previous governments emphasized stability and economic self-reliance and favored the centralization of authority in a small elite group backed by the military at the expense of building an accountable, transparent and effective public sector. This legacy can be seen in widespread distortions in both the public and private sectors, and in severely limited mechanisms to design, implement and monitor socio-economic development policies. Despite recent work by the Government, the WBG, development partners, and civil society organizations, major gaps remain in the understanding of Myanmar’s governance challenges. Good corporate governance is also key to helping private sector companies gain investor confidence, improve access to capital, and become more sustainable. Yet the current level of governance standards in most firms in Myanmar remains very low. The existing regulatory regime includes only very basic provisions for corporate governance in companies and banks, coupled with low levels of enforcement for those requirements that do exist. In addition, the Myanmar private sector includes a number of state-owned companies, with nascent governance structures, outdated management processes, and low levels of transparency. Finally, audits often include only perfunctory attestations of company financial reports.

44. The current Government has expressed its strong commitment to creating a more effective and transparent state. From the start of Myanmar’s transition, the Government has made efforts to proceed in a transparent fashion, including by signing on to international transparency initiatives such as the Open Government Partnership and the Extractive Industries Transparency Initiative, and by establishing new organizations to monitor and oversee official behavior, such as the Anti-Corruption Commission and the Rule of Law Commission in Parliament. In addition, the Government has begun to clarify the functions of state institutions and to develop the capacity of agencies to carry out their mandates. Finally, the Government launched a substantial reform of its public financial management system in order to establish mechanisms for effective management of public funds. However, this transition is by its nature a long-term

endeavor, and questions remain, including about the formal and informal roles of the military going forward, including at the sub-national level.

45. Supporting governance improvements will be a core focus of the World Bank Group program, in line with the centrality of governance identified in the SCD. International experience from similar transformation processes in Latin America in the 1980s and Eastern Europe in the 1990s¹⁵ shows that fundamental transformations of this order are likely to take decades. Government agencies and non-state actors take time to adapt to new roles and develop the capacity (in the form of policies, routines, and oversight mechanisms) needed to promote effective governance. Moreover, while this long process carries major opportunities for improving state effectiveness, it also carries significant risks since it provides vested interest groups in state and society with an opportunity to alter the very foundations of the state to their own advantage. The WBG is also well positioned to support the improvement of corporate governance standards in order to build confidence and facilitate investment in domestic firms.

46. Central-local relations constitute a centerpiece in Myanmar’s efforts to redefine the organization of the state and more effectively address the demands of citizens. The Government has begun to increase the amount of funds available for spending at the State/Region, district and township level in an effort to align development projects to local needs. If introduced and implemented in a consultative and consensus-oriented manner, such decentralization measures can play an important role in reaching a stable political settlement. However, the process of determining the division of power between different levels of government also carries risks for renewed conflict.¹⁶

Box 1: Mainstreaming Governance in the WBG Program

The focus on governance across all pillars of the CPF program will entail a combination of project, sector, and country-level approaches:

- **During project preparation and implementation**, the WBG will work with country counterparts and partners to consider how a project might help advance governance (institutional capacity, transparency, accountability, participation, and anti-corruption) in Myanmar, and how governance risks may affect the achievement of project development objectives and how to mitigate them. There is no presumption that a project should address a particular governance issue, rather the key is the systematic consideration of governance issues during preparation and their monitoring during implementation.
- **At the sector level**, the WBG will integrate governance considerations in its strategic engagement. This will include the identification of key governance issues affecting sectors or sub-sectors to inform not only project design but also policy dialogue. Where feasible, the WBG will support priority activities aimed at addressing these challenges as part of its overall support to the sector, as is the case for example with the WBG’s support to EITI in the area of energy and extractives.

¹⁵ See for example World Bank Policy Research Working Paper, no. 2444, 2000.

¹⁶ World Development Report 2011, 167; Huybens et al., 2014, 12-13

- **At the country level**, the WBG will regularly review experiences, including successes and constraints, in governance mainstreaming, and adjust course as necessary in its knowledge and financing work, including through the CPF's Performance and Learning Review.

2.4 Poverty Profile

47. Absolute poverty in Myanmar is estimated to have been between 25.6 and 37.5 percent in 2010, with at least 70 percent of Myanmar's poor living in rural areas and depending primarily on agriculture.¹⁷ Poverty rates vary across geographical zones, with poverty highest in many areas affected by conflict and the coastal zone (53.1 percent, including 77 percent in Rakhine State) and hills zone (40.9 percent), and lowest in the dry zone (29.5 percent). This is consistent with global findings of the impact of conflict on poverty, and the fact that in Myanmar, conflict has been concentrated in the country's remote and often inaccessible border areas.¹⁸ However, due to population density, the incidence of poverty is concentrated also in Myanmar's farming heartland of the Delta and in the Dry Zone. These two zones are home to 64 percent of the country's poor. Urban poverty at 34.6 percent was relatively higher than expected. According to the 2010 Agricultural Census, 15 percent of farming households were headed by women, who farm plots that are on average 17 percent smaller than those of male-headed households. 80 percent of female-headed farming households (or 12 percent of all farming households) are not able to produce enough food to meet household consumption requirements.

48. Poverty indicators are inconsistent. For example, the 2010 IHLCA household survey found that 70 percent of the population had access to safe water and that adult literacy stood at 90 percent. While these numbers are impressive, they need to be treated with caution, given the discrepancies across data sources on some indicators. Other indicators paint a picture of a country that lags significantly behind many of its peers in the region. In particular, the level of infrastructure development is still very low: the rural electrification rate is 16 percent and most border regions have no grid-based electricity entirely; almost half of the roads are not passable during the monsoon rainy season; and railways are old and rudimentary, with few repairs since their construction in the late 19th century.

49. Over the past years, Myanmar has made significant progress towards several millennium development goals (MDGs), including reducing child mortality (between 1990 and 2010, the under-five mortality rate dropped from 100 to 52 per 1,000 live births) and increasing immunization (measles immunization coverage expanded from 68 percent to 88 percent among one-year old children). The country has also made progress in combating HIV/AIDS, tuberculosis and malaria. However, progress has been more limited on other MDGs, including on infant and maternal mortality where improvements are hampered in part by the low levels of births delivered by skilled birth attendants (71 percent). In addition, childhood malnutrition remains persistent: in 2010, 1 in 7 infants was born with low birth weight, 35 percent of children under the age of 5 were stunted. In education, while primary net enrollment rates have improved over the past two decades,

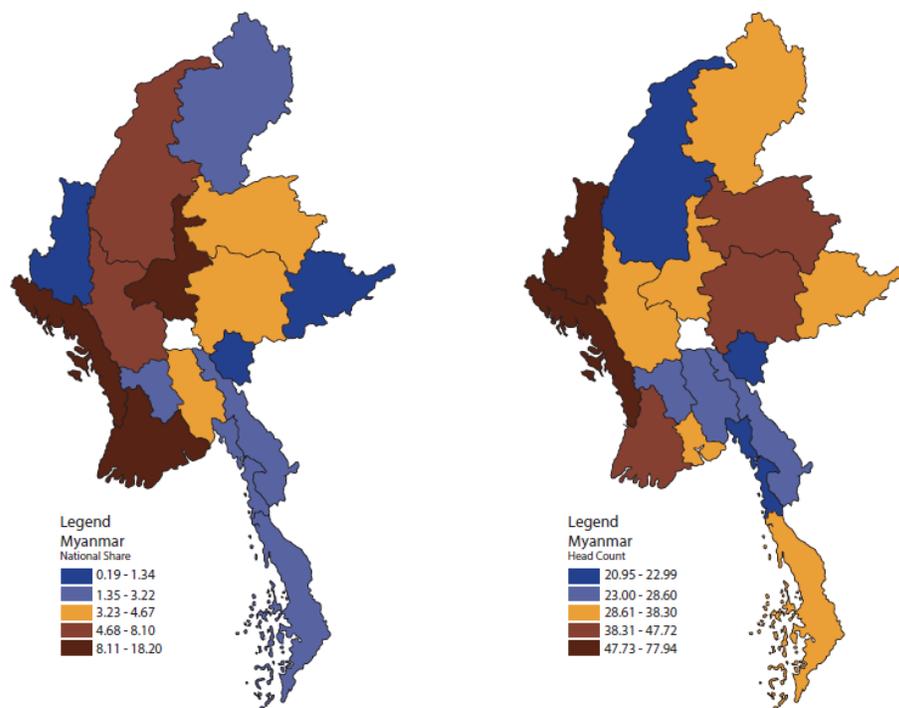
¹⁷ The high end of the estimated range for poverty in 2010, compared with the low end of the range, reflects a broader welfare aggregate, notably the inclusion of health care expenditures and the use value of assets, as well as alternative assumptions on adult equivalence scales and spatial price deflation.

¹⁸ For example, the 2011 *World Development Report on Conflict, Security and Development* found that for every three years a country is affected by major violence or conflict, poverty reduction lags behind by 2.7 percentage points, with the average cost of civil war equivalent to more than 30 years of GDP growth for a medium-sized developing country.

enrollment rates drop from 87 percent in primary school to 58 percent and 32 percent for middle and high school, respectively.

50. Significant gender disparities exist in the public sphere and in access to productive and economic resources. On the positive side, the female labor force participation rate (at 86 percent) is higher than that of male counterparts (at 83 percent), and women and men have equal rights to land ownership. However, women’s participation in politics is low, with women accounting for just 4.6 percent of the members of Parliament. Similarly, in the public sector, while women account for about half of all Government staff in state administrative organizations and union ministries, their work is concentrated in lower-level positions: women hold only one-third of managerial positions, and account for only one percent at the level of director general and above. Moreover, there is no guarantee of equal pay for equal work for men and women and some policies and laws, including customary laws, are obstacles to gender equality in land tenure, property ownership and inheritance practices. As a result, land rights held by women are often insecure as many women lack awareness of their rights as joint owners of family land or as family members with rights of inheritance.¹⁹ The 2013 Gender Inequality Index (GII) ranked Myanmar at 83 out of 187 countries.

Figure 1: Spatial distribution of poverty in Myanmar



Source: Poverty data from revised IHLCA2 survey, March 2014, World Bank Myanmar.

¹⁹ USAID Country Profile: Property Rights and Resource Governance, Burma, page 2.

2.5 The Systematic Country Diagnostic (SCD): Identifying Drivers of Poverty and Development Challenges

51. Myanmar today is one of the least developed countries in the region, despite ample natural endowments, including fertile land, abundant natural resources, and a strategic location in the most dynamic region of the world.²⁰ As the Systematic Country Diagnostics (SCD) makes clear, the root causes of Myanmar’s lagging development are self-created and caused by decades of conflict and isolation, which contributed to the gradual development of a rent-seeking economy. The reforms begun in 2011 have opened new pathways to reduce poverty and boost shared prosperity in the country.

52. In identifying pathways to reduce poverty and boost shared prosperity in Myanmar, the SCD looked at factors responsible for driving people into poverty in Myanmar. These include low labor productivity, low agricultural productivity, landlessness, erratic rainfall, lack of access to markets due to poor rural infrastructure, and underdeveloped domestic markets, ethnic conflict and communal violence, and poor policies. In addition, data also show that many households live just above the poverty line and are vulnerable to falling back into poverty. Many factors contribute to this vulnerability, including extreme weather events, which are likely exacerbated by climate change.

53. The SCD identified three groups of poor: traditional, transitional and excluded poor. The “traditional” poor are heavily concentrated in rural areas, have very low levels of education and depend on agriculture for their livelihood, but have limited access to key productive assets and services such as land, reliable water supply, and finance. The “transitional” poor typically live in urban and peri-urban areas, have transitioned out of traditional rural livelihoods but still work as low-skill casual laborers. Finally, the socially-marginalized and “excluded” poor do not have access to opportunities for productive economic activity for a range of reasons, including by virtue of ethnicity and geography. The causes of poverty for each of these groups are many, with some being common to all and some being specific to one group. Accordingly, the SCD identified pathways out of poverty for each of these groups that have some common elements and some that differ.

54. Investments in human capital and better access to quality basic services can help reduce poverty—both the income and non-income dimensions of poverty—among all three groups of poor. Better access to primary health care, water and sanitation, electricity, and basic education are important, not only to improve well-being, but also to reduce vulnerability to poverty, promote current income generating opportunities and lower the inter-generational perpetuation of poverty.

55. For both the “traditional” and “transitional” poor, increasing the returns to their labor will be essential. There is significant potential for improvement in agricultural productivity in Myanmar—including for crop yields, water use, and livestock production—and with rising incomes and urbanization, there will be greater market opportunities for higher value food sales,

²⁰For example, Myanmar has the world’s 25th largest arable land area and has more than ten times the renewable freshwater resources per capita of India and over 15 times more than China.

benefitting both farmers and landless farm workers. Increasing access to land and tenure security, through carefully implemented land reform (based on consultations and a full understanding of the nature and scale of the problem), will support increased agricultural productivity. In parallel, it will be essential to facilitate the movement of traditional poor from lower value-added agriculture-related activities to higher value-added activities off the farm by stimulating rural business activity and private-sector job creation. For the “transitional” poor, the opportunities for manufacturing and services employment and income generation will be critical.

56. Lastly, for the “excluded” poor—communities in remote conflict-affected areas, members of socially-marginalized groups, families unable to engage in productive work—a focus on increasing the returns to labor will not be sufficient. By definition, these groups have been or are likely to be excluded from opportunities for productive economic activity, including by virtue of geography, gender or ethnicity. Reducing poverty among these groups will have to include specific targeted interventions and programs of assistance.

2.5.1 Potential Sources of Growth and Economic Transformation

57. The structure of Myanmar’s economy is consistent with that of a lower income country, with agriculture playing a dominant role in the economy. According to official national accounts estimates for 2010, the agricultural sector employed 52 percent of the workforce and generated almost 37 percent of GDP. The services sector employed 36 percent of the workforce and produced 37 percent of GDP. The industrial sector employed only 12 percent of the workers and generated 26 percent of GDP.

58. Labor productivity in Myanmar, defined as value-added per worker, is low in all sectors and is much lower than in most other countries in the region. Most comparator countries in East Asia have substantially higher labor productivity in agriculture than Myanmar. Myanmar’s productivity is the lowest among these comparator countries in services, and is also the lowest except for Cambodia in industry.

59. Myanmar has a large informal sector with the majority of the poor. According to the UNDP IHLCA (2011) report, own-account workers represented 40 percent of total employment in 2009-10. Casual laborers represented another 18 percent, mainly from the rural areas, and mainly in the lower income deciles. Unpaid family workers represent another 15 percent. Thus, a rough estimate of the informal sector in 2009-10 would be 73 percent of the total labor force. As such, efforts to support the development of the private sector will also need to address support for formalization and the development of the micro and small enterprise sector.

60. Myanmar has the potential to emulate the successful growth trajectory of other economies in the region. As the country continues to open up the space for investment, Myanmar has strong potential to grow initially on the back of capital accumulation. This is likely to drive economic growth in the medium-term given the significant infrastructure gaps that have resulted from many years of under-investment (for example, only one-third of the population is connected to the electricity grid, with large unmet demand). A large part of the capital investments is likely

to be in the natural resource sectors: in addition to the 17 onshore and four offshore gas projects that are ongoing in Myanmar, nearly twenty new production sharing contracts (PSCs) were entered into in 2014 with oil and gas enterprises. The latter have indicated that despite recent commodity price developments, at this time they had no plans to scale back their investments in Myanmar.

61. Aside from the natural resource sector, there are also significant new capital investments expected in public infrastructure and private manufacturing. Capital spending through the government budget is likely to continue increasing as it starts to address needs in the energy, transportation and communication sectors in particular. The marginal productivity of public investments is likely to remain high for years to come as the country gradually rebuilds its stock of physical capital. In private manufacturing, there has been a surge in foreign investment flows since the country's transitions began in 2011/12, and foreign direct investment is expected to reach over five percent of GDP in 2014/15. Whilst most of the foreign direct investment has been channeled to the oil and gas sectors, more recently major global companies have started to enter the market in Myanmar with investments in manufacturing and services.

62. Critical to boosting foreign investment is improving skills of Myanmar's young and growing labor force. As noted above, labor productivity in Myanmar is one of the lowest in the region. As private investments continue to grow, there will be increased pressure on the short supply of skilled labor. Ensuring that students have foundational skills such as functional literacy and basic numeracy will be essential to empowering them to benefit from growing employment opportunities. Investment in education will therefore have significant growth dividends over the medium to long-term.

63. Investment in skills will also enhance Myanmar's comparative advantage in labor intensive, light manufacturing sectors. Labor costs are comparatively low in the region, and can be a major source of growth in sectors such as garments, leather, and furniture. Myanmar also has the potential to join other countries in the manufacturing supply chain. As the skills base begins to develop, Myanmar can develop its light engineering industry (e.g. automotive parts, motorcycles, selected electronics). These transitions to light manufacturing and engineering should help facilitate a gradual shift of some labor from low productivity agriculture into higher productivity manufacturing and services.

64. Growing demands from a rapidly expanding manufacturing sector should fuel rapid growth in the services sector in the medium to long-term. Over the medium-term, the services sector is expected to surge thanks to new investments in the telecommunications and banking sectors. Award of new licenses in both sectors is expected to enable a significant expansion of coverage and access to critical services for private sector development. With expansion of both domestic and foreign trade, investments in transport and logistical services will also be very important and an important contributor to economic activity and employment. Finally in services, tourism is and will be another major source of growth. Both transport and tourism can become significant sources of job creation in Myanmar.

65. Myanmar's rich natural resources sector – aside from oil and gas, Myanmar has significant jade and other precious stones, forestry and other resources – if managed well,

can provide an important source of long-term economic growth.²¹ According to some estimates, Myanmar accounts for 90 percent of the world’s jade production and is among the top producers of rubies and sapphires.

66. Myanmar’s location between the two huge markets of China and India presents further opportunities for growth. Myanmar will likely gain significantly from increased economic integration through the ASEAN Economic Community. Policies to help Myanmar to take full advantage of the gains from trade include those promoting access to financing, both domestically and from abroad, strong macroeconomic policies (including real exchange rate level and stability), conducive tariff and foreign investment regimes.

2.5.2 Pathways for Ending Poverty and Boosting Shared Prosperity

67. Building on the above poverty analysis, the SCD identified two main pathways for ending poverty and boosting shared prosperity in Myanmar. The first pathway is likely to reach mostly the traditional and transitional poor. It entails promoting openness and sustainable private-sector led growth for more jobs. Its key over-arching principle is ensuring greater participation of the domestic and foreign private sector in the economy (particularly in the sectors which have greater potential for job creation), fostering integration with the global economy, enhancing productivity, especially in agriculture, and adopting an integrated approach to the management of the Ayeyarwaddy river basin. The second pathway is expected to reach all three groups of poor and entails promoting universal access and empowerment for inclusive growth, particularly in rural areas.

68. In order to accelerate progress towards the twin goals through these two pathways, the SCD identified four critical pre-requisites. These are: (i) securing the political transition and improving governance; (ii) enhancing social inclusion; (iii) maintaining macroeconomic stability; and (iv) strengthening public sector capacity. The SCD argued that all four prerequisites need to be addressed for meaningful development to take place since they serve to lay the critical foundation for growth and its sustainability. In this sense, the pre-requisites identified in the SCD define the overall political, governance, and macroeconomic environment of Myanmar within which job opportunities are created, people are empowered to take full advantage of these opportunities, and goods and services are supplied and delivered.

69. In all of this, lack of data and information is a key constraint. Myanmar is facing significant information and data gaps that make comprehensive diagnostics and targeting difficult. The recently completed census will provide much needed baseline data once full results are released in 2015, but a key challenge for the coming years will be to deepen a shared understanding, including on the changing nature of poverty in Myanmar. The research agenda outlined in the SCD provides an illustration of the scope of work needed, and the resulting difficulties in designing and implementing programs in the absence of such information.

²¹ Drawing on the 2014 World Bank report on *Diversified Development: Making the Most of Natural Resources in Eurasia*, Myanmar can maximize and use the rents from natural resources to diversify national asset portfolios “to ensure a better balance between natural resources, physical and human capital, and economic institutions”.

III. WORLD BANK GROUP COUNTRY PARTNERSHIP STRATEGY

70. While the Systematic Country Diagnostic identified the full range of development challenges facing Myanmar, the Country Partnership Framework aims to identify, among them, the focus areas for World Bank Group engagement: reducing rural poverty; investing in people and effective institutions for people; and supporting a dynamic private sector to create jobs. In doing so, the CPF will supplement the analysis of priorities provided in the SCD with a review of the Government’s development strategy (section 3.1) and the World Bank Group’s comparative advantage, including lessons learned from the implementation of the WBG’s program during the ISN period and stakeholder consultations (section 3.2). Based on these elements, the proposed WBG program is presented in section 3.3.

3.1 Government Program and Medium-term Strategy

71. Since coming into office in 2011, the Myanmar Government has pursued a series of political and economic reforms to reduce poverty, build peace, and make institutions more responsive, transparent and accountable. In designing and implementing these reforms, the Government placed a particular focus on rural poverty reduction through “people-centered development,” to reverse decades of top-down military planning. The reforms also involved a move towards decentralization to improve local accountability and in response to demands from ethnic minority groups.

72. The rollout of the Government’s reform agenda proceeded in four “waves”: the first wave focused on political reforms and national reconciliation, and saw the first of a series of releases of political prisoners, the beginning of a dialogue with the opposition National League for Democracy that culminated in the NLD’s decision to participate in the April 2012 by-elections, and new legislation to loosen censorship and promote freedom of press as well as changes of public procurement from closed to open tenders. The second wave, launched in June 2012, focused on stimulating the country’s economy through tentative privatization, including a Foreign Investment Law. The third wave, in April 2013, targeted public administration, including pay rises for civil servants, as well as an increase in affordable credit for farmers and subsidized mobile SIM cards. The fourth wave, announced in October 2013, targets the private sector by improving rules, regulations and laws governing trade and investment, as well as logistical and institutional infrastructure.

73. The reforms to date are part of the Government’s five-year development plan, which covers the term of the administration (2011-2015). The plan focuses on four objectives: (i) agricultural development; (ii) balanced growth among regions and states; (iii) inclusive growth; and (iv) quality statistics. Specific reform initiatives that will underpin the implementation of the five year development plan are contained in the “Framework for Economic and Social Reform” (FESR), which seeks to give coherence to the Government’s reform efforts, sequence priority reforms, and identify areas where further analytical work is required. As such, the FESR covers a broad range of areas, including macro-economic reform; sector policy reform; social and environmental dimensions of development; national harmony and regional development; improving governance; and repositioning Myanmar in the international community.

74. While the FESR and the five year plan provide an overarching framework for the Government's reform, these have been complemented by a number of sectoral initiatives, summarized below. While wide-ranging, these sectoral initiatives share a common goal: a move towards more transparent, responsive, evidence-based policies that protect the most vulnerable segments of the population and aim to reduce poverty, especially in rural areas.

(i) the development of two key frameworks that place an emphasis on rural poverty reduction and inclusive growth:

- **Preparation of a Rural Development Strategic Framework.** In 2014, the Government adopted a Rural Development Strategic Framework to guide its rural development activities. The Framework seeks to achieve inclusive and sustainable rural development, strengthen community-based organizations and build capacity of local communities, and mitigate natural and social disasters. To complement this Framework, the Government is preparing a National Action Plan for Poverty Alleviation and Rural Development through Agriculture.
- **Development of a National Electrification Plan.** With support from the World Bank Group, JICA, the ADB and other development partners, the Government has developed a National Electrification Plan and is in the process of establishing an enabling policy and institutional framework for implementing a nationwide electrification program, with a target of achieving universal electricity access by 2030. This target draws on the UN Sustainable Energy for All Initiative, which Myanmar joined in 2013.

(ii) Education and health strategies oriented towards achieving universal access to quality basic services:

- **Working towards universal primary school access and increased quality.** The Myanmar Government has endorsed goal of achieving universal primary enrollment and documenting quality improvements in education as part of its Comprehensive Education Sector Review, and has increased its education spending more than three-fold since 2011.
- **Working towards universal healthcare coverage (UHC).** The Myanmar Government has endorsed the goal of achieving universal healthcare coverage by 2030, as part of the International Health Partnership Plus Global Compact, which Myanmar joined in 2014, and has increased its health budget four-fold since 2011.

(iii) four strategies for institutional reform and more transparent, responsive, evidence-based policies:

- **Implementing a public finance management reform strategy.** The PFM reform strategy was developed based on analytical work that identified constraints in public finance management systems that affect service delivery, and the Ministry of Finance is implementing the strategy focusing on addressing key constraints. Notable

milestones to date have included the restructuring of the Ministry of Finance, amendments to the tax code, and developing a medium-term fiscal framework to support inclusive, bottom-up planning processes.

- **Preparation of a National Strategy for the Development of Statistics.** Expected to be completed by late 2015, the NSDS will provide a strategic vision for the Myanmar statistics system and set out key objectives and goals to be achieved in the medium to long term. The aim is to enable the statistical authorities to mobilize resources, coordinate efforts and implement plans to deliver the statistical products and services needed by decision-makers at all levels: private and public, researchers, analysts and media, civil society and the general public.
- **Acceding to the Extractives Industry Transparency Initiative (EITI).** Myanmar's candidacy for EITI has been approved. The WBG has played a leading role in supporting the candidacy preparation process, is preparing funding from the Bank-managed EITI multi-donor trust funds, and is working closely with all stakeholders on support for Myanmar's multi-million EITI workplan prepared by the EITI multi-stakeholder group, made up of Government, CSO, and company representatives, which serves as the national steering committee.
- **Creation of a National Water Resources Committee (NWRC).** This apex body mandated with managing the country's water resources was created by Presidential decree in 2013. The WBG through the Ayeyarwaddy Integrated River Basin Management Project is supporting the operationalization of the NWRC and its related Secretariat, Expert Group, Hydroinformatics Center and Stakeholder Forum. These structures will provide an institutionalized process for decision making in water resources management, supported by a sophisticated decision support system and informed by ongoing stakeholder engagement.

75. The broad scope and large number of reforms being initiated by Government pose a challenge for focused implementation. Some of the strategies are insufficiently grounded in a realistic assessment of the scope of the challenges or the Government's capacity to address them. Moving towards realistic and achievable (even if ambitious) targets will be an important part of fostering accountability and a focus on monitoring and results within Government policies and planning.

3.2 Inputs to the Country Partnership Framework: Lessons from ISN Implementation and Stakeholder Consultations

3.2.1 Lessons from ISN Implementation

76. The Myanmar Interim Strategy Note (ISN), discussed by the Board on 1 November 2012, charted an ambitious course for the WBG's re-engagement in Myanmar by focusing on three pillars: (i) institutional transformation to support the emergence of more transparent,

accountable and effective institutions; (ii) interventions that would deliver tangible benefits for the population; and (iii) preparing for the road ahead by supporting Myanmar to clear its arrears to IDA and deepen the knowledge base to develop interventions to support poverty reduction.

77. During the ISN period, the WBG delivered significant support across these three areas, with US\$750m in IDA resources delivered during IDA16, supporting a program of activities that closely mirrors that proposed in the ISN (see Annex 7 for a list of activities undertaken during the ISN period). In addition, the WBG carried out a broad range of diagnostic and analytical work that provided a foundation for identifying priority actions by Government and development partners across a range of areas, including poverty reduction, agricultural development, public financial management, private sector development, and access to finance, as well as assessments of existing procurement/financial management systems in the selected sectors. Gender dimensions were integrated in both analytical work and WBG supported operations during the ISN period and have provided a good foundation for gender mainstreaming going forward. At the same time, gender concepts were sometimes new to Government counterparts, especially at the operational level. Raising awareness and capacity, and improving analysis and data to inform policy, are core to enhancing gender equality in Myanmar.

78. Beyond guiding the implementation of a substantial IDA supported program, the ISN guided the WBG in the course of its re-engagement. The past two years saw the opening of a country office in August 2012, the signing of an Establishment Agreement with the Myanmar Government in July 2013, and deepened engagement with Government, civil society, development partners, and other stakeholders, including through a series of public events and stakeholder meetings by the World Bank country manager and other WBG staff in locations across the country in 2013 and 2014.

79. Implementation during the ISN period also revealed a number of constraints and important lessons for the WBG program moving forward. Limited data complicate targeting efforts for example in the health, education and community-driven development projects. While workarounds using consultative methods and proxy indicators were eventually found, the availability of census and household survey data in the future will be important to develop operational mechanisms for effective targeting, be it area or household based. In addition, early implementation experience revealed significant challenges in inter-ministerial coordination, which remains limited in practice. Finally, across all WBG supported operations, experience in the first years has shown limited absorptive capacity and the need to focus on simplicity in project design, invest significant resources to allow ongoing capacity building, and allow sufficient time for start-up activities to take place. Drawing on these lessons, the program proposed in the CPF focuses on strategic initiatives, with relatively larger individual projects that place an emphasis on simplicity in design. Implementation support for projects under the CPF will be budgeted to reflect low country capacity, and will draw on expertise from global practices at all stages of the project cycle.

80. Finally, some civil society groups within and outside Myanmar have questioned the World Bank Group's engagement in the country. As part of its commitment to transparency, the WBG has engaged in ongoing dialogue with a broad range of civil society on its program, including regular joint discussions between Government, the World Bank Group and civil society

on specific projects. This engagement has been helpful in building mutual understanding and has helped identify issues of particular concern, for example around natural resource management.

3.2.2 Stakeholder consultations

81. Given the data constraints and the range of views on key issues facing the country, extensive consultations with a broad range of stakeholders were conducted as part of preparations for the CPF. With input from civil society organizations the World Bank Group designed a framework approach for consultations for the CPF, which was published on the WBG's Myanmar website in February 2014. The consultations for the CPF, conducted from June through August, presented initial findings of the SCD and sought inputs on priorities for the proposed CPF. 16 consultation events were held in six locations in Myanmar, as well as two events in Thailand (Chiang Mai and Mae Sot) and one in Washington, DC, bringing together 601 participants from 380 organizations. Written inputs were also received from a number of organizations, including Oxfam, Human Rights Watch, Global Witness, and Myanmar IFI Watch, with submissions highlighting the need for transparency in WBG engagements, support for responsible natural resource management, and continued attention to human rights concerns.

82. The need to focus on agriculture (both productivity and access to markets), as well as support for health and education were the priorities most frequently articulated at the consultations, confirming some of the priorities identified in the SCD. A number of participants stressed the need for careful consideration of the needs of, and the potential impact of WBG programs on, specific population groups, including women, children, migrants and refugees. Several suggested that the CPF should include a specific WBG strategy on cross cutting issues such as gender, inclusion of marginalized groups and conflict sensitivity.

83. These consultations were supplemented by a WBG country survey administered between June and August 2014 to 662 stakeholders, including Government counterparts, development partners, private sector, CSOs, and others. With a total of 173 respondents, findings from the survey suggest that the WBG's emphasis is aligned with survey respondents' views of the challenges in the country: education, governance, rural development, jobs, and growth. Findings also show a strong and positive relationship between the WBG and the Government and the Bank Group and donors. Notably, respondents also emphasized that the WBG's technical assistance is of equal value to its financial resources in as data-poor an environment as Myanmar.

3.3 Overview of the World Bank Group Strategy

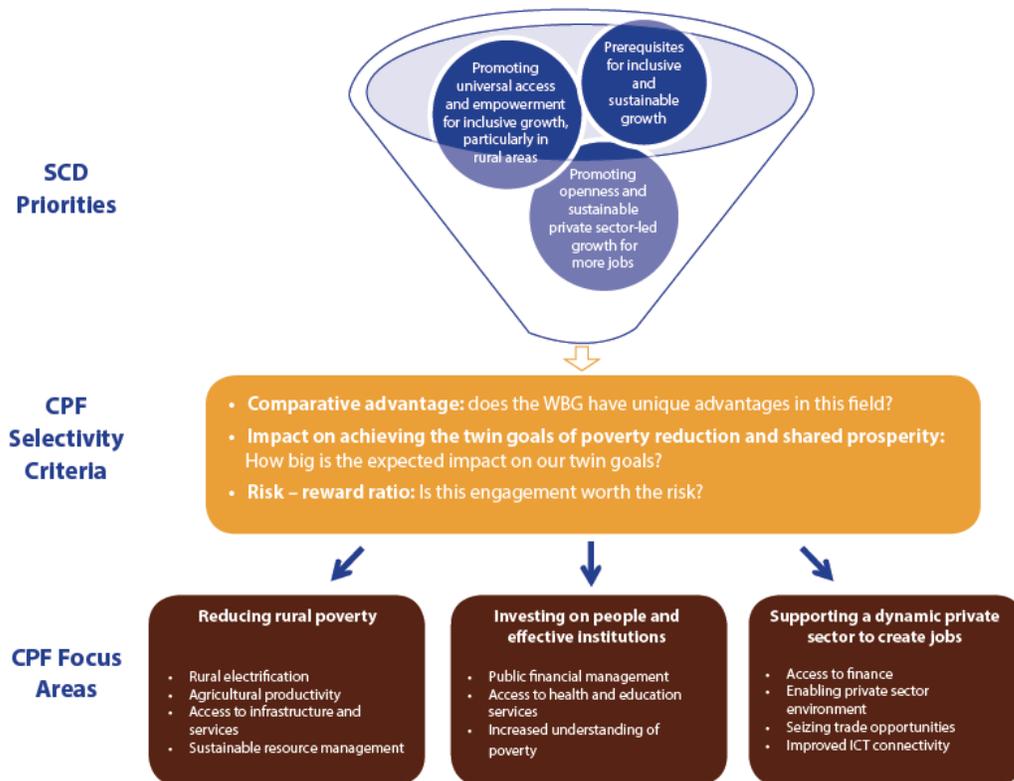
84. This CPF aims to support the achievement of the WBG goals – to reduce extreme poverty and boost shared prosperity in a sustainable manner – in Myanmar. The CPF outlines a program of interventions to support Myanmar's ongoing fundamental shifts towards openness and integration, and toward empowerment and inclusion, because it is these two shifts that hold the key to poverty reduction and shared prosperity.

85. The SCD identifies pathways and pre-requisites to reduce extreme poverty and boost shared prosperity in Myanmar, taking into consideration the sequencing of reforms. From

the priorities identified by the SCD the CPF selects focus areas and specific activities for the WBG program. In doing so, the CPF applies three selectivity criteria:

- i. **WBG comparative advantage.** In deciding which priorities it will take forward, the WBG will review each proposed engagement to identify whether and what the comparative advantage of the WBG would be compared to other actors, including development partners and the private sector. The WBG’s comparative advantage in this context would consist of unique strengths either in terms of global knowledge and/or of financial resources (see Box 1 for an illustration of the impact of the WBG’s knowledge work), as well as its ability to launch catalytic engagements to strengthen the use of country systems to help improve governance in Myanmar.

Figure 2: Selectivity as applied to SCD priorities



- ii. **Impact on achieving the twin goals of extreme poverty reduction and shared prosperity, aligned with the Government’s strategies (see Figure 2).** In deciding priority areas for engagement in the CPF period, the WBG will look at the magnitude of the expected impact on the dual transformation to openness and integration, and empowerment and inclusion, as the key to poverty reduction and shared prosperity in Myanmar. In each activity, the WBG will seek to maintain a clear line of sight between its engagements in Myanmar and its global twin goals as well as the scope for programs to support Myanmar’s transformation.

- iii. **Risk-reward ratio.** Finally, the identification of WBG priority interventions will be guided by a more granular understanding of the potential risks and rewards of specific activities. As such, the World Bank Group will not shy away from higher risk interventions where these can have potentially transformative impacts for the country and the achievement of the WBG's twin goals. This could include, for example support to the sustainable management of natural resources, which may challenge vested interests but has an important impact on poverty and inclusive growth, or support for communities in conflict-affected areas where engagement may be more complicated but which are among the poorest of the poor.

86. Grounded in the SCD and based on the above selectivity criteria, the CPF program of planned WBG support will focus on three areas:

- ***Reducing rural poverty.*** As at least 70 percent of Myanmar's poor live in rural areas, reducing poverty and boosting shared prosperity will entail increasing access to essential services, economic opportunities and markets. The WBG expects to provide support to help increase agricultural incomes and productivity, rural electrification, community-driven investments in local infrastructure and services, improve Ayeyarwaddy River navigation and flood control, and reduce vulnerability to shocks.
- ***Investing in people and effective institutions for people.*** Successful empowerment and inclusion will depend on citizens who are able to make a better future for themselves, and on transparent institutions that allow and encourage people to do so. The WBG expects to provide targeted support to help Myanmar approach universal access to and improve the quality of essential social services, especially health and education and, over time, skills development to empower people to participate in a growing economy. The WBG also expects to provide support for state institutions to deliver effectively at the local level.
- ***Supporting a dynamic private sector to create jobs.*** Reducing poverty and boosting shared prosperity will entail moving beyond extractive-based industries to inclusive growth that creates jobs. The WBG will seek to foster inclusive growth and a vibrant private sector by supporting institutions and investments that can foster a competitive private sector. This will include support to build modern financial institutions and markets, and foster development of the formal private sector and trade, investment, and private sector job creation.

87. **These three Focus Areas are broadly consistent with the Government's strategies outlined in section 3.1 above.** Rural poverty reduction, investing in people and effective institutions for people, and supporting a dynamic private sector to create jobs have been core elements of a range of Government policies, as illustrated in Figure 2. Each of the Focus Areas contains a strong emphasis on knowledge, to support the Government's move towards responsive and evidence-based policies.

88. **Four important cross-cutting themes will be integrated in the Focus Areas: gender, conflict, governance, as well as climate change and disaster risk.** They are integrated as cross-

cutting themes as they touch on many of the activities proposed under this CPF and by their nature are not contained within a single focus area.

- **Gender:** Despite some success, major challenges still persist across the issues of endowment, economic opportunity, and agency, with the 2013 Gender Inequality Index ranking Myanmar at 83 out of 187. Significant gender disparities exist in participation in the labor force and employment (including equal pay for equal work), business and property ownership, and representation in public decision-making bodies. Moreover, the SCD found that gender disparities intensify in remote and conflict-affected areas, where violence against women, trafficking and HIV/AIDS are major concerns. In recent years, the government has made efforts to provide an enabling environment for gender equality, including through the National Strategic Plan for the Advancement of Women (NSPAW) 2012-2021. However, many policies and laws, including customary laws, are obstacles to gender equality. Major gaps in accurate gender disaggregated data are also a challenge which has hampered a meaningful understanding of the gender challenges in the country, and has undermined analysis to improve policy, implementation and enforcement. Gender considerations will be integrated in all IDA-supported operations, and a country-level gender action plan will be developed during the CPF period.²²
- **Conflict:** Decades of armed conflict between the Government and ethnic armed groups have led to large-scale displacement, destruction of infrastructure and disruption of service delivery, concerns by many about human rights violations in areas affected by conflict, and more broadly to a centralization of power and a militarization of the state. The Government's peace initiative offers the most hope in a generation for ending these conflicts, but the process remains fragile and at an early stage. In recognition of this, conflict sensitivity will be integrated throughout the WBG program, to identify possible risks and opportunities related to conflict (see also Box 2).

²² The Systematic Country Diagnostic and CPF are informed by an informal country gender assessment conducted by the World Bank, the draft UN Women Country Gender Assessment (forthcoming 2015), the national gender strategy (NSPAW 2012-2021) and several thematic gender assessments (e.g.: Gender Profile of the Agriculture Census 2010).

Box 2: Conflict Sensitivity in WBG Supported Operations

Myanmar's transition is taking place in a context of continued fragility, conflict and violence, including religious violence and an ongoing but incomplete peace process to address long-standing grievances of the country's many ethnic minorities. As the World Bank Group scales up its engagement with the country, it is undertaking measures both at the project and at the portfolio level to ensure that WBG engagements are informed by and sensitive to local conflict dynamics. This has included conflict and risk analyses for projects operating in areas affected by conflict, engagement and consultation frameworks for projects in areas with ethnic minorities, and dialogue with a broad range of stakeholders, including ethnic armed groups, to build mutual understanding.

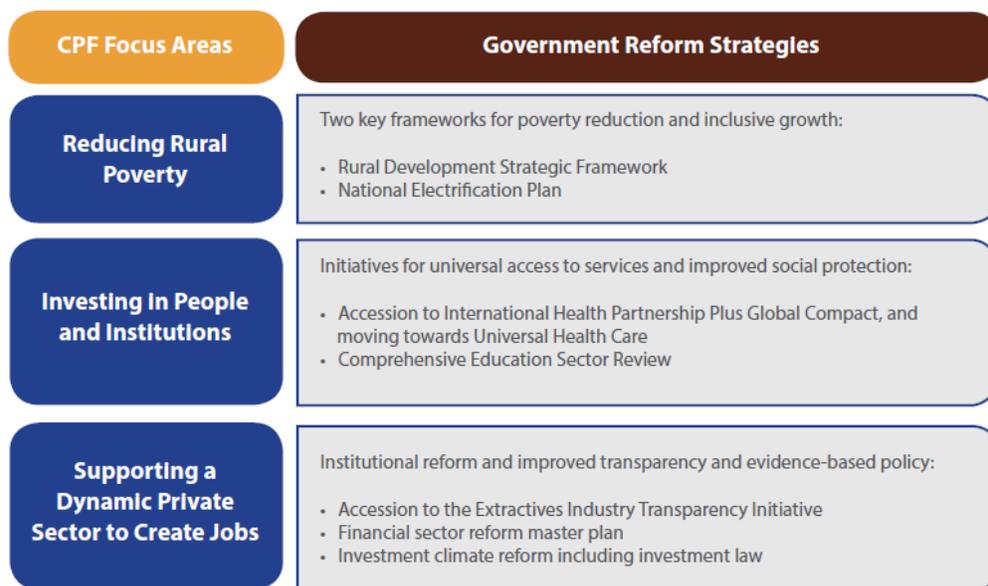
With funding from the Korean Trust Fund for Peacebuilding and Economic Transitions, the WBG undertook a systematic review of how these issues have been addressed in WBG supported operations under the ISN, and opportunities for further integration conflict considerations in the future. In the first phase of this process, independent experts with deep knowledge of the Myanmar country context reviewed five WBG engagements (health, education, community driven development, public financial management, and support for EITI) to identify possible risks and opportunities linked to conflict. This included, for example, avoiding inadvertent marginalization of effective service delivery structures maintained by ethnic armed groups, ensuring access to project benefits by marginalized groups, and identifying possible issues of interest from work on decentralization to inform the broader political dialogue. The findings of this review were discussed in a November 2014 workshop with task teams, which led to the development of specific adaptations tailored to the operation and its interactions with conflict issues. KTF funding is now being used to pilot adaptations and review their effectiveness, including for the Myanmar national CDD project to prepare the project's expansion to Kayin, Kayah and Kachin States next year.

Through this approach the WBG expects to address conflict issues systematically in its portfolio. The approach will be applied to all new engagements to promote adaptive learning in a complex operating environment.

- **Governance:** In view of the centrality of governance challenges to Myanmar's transition, governance will be a priority cutting across the CPF program. The approach to mainstreaming governance (see Box 1) will be based on leveraging the WBG's financing and knowledge activities at the portfolio level to support improved governance, and improving performance at the project level by addressing governance risks to the achievement of project development outcomes. This cross-cutting approach will allow the program to engage with a broad range of entry points in a rapidly changing environment, including support for improving the performance of core systems (through engagements for example in public financial management) as well as sectoral engagements that support the creation of new structures to coordinate policies and oversee implementation (such as in the Ayeyarwaddy River Basin project) or improve service delivery at the local level (such as in health, education or support for community driven development). This work will be guided by analytic work of the emerging governance and accountability arrangements at central, agency, and sub-national levels of government.

- Climate change and disaster risk:** Natural disasters and the impact of climate change represent major challenges for Myanmar. The country is already experiencing increased climate variability which will have a growing impact in the coming decades, especially given the importance of agriculture for livelihoods. Rising sea levels pose a substantial threat, with ten percent of the country projected to be affected by a sea-level rise of between one and five meters. Myanmar is also among the world’s countries most vulnerable to natural disasters and has suffered through several devastating cyclones, including Cyclone Nargis in 2008, which killed about 140,000 people. As part of its program, the WBG will continue the practice of building “emergency response contingencies” into IDA supported operations where appropriate, allowing the rapid reprogramming of funds to respond to natural disasters.

Figure 3. World Bank Group Support for Government Reform Strategies



3.3.1 Consistency with the Systematic Country Diagnostics

89. This CPF is grounded in the analytical framework provided by the Myanmar Systematic Country Diagnostics (SCD). It applies the above selectivity criteria to identify, among the SCD priorities, the specific priority areas and activities for World Bank Group engagement—as outlined in Table 1 below. For example, while the SCD identifies transport, access to safe drinking water and sanitation as priorities, the CPF does not propose specific WBG engagements in these areas (though the community-driven development project finances small scale road improvements, water supplies and sanitation where prioritized by communities). While large scale transport investments may have significant benefits, optimizing such investments will require additional knowledge work, such as the diagnostics on trade integration currently underway. Similarly, on access to drinking water and sanitation, while the impact on the twin goals is high, the WBG’s comparative advantage is relatively low given the available financing for these priorities from other development partners.

Table 1: Comparison of SCD and CPF Priorities



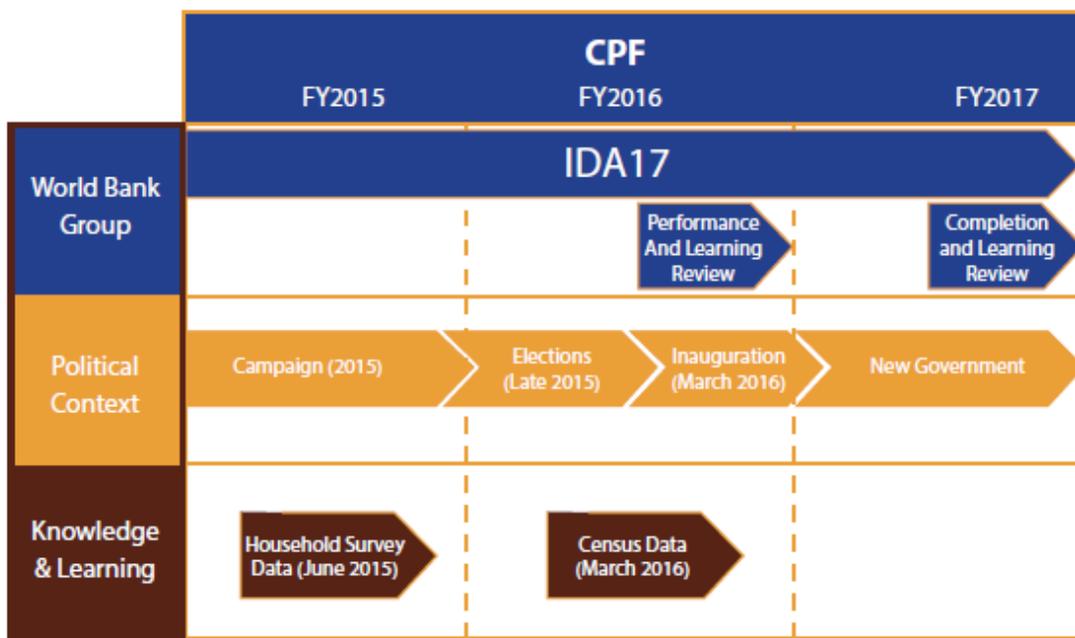
90. Moreover, while the CPF reflects key priorities identified in the SCD, it organizes these in slightly different ways, so that the Focus Areas of the CPF do not map one-to-one into the poverty pathways identified in the SCD. For example, activities under Focus Area 1 bring together key Government initiatives on rural development (a topic on which the Government places much priority and where it has developed a standalone strategic framework), while they span both of the main pathways to poverty reduction identified in the SCD.

3.3.2 Flexibility and scope for adjustments

91. In recognition of the dynamic environment in Myanmar and the pace of change, this CPF covers the three-year period FY15-17, coinciding with the IDA 17 period. This three-year duration covers the country’s first general election contested by parties from across the political spectrum in 25 years, which is scheduled to take place in late 2015. While all parties have publicly confirmed their commitment to poverty reduction and inclusive growth, the CPF allows for adjustments in the program to reflect possible changes in client demand.

92. A performance and learning review (PLR) is planned in late FY16. This will allow engagement with a newly elected Government to discuss development priorities, as well as to take advantage of the availability of new data, including the results of the first national census in 30 years (where full data is expected by late 2015) and the completion of the first nationally-representative household survey using internationally comparable methodology (expected to be carried out in early 2015, with data available by late 2015). The CPF is thus designed both to generate new empirical evidence and to use this data to inform the WBG’s program in Myanmar, working in partnership with Government, civil society, private sector and others to model an evidence-based approach to designing development interventions.

Figure 4: Myanmar CPF Timeline



93. Should the performance and learning review indicate continuity in Myanmar’s development priorities outlined in the CPF, the WBG may at that time decide to extend the CPF. At the same time, the PLR will also provide an opportunity to review the extent to which activities and focus areas proposed under the CPF remain relevant, and may consider phasing out ongoing activities (or phasing in additional ones). This will be particularly critical given the

ongoing peace talks, which might impact on policy issues related to the future structure and organization of the union. In keeping with the framework approach of the CPF, the goal is to ensure that the WBG program as a whole remains poised to deliver on the CPF's core objectives, including by learning from experience, adapting to context, and addressing any identified shortcomings.

3.4 The WBG Program: Objectives and Planned Knowledge and Financing Support

94. Based on the priorities identified in the SCD and application of the selectivity criteria above, the CPF proposes the following work program over a three year period.

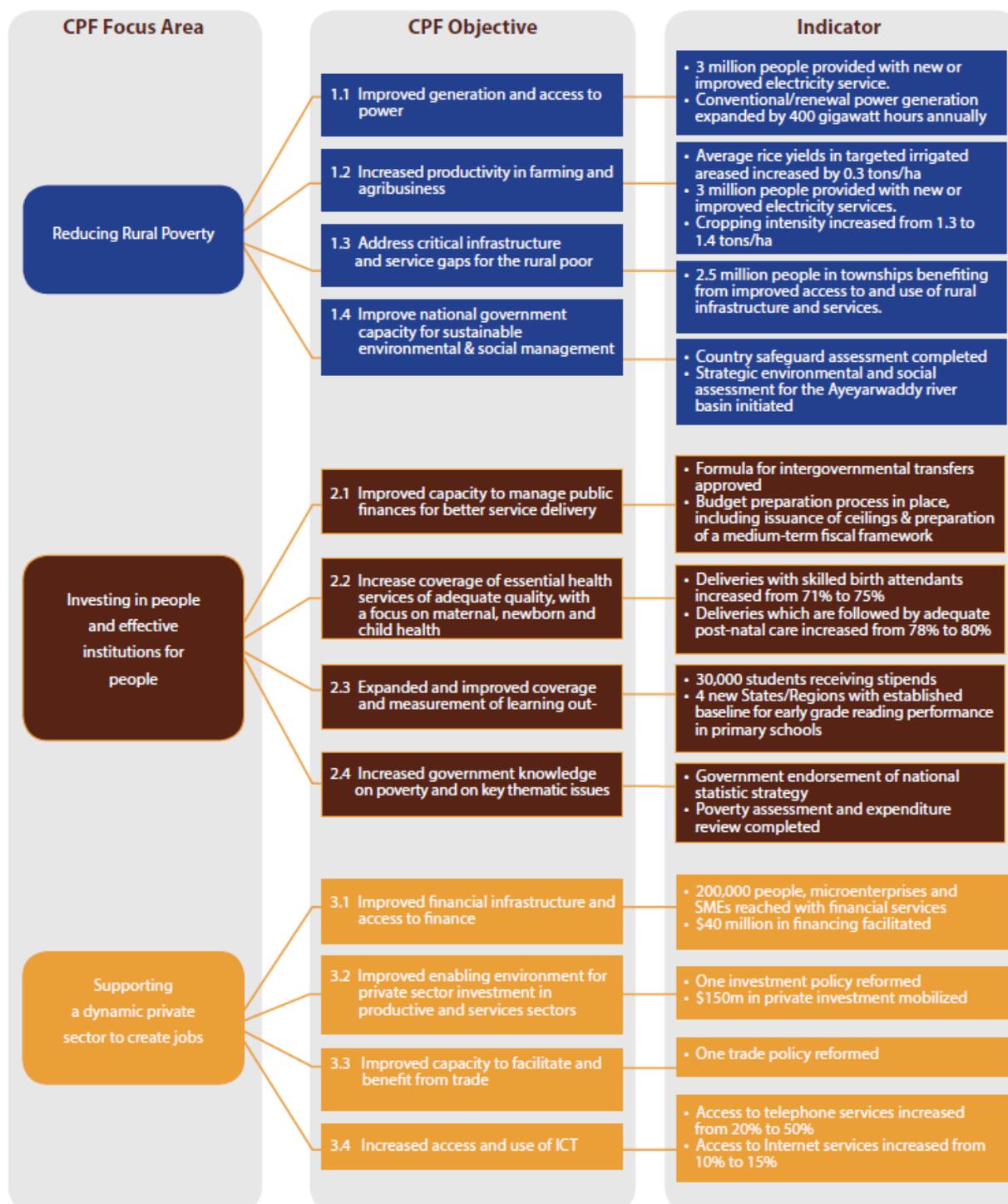
Focus Area 1: Reducing Rural Poverty.

95. At least 70 percent of Myanmar's poor live in rural areas, where decades of public under-investment and market distortions have severely limited livelihood opportunities. The importance of reducing rural poverty is core to the Government's development strategy: both the Framework for Economic and Social Reform and the Rural Development and Poverty Alleviation Strategy recognize the centrality of improving economic opportunities and access to services for rural communities throughout Myanmar to unlock the development potential of the country and foster inclusive growth.

96. Activities in this focus area aim to reduce poverty by improving access to economic opportunities and basic services for rural areas in a sustainable manner. It brings together a set of complementary activities aimed at (i) increasing incomes and access to essential services in rural areas, including areas most directly affected by past conflict, and (ii) improving national capacity for sustainable environmental and social management. Together, engagements in this area will increase opportunities, reduce vulnerabilities and empower poor rural communities throughout Myanmar as participants in the economy and governance of the country.

97. Knowledge activities in this focus area include analytical and diagnostic work on key thematic issues, such as on agricultural opportunities, land governance, social inclusion, ethnicity and gender, and migration. Such work will help Myanmar draw on international experience in considering key policy decisions, for example on rice prices, agricultural export policies, or the productivity potential of smallholder farms.

Table 2. CPF Focus Areas and Expected Results



Objective 1.1: Improved power generation and access to electricity

98. Two-thirds of the population is not connected to the national electricity grid and lack of reliable power is a key constraint to the delivery of important services such as health, education and finance for rural populations and for private sector development more broadly. The Government of Myanmar aims to achieve universal access to electricity by 2030. To this end, the Government is developing a National Electrification Plan to establish an enabling policy and institutional framework for a nationwide electrification program. The proposed National Electrification Project is expected to help increase access to electricity for populations currently not connected to the national grid. The ongoing Electric Power Project and proposed Myingyan Power Generation Project are expected to contribute to increasing the capacity and efficiency of power generation in Myanmar and strengthening the institutional capacity of the Ministry of Electric Power and the Myanmar Electric Power Enterprise. These activities are part of the WBG's support to the implementation of the National Electrification Plan which also includes IFC advisory services and will include MIGA guarantees to support electricity distribution and generation (see Box 3 for an illustration of the impact of a joint WBG approach to addressing energy constraints in Myanmar).

99. The aim of WBG support in this area is to provide new or improved access to electricity for 3 million people by 2017, and to increase power generation capacity from 260 GWh to 660 GWh by 2017. To maximize synergies in the support to the sector, WBG engagements are part of an agreed umbrella approach with partners including the Government of Japan, the Asian Development Bank, USAID, DFAT, DFID, UNDP, Netherlands and Norway under the coordination of the Myanmar Power Sector Working Group.

Box 3: A Joint Implementation Plan (JIP) on Access to Electricity

Only one in three households in Myanmar have access to electricity, a rate lower than in any of its neighboring countries. Per capita electricity consumption is among the lowest in the world, with rural areas in particular lacking access to electricity. However, even for those areas connected to the grid, the existing power supply is unreliable and frequent blackouts are both a major obstacle for economic activities and a source of public frustration.

To address this constraint, the Government has set a target of increasing the electrification rate to 50 percent by 2020. Along with the Government of Japan, the Asian Development Bank and other partners, the World Bank Group is committed to helping Government reach this target. The program of WBG support – developed as a joint implementation plan (JIP) to leverage the combined skills of the WBG – will include activities targeted at increasing the supply and distribution of electricity and set the power sector on a sustainable development path.

To increase the electricity supply, the WBG is supporting an increase in generating capacity, including through a US\$140 million IDA credit supporting the upgrading of a natural gas-fired power plant that doubled its output capacity while lowering emissions. To increase the efficiency of power distribution, the IFC is engaging with power utilities in both Yangon and Mandalay on their corporatization and commercialization. Jointly, IFC and IDA are supporting private sector development of about 750 MW of new gas-fired power generation. Reflecting its extensive international experience and expertise, the WBG expects to play a role in supporting

the development of a sustainable hydro power sector, as part of a balanced energy mix, in Myanmar during the CPF period. Such support may involve the development of some flagship projects that can help set a standard for private sector participation in the hydro power sector.

Finally, to expand access to the national grid and support off-grid electrification, the WBG is providing support for the Government's development of a National Electrification Plan (NEP). Drawing on the combined resources of the WBG, including MIGA, this will include mobilizing donor and private financing of about US\$700 million for the NEP's implementation over the next five years. Beyond these immediate steps, the WBG is supporting the Government through a range of technical and analytical work to make well-informed choices to address medium-term challenges, including the development of a well-functioning domestic energy market, developing a vision for an optimal fuel mix; and fostering financial sustainability to increase private sector participation.

Objective 1.2: Increased productivity in farming and agribusiness

100. Half of Myanmar's poor depend on agriculture for their livelihoods, but agricultural productivity is low, mostly due to poor rice yields and an over-dependence on rice. Low yields in turn are a result of a lack of access by farming households to improved agricultural assets, infrastructure and services. Beyond increasing agricultural yields, Myanmar has important opportunities in agro-processing and trading activities.

101. The WBG program aims to increase agricultural productivity by providing 4,500 farmers with access to improved agricultural techniques to increase rice yields and providing improved irrigation and drainage services covering 10,000 hectares by 2017. To achieve this, the WBG will support an integrated program that combines improvements in irrigation and drainage, extension services, and value chain upgrades to increase crop yields and develop a competitive rural sector that offers opportunities to all rural households, with particular attention to female-headed households and poor or landless farmers. Consistent with IFC's Agribusiness Strategic Action Plan, IFC's investments and advisory activities will focus on increasing the competitiveness of the Myanmar agribusiness sector by (i) supporting agricultural production and risk protection, including potentially through improved distribution of agricultural inputs to farmers, and (ii) supporting the development of a robust supply chain infrastructure that will allow farmers to get better value for their products while reducing wastage. Finally, the World Bank will support further agricultural productivity enhancements by providing agro-meteorological services (e.g. weather predictions and agricultural advisories for planting, harvesting and crop selection), facilitating inland water transport for agricultural outputs and enhancing the government's capacity to manage and deliver water resources to farmers.

Objective 1.3: Improved access to critical infrastructure and services for the rural poor

102. Rural villages experience high levels of poverty, have limited access to quality services and infrastructure, and have had limited opportunities in the development process. Opportunities for rural communities in Myanmar are severely constrained by decades of underinvestment in key infrastructure and services, ineffective economic policies, and the insecurity and destruction caused by long-standing conflict in the border areas. Economic reforms, and increased investments in critical infrastructure that can improve access to markets and key

services can significantly alter the development path by empowering rural communities to increase their production and income.

103. The aim of WBG support in this area is to increase access to basic services for an additional 2.5 million people living in rural communities, including in conflict-affected areas, by scaling up the IDA-supported national community-driven development program. The national CDD program, launched in 2012 through the first IDA financing to Myanmar in over 25 years, has proved an effective platform for Government to support communities in identifying and implementing projects that address critical infrastructure and service gaps. The program helps increase access to and use of basic infrastructure and services (e.g., small feeder roads, foot-paths and bridges, drinking water systems, rehabilitation of schools and health centers) through a participatory approach. The program also finances technical assistance to support capacity development in areas such as participatory processes, gender equality and inclusion, environmental management and social accountability.

Objective 1.4: Improved national capacity for sustainable environmental and social management

104. If used well, Myanmar's large endowment in renewable natural resources can support sustainable diversified development and job creation. However, in the absence of well-defined environmental and social standards as well as sustainable natural resources management practices and governance combined with the capacity to implement them, there is a significant risk of adverse social impacts and eco-system degradation (including deforestation and water and air pollution). With over half of the land area covered in forest, more than half of the population dependent on forests, fisheries and other renewable resource sectors, and these natural resource dependent populations being the poorest segments of society, there is a risk that as the economy expands and natural resource use intensifies, the lack of sustainable natural resource management will threaten the livelihoods of rural communities, including by increasing their vulnerability to climate change and natural disasters. In addition, lack of access to land and tenure security are critical constraints to agricultural productivity and private sector investment. Adopting an integrated approach to the management of natural resources and developing a national environmental and social risk management framework can help Myanmar achieve the long-term sustainability of its poverty reduction efforts.

105. The proposed WBG contributions in this area aims to support sustainable development and effective use of the country's natural resources. This will include programmatic analytical and advisory work aimed at building the national capacity for sustainable natural resource and environmental management, including (i) a country environmental and social safeguard capacity assessment that will identify immediate needs for strengthening Myanmar's systems; (ii) analysis of challenges in the management of selected natural resources from the point of view of governance, sustainability, eco-system resilience, and poverty links; and (iii) analysis of potential environmental impacts associated with likely development scenarios in selected key sectors, such as energy, transport, mining or agriculture, engaging with sector stakeholders to develop risk management strategies. These activities will be complemented by investments to sustainably manage the Ayeyarwaddy River Basin, to support capacity building of national systems to collect and analyze data to make decisions about possible uses of the Ayeyarwaddy

River, including on possible hydropower development, transport, irrigation and flood control; and continued support for Myanmar's implementation of the Extractives Industries Transparency Initiative as part of responsible natural resource management.

106. Synergies with development partners. In supporting core Government development priorities, activities in this focus area seek to capitalize on synergies with other development partners. For example, the emphasis on rural electrification is part of an agreed umbrella approach with partners including the Government of Japan and the Asian Development Bank that outlined an end-to-end framework for addressing Myanmar's electricity shortages, including on the generation, transmission and distribution side. Similarly, proposed work on increasing agricultural incomes fits with activities of other donors to improve the efficiency of existing irrigation systems, strengthen Government capacity to deliver agricultural services to smallholder farmers, and increase access to markets through investments in rural roads and support for agricultural traders. Support for community-driven development approaches can help Myanmar build an intervention platform that uses a mix of Government and donor funds to support rural development needs in an integrated manner, with additional support from the Government of Japan and the Government of Italy. Finally, on EITI, the World Bank Group's engagement has been partly funded by the UK, which together with the WBG serves as lead donor on EITI, convening regular meetings of donors and INGOs engaged with the EITI process. As Myanmar moves to full implementation of an ambitious EITI work-plan, discussion is underway for a possible joint funding mechanism. Throughout these engagements, World Bank-executed trust funds have provided resources to finance enhanced implementation support to build capacity and mitigate risk.

107. Integration of cross-cutting themes. Gender considerations will be integrated in IDA supported investment operations. For example, in the CDD project gender considerations are mainstreamed in the project's design, operations and monitoring framework. Specific components will be included in the Ayeyarwaddy river basin project to address governance, climate change, and disaster risks, including a national system to produce and disseminate disaster warning information, including to poor and vulnerable populations in risk prone areas, complementing broader support to disaster risk management. Conflict-affected areas are primarily rural and often remote, and activities in this focus area have the potential to support increased access to services and opportunities for communities affected by conflict. In this context, WBG supported operations such as the community-driven development project will also be adapted to operate effectively in conflict areas (see Box 4). Support for EITI is an integral part of helping the country address governance challenges related to the extractives sector. Implementation modalities such as the community-driven development approach also mark an important shift from top-down to bottom-up development, helping rebuild state-society relations and ensuring the effective use of scarce public resources. As such, activities in this focus area thus help the Government mitigate a number of key risks, including by demonstrating the intent to ensure that benefits from the recent reforms benefit the poorest and most vulnerable, including remote and rural areas. This marks a significant break with the past, where benefits from economic development and public services accrued mostly to a politically connected elite, primarily in urban areas.

Focus Area 2: Investing in People and Effective Institutions for People.

108. Successful empowerment and inclusion relies on an accountable, transparent, and higher performing state capable of facilitating improvements in the lives of its citizens. Decades of underinvestment in public services (with budget allocations for social services among the lowest in the world) have greatly limited the availability and quality of key social services, and the ability of state institutions to deliver effectively at the local level. The Government aims to change this, including by setting the country on a path to universal healthcare access and increasing budget allocations for social services. Activities in this focus area aim to improve institutional performance, with a particular focus on access to and the quality of key social services to provide citizens with skills and endowments to make a better future for themselves, in line with global evidence which has shown investments in health and education as among the most effective long-term investments for sustainable poverty reduction and boosting shared prosperity.

109. A broad set of analytical work will inform engagements in this focus area. The SCD highlights key data constraints in reliable and robust information on learning outcomes and the health status of the population of Myanmar as well as the effectiveness of state institutions at the local level. In addition to the activities outlined below, knowledge work to be conducted during the CPF includes analytical work to inform ongoing discussions on decentralization and devolution, including through the programmatic Public Expenditure Review; an assessment of students' learning outcomes at key stages of the education cycle; analysis to assess the overall labor market, returns to education, and the nature of skills demanded by the private sector, including an in-depth labor market diagnostic study; and just in time advice for the proposed pension and social protection reforms.

Objective 2.1: Improved capacity to manage public finances and Union-State/Region relations for better service delivery

110. Myanmar is a centralized country following decades of military rule, and fiscal and functional decentralization is a core issue for more effective service delivery at the local level. Coordination remains weak, especially around the balance between center and Union-State/Region relations and broader public sector resource management. A critical pre-requisite for Myanmar's peace and development is to move from centralized and authoritarian rule towards an accountable public sector, including at the local level. In addition, the effectiveness and efficacy of the pathways for ending poverty and boosting shared prosperity will depend on the capacity of Government to design and implement the right interventions, whether in the form of policy, institutional reforms, or investments.

111. WBG support aims to help the Government put in place a plan for central-local fiscal relations as well as a medium-term fiscal framework. In addition, WBG support for more effective public institutions is expected to include the continued implementation of an IDA supported operation that supports modernization of public financial management, providing technical assistance to address public administration performance constraints in social and economic sectors, as well as a new programmatic DPO series to support policy reforms related to macro-fiscal management, transparency and Union-State/Region relations, to help ensure continued macro-fiscal stability while making a growing budget more responsive to the demands

of Myanmar's citizens. The WBG will also actively seek opportunities to support the government transformation through providing technical advice and support to encourage a peaceful resolution to the longstanding conflict in Myanmar. Finally, the WBG expects to engage with state-owned enterprises, with possible advisory work on improving their performance and possible IFC investment support for corporatization and subsequent privatization.

Objective 2.2: Expanded health services and improved health financing, with a focus on maternal, newborn and child health

112. Health care services in Myanmar are constrained by a combination of limited access and lack of timely and flexibly financing for frontline service delivery. Health outcomes lag significantly behind other countries in the region: infant mortality still stands at 40 per 1,000 live births; each year, about 2,000 pregnant women and 50,000 children die from preventable causes; and only 71 percent of births are delivered by skilled birth attendants and only 78 percent receive post-natal care. The Government of Myanmar has committed to overcoming poor access to quality services and low financial risk protection by setting out a path towards Universal Health Coverage. The World Bank, through financing and knowledge, supports the country in advancing towards this goal.

113. The aim of WBG support in this area is to increase the percentage of deliveries with skilled birth attendants from 71 to 75 percent and the percentage of deliveries followed by adequate post-natal care from 78 to 80 percent. IDA support will aim to expand coverage of essential health services of adequate quality, with a focus on maternal, newborn and child health, in support of Myanmar's move towards Universal Health Care (UHC). This will include strengthening the ability of Government systems to provide resources for front-line service providers through better targeting and monitoring of results, and building the capacity of Government systems to address other dimensions of UHC, including financial protection for the poor through a health financing strategy and the development of an expanded and costed essential package of health services for UHC. IFC will support investment in PPPs in healthcare, diagnostics, skills development and selective engagement in tertiary healthcare, as well as advisory services for health systems strengthening.

Objective 2.3: Expanded and improved education coverage and measurement of learning outcomes

114. While school enrollment rates in Myanmar are relatively high, completion rates lag behind the country's peers, especially among poorer parts of the population. In 2010, net primary school enrollment stood at 87 percent, dropping to 58 percent and 32 percent for middle and high school, respectively. Net enrollment rates are lowest for the poor and the bottom 40 percent of the population. Education, especially in rural areas, had historically been underfunded, and this has exacerbated inequalities as poorer and more isolated areas comparatively lack financial means and technical capacity. Increased access to basic education has the potential to play a critical role to ensuring inclusive growth.

115. In addition, as noted in the World Bank Group's 2014 Enterprise Survey, the scarcity of the pool of skilled workers constrains the operation of firms in Myanmar. The acquisition

of workplace skills is essential to firm productivity, competitiveness and ultimately, inclusive growth. Firms in Myanmar, and SMEs in particular, provide very little training to their employees, with less than 10 percent of small firms providing training to their employees. The skills gap indicated in the Enterprise Survey indicates that the education system does not produce enough workers with current knowledge and the level of skills needed in the workplace. Addressing this challenge is critical for improving the productivity and competitiveness of Myanmar firms, especially SMEs who are less able to provide training to their workers directly.

116. WBG support in this area aims to expand the targeted student stipend program to cover an additional 30,000 students and expand the existing school grants program. The ongoing IDA-supported education operation is expected to help improve and expand the existing school grants and targeted student stipends programs, as well as the implementation of professional development programs for township and school officials and periodic early grade reading assessments. The IDA supported operations will support reforms through (i) expanding the coverage of the stipend program and improving operational mechanisms for targeting poor and vulnerable students, (ii) improving the reliability and transparency of the school grants scheme; and (iii) building the capacity of the Ministry of Education, townships, schools and communities to implement these programs and monitor their progress. In addition, IFC will explore support for skills development programs to support the private sector, especially SMEs, by improving their competitive edge during this period of reform and market opening. To support this, analytical work will be carried out to identify key data gaps, strengthen understanding of students' learning outcomes at key stages of the education cycle, and assess the overall labor market, returns to education, and the nature of skills demanded by the private sector, including an in-depth labor market diagnostic study.

Objective 2.4: Increased understanding of poverty and key related issues

117. Significant data constraints in Myanmar limit an understanding of poverty and related factors, and complicate efforts at targeting interventions, measuring impact, and applying global experience in policy design and implementation. To better understand dimensions of poverty in Myanmar and allow targeting of interventions towards the poor, including among Myanmar's ethnic minorities (see Box 4), the WBG will support the GoM in the conduct of a nationally-representative household survey. The WBG will also continue to support the preparation and implementation of a National Strategy for the Development of Statistics, to help Government map and fill critical knowledge gap.

118. WBG engagements in this area will support the endorsement and implementation of a National Statistics strategy and a completed poverty assessment and expenditure review by 2017. This work will be complemented by analytical and diagnostic work on key thematic issues as well as on reform sequencing. Topics for such work are expected to include trade and agricultural opportunities, land governance, social inclusion, ethnicity and gender, migration, labor markets, skills development and job creation, and access to finance in remote areas. This includes the Qualitative Social and Economic Monitoring research project, which aims to better understand changes in livelihoods and social structures in Myanmar and is undertaken on behalf of the multi-donor livelihoods trust fund as a reimbursable advisory service. The WBG will also consider

policy notes for the incoming government in FY16 to inform policy dialogue on reducing extreme poverty and boosting shared prosperity.

Box 4: Impact of WBG Knowledge Work – The Example of Poverty

Building on the 2014 national census, the WBG supported the Government in constructing a master sampling frame as a coordinating mechanism for a number of national household surveys currently planned in Myanmar. In 2015, the WBG together with the Government will implement a pilot small-scale (3,500) household survey to collect information on consumption and income levels. This small pilot is designed to provide up-to-date estimates of poverty in 2015. Combining data from this pilot survey with unit record data from the Population Census, the World Bank will work with the Ministry of Immigration and Population to produce poverty maps using small area estimation methods and imputation techniques. In addition, the data will inform the design and implementation of the large-scale (18,000 households) national survey that the Government is planning with support from the WBG and other development partners.

Together, these data are strengthening the analytical foundation of the Government's development programs, the design and evaluation of the Bank's lending operations as well as related analytical works on social inclusion, inequality and poverty in Myanmar to better understand dimensions of poverty in the country, including as experienced by ethnic minorities and vulnerable groups.

119. Synergies with development partners. The WBG engagement on public financial management is co-financed by the UK, Australia and Denmark, reflecting the World Bank's comparative advantage and expertise in this area. In education, the program of support builds on the outcomes of the recently completed Comprehensive Education Sector Review and extensive dialogue with development partners, with Australia co-financing the ongoing IDA support. In health, the proposed support aligns closely not only with Government plans, but also with donor-supported activities through synergies with the multi-donor 3MDG Fund that supports the provision of health services in Myanmar to achieve the three health-related Millennium Development Goals (e.g. reducing child mortality, improving maternal health and combating HIV, tuberculosis and malaria).

120. Integration of cross-cutting themes. Gender considerations have been integrated in both the health and education operations, and are complemented by ongoing work to ensure that inclusion issues are addressed effectively in the health operation and conflict risks in the education operation (see Box 3). Meanwhile, the engagement on PFM and Union-State/Region relations directly supports governance improvements, including through the continued practice of publishing budget information to empower citizens to understand how and where public money is spent.

Focus Area 3: Supporting a dynamic private sector to create jobs.

121. Sustainably reducing poverty and boosting shared prosperity will require moving beyond extractive-based to inclusive economic growth that can create jobs. Jobs outside agriculture will be essential to lift the transitional and traditional poor in Myanmar out of poverty. As the gas sector is not labor intensive, efforts will need to focus on promoting greater private sector investment in non-gas sectors such as manufacturing, mining, tourism, ICT, the financial sector, and construction. Creating employment opportunities in and around towns and cities will be critical to ending urban poverty, particularly through Small and Medium Enterprises (SMEs) alongside large firms as outlined in the Government's Framework for Economic and Social Reforms. Opening up space for investors, markets, electricity, finance, and ICT will all be important.

122. Activities under this focus area seek to foster inclusive growth and a vibrant private sector that can drive job creation to reduce poverty. This will be achieved through: (i) improved financial infrastructure and access to finance for micro, small and medium enterprises; (ii) an enabling environment for private sector investment in productive and services sectors; (iii) improved capacity to facilitate and benefit from trade; (iv) increased access to ICT; and (v) direct investment to support the development of the manufacturing and services sectors with job creation demonstration effects.

123. Activities in this focus area will be anchored in a broad set of analytical and knowledge work. They will include advisory work to help Government identify opportunities for public-private partnerships to leverage limited public funds by attracting private capital and know-how; diagnostic work on improving the regulatory framework and business environment; knowledge work and technical assistance to foster a competitive private sector, including the Diagnostic of Trade Integration Study described below. Finally, knowledge work will focus on support for the development of a sound, efficient and inclusive financial system, including upgrading the legal and regulatory framework for the banking system, and work to promote accounting, auditing and corporate governance standards for financial institutions and on establishing a credit bureau to enable more efficient functioning of domestic credit markets.

Objective 3.1: Improved financial infrastructure and access to finance

124. Access to finance in Myanmar is limited, yet critical to promoting inclusive growth and empowering people. Long-term and broad-based economic growth will depend on a functioning financial system that provides access to financial services to all types of firms as well as households. The financial system in Myanmar is at the earliest stages of development and Myanmar lags far behind its neighboring countries: only 30 percent of Myanmar's adult population has access to financial services provided either by commercial banks or microfinance institutions. The WBG aims to support the implementation of the country's Roadmap for Financial Inclusion, aimed at increasing financial inclusion from 30 percent in 2014 to at least 45 percent by 2017 and to 70 percent by 2020.

125. WBG support in this area aims to increase the number of people, microenterprises and SMEs using financial services by 200,000 and to facilitate financing of up to US\$40

million by 2017. WBG interventions in the area of financial inclusion will be structured in a comprehensive program that is joint between IDA, IFC and MIGA and interested bilateral donors around four areas: (i) modernizing payment systems and financial sector infrastructure, (ii) strengthening private financial institutions critical for financial inclusion and access to credit (microfinance institutions, private banks) and transforming select state-owned banks into financially sustainable institutions, (iii) expanding financial instruments and products (SME lending, agriculture lending, insurance, digital finance, etc.); and (iv) strengthening the capability of the Central Bank of Myanmar and Ministry of Finance to monitor the soundness and integrity of the financial system. IFC will work on strengthening corporate governance laws and regulations and provide advisory services to banks and other firms and at the market level to raise awareness of corporate governance standards with an emphasis on particular themes affecting lender and investor confidence such as transparency, conflicts of interest, related party transactions, beneficial ownership, shareholder practices/protections and internal control and audit.

126. Ongoing knowledge and advisory work will be particularly critical to improve the financial infrastructure during the course of the CPF period. The WBG will help Government identify opportunities for public-private partnerships to leverage limited public funds by attracting private capital and know-how. To support the development of a sound, efficient and inclusive financial system, the WBG will also support an upgrade of the legal and regulatory framework for the banking system to bring it into compliance with international standards, capacity-building support for the regulation and supervision of microfinance, and work to enhance accounting, auditing and corporate governance standards for financial institutions.

Objective 3.2: Improved enabling environment for private sector investment in productive and services sectors

127. Jobs are a pathway out of poverty, and sustained employment generation is premised on a diversified investment base across real and services sectors, especially those that have a high job creation potential. For the majority of the poor, e.g. the “traditional poor” who currently depend on agriculture for their livelihoods, this will mean both raising the returns to agricultural cultivation, while in parallel, facilitating their movement from lower value-added agriculture-related activities to higher value-added activities off the farm by stimulating private-sector job creation. Moreover, opportunities for private-sector led off-farm employment and income generation will be critical for the “transitional poor.”

128. The WBG will assist the Government of Myanmar to mobilize \$150 million in private investment by creating a business environment that is conducive to private sector investment. This will involve improving the legal and regulatory framework to strengthen investor protection, streamlining investment entry procedures and improving the investment incentive regime. Such work may include the conduct of a Report on the Observance of Standards and Codes (ROSC) to strengthen Myanmar’s corporate financial reporting regime and improve financial reporting, thus raising corporate governance standards, and increasing transparency and financial stability. With transparency and trust, will come more investments and jobs. IFC will undertake additional work aimed at improving the regulatory framework and business environment, including for agribusiness and tourism, through technical assistance to Government for a new investment law and implementing regulations as well as support for the Myanmar Business Forum to strengthen

public-private dialogue with support by both the UK and Australia. IFC will provide advisory services to the government and private sector to ensure sustainable development of the tourism sector a key driver of growth that will generate investment and jobs and strengthen the linkages between the industry and communities. Subject to improvements in the investment climate and a conducive operating environment, IFC will continue to invest in key sectors like tourism and retail, which are expected to see significant growth in the coming years. These sectors are amongst the biggest employers today and with the projected growth will help create a significant number of employment opportunities that are geographically well diversified.

Objective 3.3: Improved capacity to facilitate (and benefit from) trade

129. Given its long period of international isolation, to seize increased trade and FDI opportunities, Myanmar will need to be part of the regional and global production/value chain networks. Transaction costs for international trade can be reduced through reforms of institutions, policies, and procedures. Reforms are needed to reduce non-tariff measures (NTMs) and streamline customs procedures that are bureaucratic and slow and that contribute to significant delays in the import and export process that raise the cost of doing business and discourage the growth of overseas trade.

130. WBG support in this area is expected to identify and enact policy reforms to facilitate trade. To this end, a Diagnostic of Trade Integration Study (DTIS) will be carried out to identify opportunities for improving Myanmar's capacities to benefit from trade. Technical work following on the DTIS could include additional knowledge work on trade and transport facilitation assessments, customs modernization, and sector specific technical assistance. These engagements would build on the WBG investment climate assessment, which will support a policy dialogue on critical bottlenecks for the private sector.

Objective 3.4: Increased access to ICT

131. Mobile phone penetration was estimated at about 20 percent 2014 while internet penetration stood at 10 percent, among the lowest rates in Southeast Asia. Increased access to ICT will be critical for Myanmar to seize increased trade and FDI opportunities, identify opportunities to use technology for leapfrogging on issues such as increased access to finance, improved service delivery and to support a vibrant private sector.

132. WBG support in this sector is expected to increase access to telephone services (both fixed mainlines and cellular phones) to 50 percent by 2017, and increase access to internet services to 15 percent by 2017. To this end, the WBG will continue implementation of the Telecommunications Sector Reform Project. IFC will support private sector participation in the development of an efficient network infrastructure that will allow the expansion of reach to currently under-deserved areas in the country while also improving the reliability of existing services; these will include supporting mobile network operators, tower companies and fiber companies, to improve telecommunication sector coverage. MIGA is also looking at an opportunity to provide political risk insurance to help foreign investors with their investment in the telecom sector in Myanmar.

Box 5: WBG Support to the Private Sector

The Government of Myanmar is implementing legal and regulatory reforms to support the development of the private sector. The WBG is supporting the Government's efforts in this regard through technical assistance and diagnostic and benchmarking studies. Key diagnostic work includes the Investment Climate Assessment, which highlights issues facing the private sector through an enterprise survey and review of the business environment. The Doing Business Report, an annual report benchmarking 189 economies worldwide on key indicators of the ease of doing business, provides a comparative assessment of the business environment in Myanmar and helps identify key reform areas. The recently initiated Diagnostic Trade and Integration Study, supported through the Enhanced Integrated Framework process, is a key study to identify constraints related to trade facilitation. Through this study the WBG is working with the government to develop an action plan for trade facilitation reform.

Alongside these studies, WBG advisory services are supporting the government with its investment policy reforms, including the preparation of a new Investment Law and implementing regulations. IFC advisory services are supporting the Government in building institutional capacity for competitive selection of independent power producers. Other support includes working with the Government and private sector to establish a platform for sustained public-private dialogue through the Myanmar Business Forum and a program to support the Government with regulatory reforms to improve the ease of doing business. Through this support for the reform process, the WBG is enhancing the competitiveness of the private sector in Myanmar by reducing the cost of doing business and cutting red tape. This work will also support efforts to open the economy while also strengthening integration with ASEAN and the rest of the world.

133. Synergies with development partners. IFC's work on the investment climate, the Myanmar Business Forum and PPPs is supported by both the UK and Australia. Regional integration, including trade facilitation, is a core part of the ASEAN integration agenda, including plans for an ASEAN economic community. Similarly, this work complements regional connectivity infrastructure projects initiated by the Asian Development Bank as part of its Greater Mekong Subregion initiative.

134. Integration of cross-cutting themes. Most of Myanmar's conflict affected areas are located along the country's periphery, and conflict considerations have been integrated in the preparation of the DTIS work and will continue to guide efforts to support Myanmar in benefitting from increased trade. Support for access to finance includes particular emphasis on reaching out to women and female-headed households, while increased phone connectivity can play an important role in early warning systems and reducing people's vulnerability to natural disasters.

135. Activities across the three Focus Areas will help the Government mitigate key risks, including by ensuring the effective use of increased allocations to social services and demonstrating that recent reforms benefit the poorest and most vulnerable. The latter marks an important break with the past, where benefits from economic development and public services accrued mostly to a politically connected elite. In contrast, the community-driven development approach marks a shift from urban to rural areas, and from top-down to bottom-up development.

More broadly, the Government has been clear and consistent in its desire to use a greater share of the national budget to support service provision. A critical challenge in doing so will be how to spend resources most effectively. The proposed engagements in this realm are among the first donor efforts to help strengthen Government systems and optimize the use of increased public resources, which will also involve addressing the risk of parallel service provision in conflict affected areas.

3.5 Implementing the Country Partnership Framework

3.5.1 Financial envelopes and instruments

136. Given the significant knowledge gaps in Myanmar, an important part of the World Bank Group’s role at this critical stage of Myanmar’s development will be about knowledge, technical assistance and policy dialogue to support and maximize the impact of investments. In this context, the CPF program proposed here has a significant emphasis on analytical, advisory and knowledge work to share with Government, civil society and development partners, findings on the choices and opportunities available to Myanmar to reduce poverty and boost shared prosperity. This work will be supported by the strategic use of trust funds and partnerships for knowledge work across sectors and global practices.

137. Beyond knowledge, Myanmar’s total indicative IDA 17 allocation is US\$1.6 billion. The CPF identifies an initial program based on this amount and envisages substantial frontloading into FY15-16. Actual usage of the IDA envelope will follow Myanmar’s performance. That performance is expected to continue improving throughout IDA 17 (and indeed the CPF period overall, notwithstanding inevitable ups and downs across specific dimensions).

138. IBRD expects to require additional data to determine Myanmar's prospects for eventual IDA graduation. The IDA cut-off point for FY15 is US\$1,215 GNI per capita (Atlas methodology). According to OP 3.10, in FY15 Myanmar is characterized as having a GNI per capita of less than US\$1,045. However, estimates of GDP vary, and margins of errors are likely to be large. The WBG will monitor progress on creditworthiness during the CPF period, including at the performance and learning review.

139. IFC will be providing up to US\$1 billion in investments over the CPF period and US\$20 million worth of technical assistance working alongside IDA funds.

140. MIGA has no pre-determined envelope for guarantees over the CPF period, but will actively seek to provide sufficient guarantees to meet requests from foreign investors.

141. WBG instruments to implement the CPF are expected to include IDA policy based and investment financing as well as guarantees,; IFC and MIGA resources, which also mobilize external private sources of capital and knowledge; trust funds administered or funded by the World Bank Group, as well as analytic and advisory services. It is envisaged that the CPF program will include one or two development policy operations and several investment financing operations. In addition, where appropriate, the program will draw on trust funds to increase impact and ensure responsiveness to country context. If opportunities arise for

large scale transformational programs and conditions allow, the WBG may explore the scope for access to enclave IBRD funding.

142. To support this increased engagement, the WBG will continue to maintain a substantial presence on the ground, drawing on the joint WBG country office in Yangon and a planned new office expected to be established in Nay Pyi Taw. This in-country presence will continue to lead the dialogue with Government, development partners, private sector and civil society, and will draw on global expertise and knowledge through the WBG's Global Practices.

3.5.2 Country financial management and procurement capacities

143. The Government of Myanmar recognizes the importance of public financial management for effective service delivery. To support and help orient Government reform efforts in this area, the World Bank in 2013 carried out a Public Expenditure and Financial Accountability (PEFA) assessment. The assessment identified substantial weaknesses in current public financial management systems, including manual processes of budget preparation and execution, fragmented policies and procedures, lack of a comprehensive PFM law, and lack of effective internal audit functions. Drawing on the PEFA analysis, the Government has developed a reform strategy that is being supported by the World Bank and other development partners, including through a public financial management modernization project jointly financed by the UK, Australia and IDA.

144. Notable public financial management reforms started during the ISN period. To strengthen the policy orientation of the 2015/16 budget, a Medium-Term Fiscal Framework was jointly prepared by the Ministry of National Planning and Economic Development and the Ministry of Finance. In addition, the Government has established a Treasury Department and Large Tax-Payers Office as part of efforts to modernize institutional structures. A public debt law has been drafted, which clarifies responsibilities for contracting debt. Finally, there have been substantial improvements in the quality of fiscal information provided to Parliament and subsequently reported in the media, including more accessible budget summaries and the first parliamentary submission of an audit report.

145. Consistent with the CPF's emphasis on governance, the WBG will continue to support Myanmar in the implementation of substantive PFM reform. At the same time, recognizing that such reforms will take time, the WBG in the meantime has adopted a number of complementary approaches for its projects. For example, WBG projects in Myanmar use Government PFM systems to the greatest degree feasible, and following an institutional assessment and ongoing capacity building, the Office of the Auditor General is being used to audit all World Bank-funded projects in Myanmar. In addition, the World Bank has conducted sector assessments in selected sectors (electric power, telecommunications, education and health) to better understand sectoral PFM challenges and integrate responses in projects design.

146. Consistent with its focus on public financial management, Myanmar has made efforts to establish a consistent public procurement system, albeit with continuing shortcomings. In June and September 2011, the Office of the President issued instructions to decentralize procurement to union ministries and to change procurement methods from closed tender to open tender. However, inconsistent implementation by line ministries left room for interest groups to

attempt to gain advantage. There is no designated institution which leads the procurement reform process to provide guidance on implementation or collect data about performance at the national level.

147. Building on these efforts, improvements are expected in the short to medium term. As part of its focus on supporting governance improvements, the World Bank since 2012 has conducted procurement assessments in selected sectors (electric power, telecommunications, education and health), with the findings of these assessments being used to improve the existing systems. Going forward, the Government has expressed interest in setting up a task force or designating a lead ministry to agree on consistent procurement rules and procedures. The World Bank has indicated its readiness to provide assistance to this process, including developing supporting tools (standard procurement documents, technical guidance, etc.) and building capacity in government agencies. With completion of these activities, the public procurement system in Myanmar will be better positioned to support delivery of public services and World Bank supported operations will benefit from a strengthened national procurement system.

3.5.3 Addressing implementation challenges

148. In recognition of the constraints and risks described above, the World Bank Group will continue to assess domestic capacities on an ongoing basis and evaluate implications for the WBG program. Early implementation experience has highlighted capacity constraints, reflected for example in relatively low disbursement rates of the WBG portfolio, consistent with similar experiences in re-engaging countries and young portfolios. Going forward, a country portfolio performance review (planned for late FY15) will help to focus on specific challenges. Many of these are shared by development partners, and are being addressed by a joint working group of development partners and the Ministry of National Planning and Economic Development. Findings from the Country Portfolio Performance Review (CPPR) will contribute to this joint effort, as well as inform specific WBG actions, including a continued emphasis on simple project design, realistic disbursement forecasts, and project lifecycles that take into account client capacity constraints.

149. To help ensure that interventions supported by Government, the WBG and other development partners are successfully reaching the poor, the WBG will provide support for developing a practical and operational mechanism for identifying poor areas and poor people for program purposes (see for example Box 4). Identifying the poor – beyond big picture poverty profiling and monitoring – requires a targeting method and operational mechanism to distinguish the poor from the non-poor. This will be challenging in a country with widespread poverty and vulnerability and significant data gaps. The World Bank Group has strong experience supporting developing countries in this process and through a mix of global experience, analytical work and technical assistance can support the Government in establishing such a mechanism.

150. Remaining responsive to a changing environment will require flexibility to change priorities and resources to ensure that the WBG remains a strong partner of Myanmar and its people during the transition. Changes in policies, the results of reform efforts and progress in the peace process could all provide additional opportunities for engagement. Particular care will be taken to retain flexibility in implementation arrangements. IDA supported operations will not

be limited to those areas where it is easy to work, but designed in ways that reach those people most in need of support. This will be especially relevant in conflict-affected areas, where regular IDA implementation modalities and focus on use of country systems might not be applicable due to limited Government reach and strong presence of non-state service providers linked to ethnic armed groups. Individual projects will explore differentiated implementation modalities for different target areas and groups, imposing additional costs for preparation and supervision budgets. Lack of access may also impose constraints to regular supervision and monitoring, in which case the WBG would look at alternative options, including third party monitoring, to track results and progress. The risk section includes a more detailed discussion of options in this regard.

151. Activities under the CPF will include a strong focus on capacity building. Early implementation experience during the ISN revealed significant capacity constraints across a range of Government ministries, a point reinforced by the findings of analytical work and issues raised during consultations for the SCD and CPF. In the Myanmar context, the WBG's emphasis on implementing through national systems and Government agencies sets the WBG apart from other donors. Activities under the CPF will seek to capitalize on that advantage by including a strong focus on capacity building in both investment and analytical work, including through enhanced implementation support, continuation of south-south exchanges in ASEAN and with countries which have gone through complex reform processes, and linking Myanmar officials to counterparts in other Governments through participation in regional professional networks, as is currently happening on both community-driven development and public financial management.

152. One such area for capacity building may be support for the development of a national framework for environmental and social safeguards. The WBG is exploring such support together with other development partners, which would be critical to ensure that needed investments in the coming years proceed in a manner that is consistent with long-term environmental and social sustainability. There is broad awareness of these issues among a range of stakeholders in Myanmar, but without an agreed standard there is a risk that planned investments could apply inconsistent standards and face significant delays. A national standard would also help Government undertake larger development projects in a way that adequately assesses and mitigates environmental and social impacts. Many sectors including those relating to climate change and disaster risk management need to expand to include the application of best practice of environmental and social standards.

153. The CPF will also continue a focus on strengthening knowledge and analysis in support of the ongoing transition. This is important as the peace process moves forward and opens up new priority areas for Government and development partners and as the country readies for a potential change of Government in early 2016. The WBG will continue its efforts to provide timely policy advice in technical areas where the World Bank has a comparative advantage.

154. In addition to trust funds under implementation, the World Bank may also leverage other financing. Sources include financing from thematic World Bank-administered trust funds as well as other development partners whose knowledge, financing and technical assistance complements the World Bank's programs. Decisions on seeking or accepting such additional funds would take place on a case-by-case basis where it is clear that such financing would complement and advance the strategic objectives of the country program as set out in the CPF.

3.5.4 Coordination and partnerships

155. For the WBG, partnership continues to be at the core of its engagement in Myanmar, in recognition of the scope and scale of development challenges and the limited capacity of Government. Collaboration with development partners enables the WBG to leverage its engagements and focus on its areas of comparative advantage. For example, following decades during which aid to Myanmar was delivered largely through parallel systems, the WBG's engagement, focused on working through Government systems and with Government program, has created opportunities for other development partners to use WBG investments as platforms to begin supporting Government systems.

156. The Government is leading donor coordination, and in 2013 adopted, together with development partners, the Nay Pyi Taw Accord for Effective Development Cooperation. The Nay Pyi Taw Accord articulates principles for aid effectiveness and was affirmed at second Myanmar Development Coordination Forum in Nay Pyi Taw in January 2014. The third forum took place in early February 2015 in Nay Pyi Taw with the involvement of CSOs and Parliament.

157. At the technical level, these commitments and annual forums are being translated into action through a set of coordination structures aimed at fostering ongoing dialogue between the Government of Myanmar and development partners. A set of 16 sector working groups, spanning thematic areas ranging from public financial management, rural development, gender and health, bring together Government line ministries and development partners engaged in the sector, including emerging donors and non-OECD development partners.

158. In addition, development partners coordinate among themselves through a Development Partner Group (DPG) that brings together all development partners active in Myanmar, and a Development Partners Working Committee (DPWC) that brings together a smaller group of the largest development partners. The DPWC meets regularly with the DPG and the Ministry of National Planning and Economic Development, and thus serves as a channel for ongoing communications.

159. However, while the past two years have seen the emergence of a large set of coordination structures, these remain primarily focused on information sharing, rather than joint programming. There also remains a gap between the development activities discussed under these structures and the peacebuilding needs in conflict-affected areas, posing a risk of disconnects between peacebuilding and sectoral efforts. This is important given that national decisions in for example health or education have important links for conflict-affected areas where parallel systems administered by ethnic armed groups are an integral part of negotiations, as well as in areas such as public financial management and decentralization, where decisions taken at the national level will have a direct impact on local communities. Issues related to the peace process

are discussed at the Peace Donor Support Group, where the World Bank Group has worked with partners to take forward the development of principles to govern activities in conflict-affected areas.²³

Table 3. Development Partner Activities in Myanmar by Sector Working Groups
As part of the Government's aid coordination architecture established under the 2013 Nay Pyi Taw Accord, the Government established 16 sector working groups that bring together key Government ministries with development partners active in these sectors.²⁴

Sector Working Group	Government of Myanmar Chair	DP Leads	Development Partner Members (listed alphabetically)
Agriculture and Rural Development	Ministry of Agriculture and Irrigation	FAO and USA	ADB, Australia, EU, France, ILO, Israel, JICA, KOICA, Netherlands, New Zealand, Switzerland, UK, UNDP, UN-HABITAT, UNODC, UNOPS, World Bank, WFP.
Communications and IT	Ministry of Communications and Information Technology	World Bank	ADB, Canada, Japan, Korea, UK, USA
Culture	Ministry of Culture	Italy and UNESCO	France, Germany, Japan, Korea, UK
Education	Ministry of Education	Australia and UNICEF	ADB, Australia, EU, France, Germany, ILO, Israel, Japan, Korea, Switzerland, UK, UNESCO, UNFPA, UNICEF, WFP, World Bank
Electric Power	Ministry of Electric Power	ADB and Japan	Netherlands, Norway, UK, UNDP, World Bank
Employment	Ministry of Labour, Employment and Social Security	Germany and ILO	ADB, IOM, Korea, Switzerland, UK, UNDP, UNESCO, UN-HABITAT, UNIDO, UN WOMEN, World Bank
Environment	Ministry of Environmental Conservation and Forestry	Norway and UN-HABITAT	ADB, EU, FAO, Japan, Korea, Netherlands, Norway, UNDP, UNEP, UNESCO, UNIDO, USA, World Bank
Gender	Ministry of Social Welfare, Relief, and Resettlement	France and UNFPA	ADB, Australia, EU, ILO, Italy, Japan, Sweden, Switzerland, UK, UNAIDS, UNDP, UNESCO, UNHCR, UNICEF, UNOHCHR, UN WOMEN, USA, World Bank
Health	Ministry of Health	WHO and USA	Australia, IOM, Japan, UNAIDS, UNICEF, UNFPA, UNODC, WFP, UNOPS, USA, WHO, World Bank
Hotels and Tourism	Ministry of Hotels and Tourism	ADB	ADB, Germany, ILO, Italy, Luxembourg, Switzerland, UNESCO, UNIDO, World Bank

²³ The Peace Donor Support Group (PDSG) was first convened in June 2012 by the Government of Norway at the request of the Myanmar President in order to provide a common platform for dialogue between the donor community and the Government of Myanmar, and to better coordinate the international community's support to peace in general and the provision of aid in conflict-affected areas. Initially composed of Norway, Australia, the United Kingdom, the European Union, the United Nations, and the World Bank, in 2013 the US, Japan and Switzerland were also invited to join.

²⁴ At the initiation of the Ministry of Livestock, Fisheries and Rural Development, the Government in early 2014 created a Consortium of Development Partners to support the Government's Rural Development Strategic Framework. Co-chaired by the UK and the World Bank, development partner participants include most members of the Sector Working Group on Agriculture.

In addition, at the request of the Ministry of Transport (who hold the mandate for water management in Myanmar) the WBG and the Netherlands created an informal sector working group on water resources which has met periodically since October 2013. Participants have included representatives of Australia, Denmark, the EU, Germany, JICA, KOICA, Norway, Sweden, Switzerland, the US, UK, ADB, UNDP, FAO, NGOs, INGOS and the private sector.

Media	Ministry of Information	France and UNESCO	EU, Germany, LIFT, Sweden, UK, UNICEF, UNOCHA, UNOHCHR USA
Public Administration	President's Office	EU and UNDP	ADB, Australia, Denmark, Germany, ILO, Japan, Korea, Norway, , Sweden, Switzerland, UK, UNHCR, UNICEF, UNODC, UN OHCHR, USA, World Bank
Public Finance Management	Ministry of Finance	Japan and World Bank	ADB, Australia, Denmark, EU, Germany, IMF, Korea, UK, UNDP, UNICEF, USA
Statistics	Ministry of National Planning and Economic Development	EU and UNFPA	ADB, ILO, IMF, Korea, Sweden, UK, UNDP, UNICEF, UNIDO, World Bank
Trade	Ministry of Commerce	EU and World Bank	Australia, Canada, ILO, IMF, Italy, Japan, Korea, Netherlands, Switzerland, UNCTAD, UNESCAP, UNIDO
Transportation	Ministry of Transport	ADB and Japan	Belgium, France, India, Korea, Netherlands, UNOPS, WFP

160. The WBG also seeks to foster joint operational engagement between Government and development partners by creating platforms for joint investment and analytical work. These allow other development partners to rely on the World Bank Group’s established fiduciary, procurement and other controls, providing reassurance as donors begin to provide financing directly to Government in support of Government systems. Proposed work to support the development of a mechanism to target poor areas and poor people could similarly provide a platform that would help Government and development partners ensure that resources reach the poor. Recent examples of cooperation include:

- **National Community Driven Development Program:** The World Bank is working with Italian Development Cooperation (IDC) on the implementation of a proposed €20 million concessional loan by the Government of Italy to Myanmar to support geographic expansion of the national CDD program, developed and launched with IDA financing and with the Japan Trust Fund for Social Development on a US\$11 million grant to scale up the program.
- **Public Financial Management:** Alongside a US\$30 million IDA credit approved in April 2014, Australia (US\$8.5 million) and the UK (US\$16.5 million) are co-financing this engagement to support efficient, accountable and responsive delivery of public services. Denmark is also supporting this agenda and overall public administration reform through a grant of US\$5.6 million.
- **Education:** The Decentralizing Funding to Schools Project will include an US\$80 million IDA credit and a US\$20 million grant from the Government of Australia.

3.5.5 Monitoring and data constraints

161. This CPF outlines a broad range of activities over a period of significant change in Myanmar. While individual engagements undertaken under the CPF will be evaluated against their specific results frameworks, an early Performance and Learning Review is planned for late

FY16 to ensure that the WBG program remains aligned within the changing country context and fit for delivery.

Box 6: The Myanmar “Umbrella” Multi Donor Trust Fund

The Myanmar Government has taken the lead in donor coordination as it seeks to effectively use an increased amount of aid flows, including those using Government systems. The WBG has supported this, including by creating platforms in its work that other donors can use for their financing in line with good principles for development assistance. The Myanmar Partnership Multi Donor Trust Fund (MMTF), designed jointly with the UK Department for International Development (DFID) and the Australian Department of Foreign Affairs and Trade (DFAT), was established in 2014 as a country-level WBG trust fund with initial contributions of US\$50 million. It provides a vehicle for development partners to work collaboratively to support Government development priorities and the WBG program in Myanmar. In late 2014, Denmark also became a donor to the MMTF.

By establishing a single mechanism for donors to work with the World Bank Group, the MMTF minimizes transaction costs for donors, Government and the WBG. In addition, as members of the Steering Committee, Government counterparts are able to ensure alignment of donor activities with the Government’s development priorities. Finally, and in keeping with the emphasis placed on knowledge, the MMTF allows for financing and co-financing for both projects, analytical work, and joint technical assistance across all entities of the World Bank Group. The initial design of the MMTF created four windows (social development and inclusion; institutional transformation; enhanced implementation support; and private sector development) but provides flexibility to allow for the establishment of additional windows as necessary.

Financing approved from the MMTF to date include (i) US\$30.6 million to co-finance the IDA credit supporting reform of Myanmar’s public financial management system, (ii) US\$22 million in co-financing for the IDA credit supporting the school grant and stipends program; and (iii) approximately US\$600,000 to support improvements in the investment climate, to be implemented by IFC.

IV. ASSESSING, MANAGING AND MITIGATING RISKS TO THE CPF PROGRAM

162. Myanmar’s ongoing transition presents a unique opportunity for the country to move to inclusion, empowerment, openness and integration. At the same time, these shifts present significant risks, and there is a continued risk that conflict might reemerge before domestic institutions are ready to mediate competing demands. Notably, the 2011 WDR on *Conflict, Security and Development* found that creating legitimate institutions which can prevent repeated violence takes significant time, often generations, with even the fastest-transforming countries having taken between 15 and 30 years to raise their institutional performance from that of a state in transition today to that of a functioning, institutionalized state.²⁵ Yet this CPF is grounded in the recognition that the risks involved, while high, are outweighed by the opportunities presented by

²⁵ *World Development Report 2011: Conflict, Security and Development*. World Bank, 2011.

the transition. The WBG will focus on supporting these opportunities, despite associated risks, rather than on limiting our engagement to only those areas where risks can be eliminated.

163. The WBG's new framework for operations risk management is based on the principle that risks should be assessed based on their impact on development results associated with the operational engagement. A core element of the new approach is to develop and regularly update operations risk ratings by using the Standardized Operations Risk-rating Tool (SORT), which will be used proactively in reviews and decision-making processes. In addition to the eight risk categories provided by the framework, the CPF includes risks associated with lack of data, which have significant consequences for the WBG's ability to design projects and monitor results.

164. Many of the risks to achieving development objectives outlined in the CPF are associated with the ongoing transitions. Their potential impact on the proposed program could be significant. In particular, the CPF recognizes the following country risks as critical for the operational engagement:

- **Political risks and the continued fragility of reforms.** The 2015 elections may test political compromises reached over the past three years, including around the eligibility for high office of the leader of the opposition. Political risks associated with the elections include a polarization among stakeholders, policy discontinuity, and a slow-down in reforms.
- **Conflict risks.** The ongoing peace process has achieved a significant reduction in armed conflict and built trust with a wide group of ethnic armed groups. However, conflict continues in Kachin and northern Shan State and a wider return to conflict remains a possibility. Moreover, there is a risk that over the course of the peace process, internal division may emerge among armed groups with the possible emergence of smaller conflicts or insecurity.
- **Social inclusion.** With the advent of increased civil and political freedoms, including of traditional and social media, previously latent religious and ethnic tensions have surfaced, including incidents of violence affecting, in particular, the country's Muslim minorities.
- **Governance risks** are high, reflecting a legacy of lack of transparency and weak capacity throughout the public and much of the private sector.
- **Economic risks.** Global economic developments, including volatile oil and gas prices, pose a significant risk. Politically-driven spending pressures may translate into fiscal risks. In the context of the entry of new players, both foreign and domestic, in Myanmar's private sector, the Government's limited capacity to enforce regulations and respond to shocks creates new vulnerabilities for the economy.
- **Disaster risk:** Myanmar is among the world's countries most vulnerable to natural disasters and has suffered through several devastating cyclones, including Cyclone Nargis in 2008, which killed about 140,000 people. Natural disasters and the impact of climate change are likely to represent an increasing challenge for Myanmar given the importance of agriculture for livelihoods.

165. There are at least two implications from the above risk review. First, as noted above, many risks are largely outside the control of the WBG. As such, the focus will be less on actions to mitigate and more on managing these risks – i.e. accepting the risks and adapting and sequencing the WBG program accordingly to reflect the dynamics of the transition, including continuing engagement with a wide range of political leaders and broad-based consultations.

166. Second, for those risks where the WBG can play a mitigation role, the first priority will be to do no harm.²⁶ External actors could exacerbate risks by moving too far or too fast in certain areas before these have been sufficiently resolved through the political process. Relatedly, there is a risk of moving too quickly towards normalization of development modalities without considering necessary adaptations for areas affected by subnational conflict. As discussed above, a critical element of a risk mitigation strategy is adapting IDA supported operations to work effectively in conflict-affected areas.

Table 4: Standardized Operations Risk-Rating Tool for Myanmar

Risk Categories	Rating
Political and governance	High
Macroeconomic	Substantial
Sector strategies and policies	Substantial
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	High
Fiduciary	High
Environment and social	High
Stakeholders	High
Knowledge Gaps	High
Overall	High

167. Building on the new WBG framework for risk management, the CPF will maintain flexibility, balancing risks against opportunities and measuring the risks of action against the risks of non-action. To this end, the CPF proposes to mitigate specific risks on a case-by-case basis, using a set of guiding criteria that span the portfolio and individual projects:

- **Manage risks at portfolio level:** Given the magnitude of risks that apply to all WBG activities in Myanmar, risks will be analyzed at the portfolio level, in addition to the activity level. This approach will facilitate an understanding of the balance of risks and results across the portfolio.
- **Calibrate support and use of country systems:** One of the key assets the WBG brings to Myanmar – both for Government and for development partners – is its readiness and ability to work with and through Government systems. At the same time, the extent of using country systems will continue to be governed by a clear

²⁶ The DAC OECD Principles for Fragile States and Situations states: “International interventions can inadvertently create societal divisions and worsen corruption and abuse, if they are not based on strong conflict and governance analysis, and designed with appropriate safeguards.” < <http://www.oecd.org/dacfragilestates/>>

understanding of risks, including capacity, governance, and fiduciary. In conflict affected areas, WBG supported operations will calibrate the use of country systems to avoid contributing to conflict or changing the balance of power at a time of ongoing political discussions.

- **Manage reputational risks:** As the WBG program scales up, expectations for the World Bank Group’s role in Myanmar will rise. The WBG will communicate clearly on its program, including expected results and timing of results from IDA or IFC-supported operations. In addition, the WBG will continue to engage with a broad range of stakeholders, given the diversity of views on international financing for development activities in Myanmar.
- **Consider pacing of reforms:** As Myanmar’s transition continues to unfold, the WBG will carefully consider the pace of reform, both to adapt and phase WBG support in line with country developments, and to avoid overloading systems with limited institutional capacity. The WBG will draw on ongoing analytical and knowledge work to help identify and implement solutions that are grounded in country context and represent “best fit” rather than a global template.

168. The WBG plans to monitor conflict and governance-related risks and vulnerabilities to the WBG partnership with Myanmar systematically over time. Such monitoring is expected to entail short regular reports on the ongoing transition, which aim at providing a framework for understanding risks to the portfolio.

Annexes

Annex 1	Selected Indicators of Portfolio Performance
Annex 2	World Bank Portfolio
Annex 3	IFC Portfolio
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Annex 1. Selected Indicators of Bank Portfolio Performance and Management

Myanmar – Selected Indicators of Bank Portfolio Performance and Management

Indicator	2013	2014	2015
<i>Portfolio Assessment</i>			
Number of Projects Under Implementation ²⁷	1	3	7
Disbursement Ratio (%) ²⁸	1	3.5	9.1
<i>Portfolio Management</i>			
CPPR during the year (yes/no)	no	no	planned
Supervision Resources (total US\$ thousand) ²⁹	222	1,806	2,453
Average Supervision (US\$ thousand/project)	222	602	350

²⁷ Investment projects only.

²⁸ Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

²⁹ Supervision cost includes both Bank Administrative Budget and Bank-Executed Trust Funds. FY15 actual is as of March 25, 2015. FY15 full year estimates for total supervision costs are US\$3.46 million, for an average supervision cost per project of US\$0.49 million.

Annex 2. World Bank Portfolio (IDA Credits and co-financing trust funds)

Project ID	Project Name	Board Approval Date	Closing Date	Net Comm Amt (\$m)		Tot Disbursement (\$m)		% Disbursement Ratio		Lst	Lst	Lst	Proj Age in Yrs
				IDA	TF	IDA	TF	IDA	TF	DO	IP	Risk	
P132500	Myanmar Emergency CDD	11/1/2012	1/31/2019	80	0	16.8	0	18.5	-	S	MS	H	2.4
P143988	Myanmar-Electric Power Project	9/24/2013	4/30/2018	140	0	0.2	0	0.1	-	S	MS	S	1.5
P145534	MM: Telecommunications Sector Reform	2/6/2014	12/31/2019	31.5	0	0.9	0	3.0	-	S	MS	H	1.1
P144952	Modernization of Public Finance Mgmt	4/2/2014	9/30/2019	30	20	0.7	0.7	2.4	2.4	S	S	S	1.0
P146332	Myanmar Decentralizing Funding to School	5/20/2014	12/31/2018	80	17	15.8	3.2	20.8	23.2	S	S	H	0.8
P149960	Essential Health Services Access Project	10/14/2014	6/30/2019	100	0	0.0	0	0.0	-	S	S	H	0.4
P146482	Ayeyarwady Integrated River Basin Management Project	12/9/2014	9/30/2020	100	0	0.0	0	0.0	-	-	-	-	0.3
7				561.5	37	34.4	3.9	9.1	11.6				

* DO refers to development objectives and IP refers to implementation progress.

AAA Portfolio

	FY 15	FY 16	FY 17
Focus Area 1: Reducing Rural Poverty			
Programmatic Agricultural AAA (P144851 and P152624)			
Programmatic AAA on Energy (PA-TP007561)			
Programmatic Environmental and Safeguards Assessment (PA-TP007564)			
Focus Area 2: Investing in People and Effective Institutions for People			
Advisory and Technical Services for Myanmar Health Systems Strengthening (RAS) (P145346)			
Monitoring School Grants and Stipends (P151137)			
Providing TA to Myanmar Comprehensive Education (RAS) (P145767)			
Myanmar Social Protection Policy Reform (P146376)			
Programmatic Public Sector AAA (PA-TP009528)			
Focus Area 3: Supporting a Dynamic Private Sector to Create Jobs			
EITI Preparation (P145465) and Implementation Support (P143321)			
Trade Facilitation and Competitiveness in Myanmar (P149672)			
Programmatic Economic (PA-TP007563) and Financial Sector (PA-TP007559) Monitoring			
Building Financial Sector Development (P145173) and Financial Inclusion (P143430) (RAS)			
Cross-Cutting Activities			
Programmatic Poverty AAA (P146920) and QSEM (P130963)			
Support to Myanmar Peace Process (P146479)			

Myanmar Strategy and Pipeline

		FY15	FY16	FY17
CREATE JOBS	Infrastructure Power, Transport & TMT	TOTAL = 2-3 Projects, \$150-175m	TOTAL = 2-3 Projects, \$175-225m	TOTAL = 2-3 Projects, \$200-250m
	Financial Inclusion Banking & Microfinance	TOTAL = 3-4 Projects, \$20-25m	TOTAL = 3-4 Projects, \$25-30m	TOTAL = 4-5 Projects, \$45-50m
	Direct Job Creation Tourism, Agri & Services	TOTAL = 2-3 Projects, \$145-170m	TOTAL = 2-3 Projects, \$100-125m	TOTAL = 2-3 Projects, \$75-100m
	Total 25, \$1 Bn :	7-10, \$315-370m	7-10, \$300-380m	~8-11, \$320-400m

Annex 5: Indicative Activities FY15-17 of the World Bank Group in Myanmar

Focus Area	Time Frame		
	FY15	FY16	FY17
Focus Area 1: Reducing Rural Poverty			
Knowledge	Analysis of Farm Production Economics	Programmatic AAA on Agriculture	
	National Electrification Plan		
		Analytical work on land issues	
	Programmatic AAA on sustainable environmental and natural resource management		
Financing	Agricultural Development Support Project (US\$100m IDA)		
	Ayeyarwaddy River Basin (US\$100m IDA)		
	National CDD Project: Additional Financing (notional: US\$300 million ***)		
	Energy: expected to include (1) an IDA credit for Rural Electrification (notional: US\$300 million ***) in late FY15 or early FY16; (2) Myingyan – WBG support in FY15-16; (3) IFC investments/financing to be specified		
Focus Area 2: Investing in People and effective institutions for people			
Knowledge	Advisory and Technical Services for Health Systems		
	Monitoring and Evaluating School Grants		
	National Statistics Development		
	Social Protection Policy Reform		
Financing	IDA: financing for health includes US\$100 million in FY15 and another US\$100 million, likely in FY17. IFC financing: to be specified.		
Focus Area 3: Supporting a Dynamic Private Sector to Create Jobs			
Knowledge	Extractive Industries Transparency Initiative (EITI)		
	Diagnostic of Trade Integration Study		
	Economic and Financial Sector Development Monitoring		
	Financial Inclusion (may include key aspects of financial sector development, such as an Accounting and Auditing ROSC or banking sector modernization)		
Financing	WBG activities also expected to include, among others, support for energy and for financial inclusion and financial sector modernization IFC financing: to be defined.		
Cross-Cutting Activities			
Knowledge	“Myanmar’s Future” AAA		
	Programmatic Poverty AAA – with household survey and Qualitative Social and Economic Monitoring		
	Social inclusion and support to the peace process		
	Policy notes for incoming government		
	Programmatic Public Expenditure Review		
	Disaster Risk Management Support (Knowledge and/or Financing, tbd)		
Financing	Planned IDA budget support financing includes one or two DPO operations. DPO operations are envisaged under two possible programmatic DPO series. One series will likely focus on decentralization, effective public service delivery, public financial management, administration, and governance – with a first operation (notional amount: US\$ 300 million ***) in FY15-16. The other series will likely focus around trade, agriculture, investment, financial sector modernization, and/or private sector development.		

*** These three operations are being prepared simultaneously; one is expected to be delivered in FY15, the other two in FY16. All are scalable. Amounts are notional and depend on available resources. Note: the indicative IDA 17 allocation is US\$ 1.6 billion.

Annex 6: Results Framework

Focus Area 1: Reducing rural poverty		
<p>At least 70 percent of Myanmar’s poor live in rural areas, where decades of public under-investment and market distortions have limited livelihood opportunities. The importance of reducing rural poverty is core to the Government’s development strategy: both the Framework for Economic and Social Reform and the Rural Development and Poverty Alleviation Strategy recognize the centrality of improving economic opportunities and access to services for rural communities throughout Myanmar to unlock the development potential of the country and foster inclusive growth.</p>		
<p>Objective 1.1: Improved power generation and access to electricity</p>		
<p>Intervention Logic</p> <p>Two-thirds of the population is not connected to the national electricity grid and lack of reliable electricity is a key constraint to the delivery of important services such as health, education and finance for rural populations and for private sector development more broadly. The Government had developed a National Electrification Plan to establish an enabling policy and institutional framework for a nationwide electrification program. The proposed National Electrification Project is expected to help increase access to electricity for populations currently not connected to the national grid. The ongoing Electric Power Project and proposed Myingyan Power Generation Project are expected to contribute to increasing the capacity and efficiency of power generation in Myanmar and strengthening the institutional capacity of the Ministry of Electric Power and the Myanmar Electric Power Enterprise. These activities will be part of the WBG’s support to the implementation of the National Electrification Plan which also includes IFC advisory services and MIGA guarantees to support electricity distribution and generation. Given the magnitude of the infrastructure gaps, this is a long-term engagement that involves an umbrella approach with many partners (see para 78) under the coordination of the Myanmar Power Sector Working Group, with the objective indicators below reflecting targets to be reached during the CPF period.</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>1. People provided with new or improved electricity service (million) Baseline: 0 (2014) Target: 3 (2017)</p> <p>2. Expanded conventional/renewable power generation (gigawatt hours, annual) Baseline: 260 (2014) Target: 660 (2017)</p>	<p>Thermal efficiency of energy conversion (%) Baseline: 20 (2014) Target: 48 (2017)</p> <p>Investment/financing facilitated from private sector (US\$ million) Baseline: 0 (2014) Target: 300 (2017)</p> <p>National electrification executive secretariat (NEES) functional Baseline: Established (2014) Target: Adequately staffed and functional (2016)</p>	<p>Ongoing: <i>World Bank:</i> [P143988] MM Electric Power Project; <i>IFC:</i> [600181] Myingyan IPP AS</p> <p>Planned: <i>World Bank:</i> [P152936] National Electrification Project; [P151366] Myingyan Power Generation Project</p> <p><i>IFC:</i> [33865] YESC, [TBD] Ayeyarwaddy, [TB] Myingyan, [TBD] Mandalay region electricity network <i>MIGA:</i> [TBD] Political Risk Guarantee</p>

Objective 1.2: Increased productivity in farming and agribusiness

Intervention Logic

Half of Myanmar's poor depend on agriculture for their livelihoods, and agricultural productivity is low, mostly due to poor rice yields compounded by an over-dependence on rice. Low yields in turn are a result of a lack of access by farming households to improved agricultural assets, infrastructure and services. More productive agriculture would also encourage job creation through agro-processing and trading activities. The World Bank aims to increase agricultural productivity in order to have a positive effect on agricultural incomes. The World Bank expects to support an integrated program that combines improvements in irrigation and drainage, extension services, and value chain upgrades to increase crop yields and develop a competitive rural sector that offers opportunities to all rural households. Alongside analytical work, these initial engagements will pilot new approaches, inform the policy dialogue and serve a demonstration effect to facilitate reform across the sector. The World Bank will also support further agricultural productivity enhancements by providing agro-meteorological services, facilitating inland water transport for agricultural outputs and enhancing the government's capacity to manage and deliver water resources to farmers.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>3. Average rice yields in targeted irrigated areas Baseline: 2.7 tons/ha (wet season rice) and 3.0 tons/ha (dry season rice) (2015) Target: 2.9 tons/ha (wet season rice) and 3.2 tons/ha (dry season rice) (2017)</p> <p>4. Cropping Intensity in targeted areas (ratio)³⁰ Baseline: 1.3 (2015) Target: 1.4 (2017)</p>	<p>Advisory agreements signed Baseline: 0 (2014) Target: 2 (2017)</p> <p>Area provided with improved irrigation and drainage services (ha) Baseline: 0 (2015) Target: 10,000 ha (2017)</p> <p>Clients who have received improved agricultural technologies promoted by WB financed projects Baseline: 0 (2015) Target: 4,500 (2017)</p>	<p>Ongoing: <i>World Bank:</i> [P146482] Ayeyarwaddy Integrated River Basin Management Project; [P144951] MM Agriculture Policy Alternatives: Status, Opportunities and Risks AAA; [P152624] Greater Mekong Rice Policy AAA;</p> <p>Planned: <i>World Bank:</i> [P147629] Agricultural Development Support Project <i>IFC:</i> [TBD] Possible investment in agribusiness</p>

³⁰ This indicator is defined as the sum of crop areas planted in wet, winter and dry seasons divided by the net area equipped by irrigation and drainage.

Objective 1.3: Improved access to critical infrastructure and services for the rural poor

Intervention Logic

Rural villages experience high levels of poverty, have limited access to quality services and infrastructure, and have had little voice in the development process. Increased investments in critical infrastructure that can improve access to markets and key services can significantly alter the development path by empowering rural communities to increase their production and income. The WBG will scale up the national community-driven development program to increase access to basic services for rural communities, including in conflict-affected areas. The program helps increase access to and use of basic infrastructure and services (e.g., small feeder roads, foot-paths and bridges, drinking water systems, rehabilitation of schools and health centers) through a participatory approach, while creating a platform for government to deliver infrastructure improvements through a bottom up, participatory approach. The scale up of the CDD project is scheduled to run through January 2021, with indicators below reflecting only targets to be reached during the CPF period.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
5. Population in townships benefiting from improved access to and use of rural infrastructure and services under the WBG interventions (number) Baseline: 0.8 million (2014) Target: 3.3 million (2017); of which at least 40 percent female	Households in project villages participating in planning, decision-making, and implementation of sub-projects (percent) Baseline: 0 (2014) Target: >50 (2017)	<p>Ongoing: <i>World Bank:</i> [P132500] MM National Community Driven Development Project</p> <p>Planned: <i>World Bank:</i> [P153113] Additional Financing for National Community Driven Development Project</p>

Objective 1.4: Improved national capacity for sustainable environmental and natural resource management

Intervention Logic

To ensure long-term sustainability of poverty reduction efforts, it will be important for Myanmar to adopt an integrated approach to the management of its natural resources and develop a nationally agreed environmental and social safeguards framework. The proposed WBG support in this area would entail (i) programmatic analytical work that will (a) strengthen and support the quality and standards of the national institutional and regulatory framework capacity for environmental and social assessment, implementation and monitoring and evaluation, public participation and transparency to international standards level that will promote sustainable country systems to address environmental risks of the country’s investments programs; and (b) assist the GoM to manage environmental risks and challenges of natural resources (such as forests) and develop risk management strategy based on analysis of environmental risks facing one or two development sectors; (ii) investments to sustainably manage the Ayeyarwaddy River Basin, to support capacity building of national systems to collect and analyze data to make decisions about possible uses of the Ayeyarwaddy River, including on possible hydropower development, transport, irrigation and flood control; and (iii) continued support for Myanmar’s implementation of the Extractives Industries Transparency Initiative as part of responsible natural resource management.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>6. Country demonstrates capacity for sustainable environmental and natural resource management by preparing and implementing investment projects following quality safeguards and performance standards (number of projects) Baseline: 4 (2014) Target: 8 (2017)</p>	<p>Country Safeguard Assessment Report completed Baseline: No (2014) Target Yes (2016)</p> <p>Report on analysis of one key natural resource completed Baseline: No (2014) Target: Yes (2016)</p> <p>Environmental risk management report for one or two key sectors completed Baseline: None (2014) Target: Yes (2017)</p> <p>Strategic Environmental and Social Assessment for the Ayeyarwaddy River Basin initiated. Baseline: No (2014) Target: Yes (2017)</p>	<p>Ongoing: <i>World Bank:</i> [P146482] Ayeyarwaddy Integrated River Basin Management Project; [P143321] Extractive Industries Transparency Initiative Implementation Grant; [P145465] Myanmar EITI Preparation Support</p> <p>Planned: <i>World Bank</i> [P152942] Programmatic AAA on Building national capacity for sustainable management of NRM</p>

Focus Area 2: Investing in People and Effective Institutions for People

A successful shift to empowerment and inclusion will depend on citizens that are able to make a better future for them. Decades of underinvestment in public services (with budget allocations for social services among the lowest in the world) have greatly limited availability and quality of key social services, and the ability of state institutions to deliver effectively at the local level. The Government aims to change this, including by setting the country on a path to universal healthcare access and increasing budget allocations for social services. This focus area aims to improve access to and the quality of key social services to provide citizens with skills and endowments to make a better future for themselves, including by equipping institutions to deliver services to people effectively.

Objective 2.1: Improved capacity to manage public finances and Union-State/Region relations for better service delivery

Intervention Logic

Myanmar is a centralized country following decades of military rule, and fiscal and functional decentralization is a core issue for more effective service delivery at the local level and for the current peace process. The effectiveness and efficacy of the various pathways in ending poverty and boosting shared prosperity will depend critically on the capacity of Government to design and implement the right interventions, whether in the form of policy, institutional reforms, or investments. WBG support for more

effective public institutions is expected to include the continued implementation of an IDA operation that supports modernization of public financial management and provides technical assistance to address public administration performance constraints in social and economic sectors.		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>7. Formula for intergovernmental transfers Baseline: No formula (2014) Target: Approval of formula (2016)</p> <p>8. Budget preparation process in place, including issuance of ceilings and preparation of a medium-term fiscal framework Baseline: No (2014) Target: Yes (2017)</p>	<p>Public expenditure review completed Baseline: No review (2014) Target: Review completed (2015)</p> <p>Government commitment of fiscal transparency in line with global good practice, including report on revenues from natural resources Baseline: No (2014) Target: Yes (2017)</p>	<p>Ongoing: <i>World Bank:</i> [P144952] Modernization of Public Finance Management; [P146332] MM Decentralizing Funding to Schools; [P132668] MM Programmatic Public Expenditure Review; [P146479] Support to Peace Process</p> <p>Planned: <i>World Bank:</i> Development Policy Operation [P152734]; Programmatic TA for Governance</p>
Objective 2.2: Expanded health services and improved health financing, with a focus on maternal, newborn and child health		
<p>Intervention Logic: Health care services in Myanmar are constrained by a combination of limited access and lack of timely and flexible financing for frontline service delivery. Health outcomes lag significantly behind other countries in the region: infant mortality still stands at 40 per 1,000 live births; each year, about 2,000 pregnant women and 50,000 children die from preventable causes; and for those in the lowest income quintile, only 71 percent of births are delivered by skilled birth attendants and only 78 percent receive post-natal care. The Government of Myanmar has committed to overcoming poor access to quality services and low financial risk protection by setting out a path towards Universal Health Coverage. Deliveries with skilled birth attendant and adequate post-natal care are proxy indicators of improved health financing in townships. IDA supported operations will aim to expand coverage of essential health services of adequate quality, with a focus on maternal, newborn and child health, in support of Myanmar's move towards Universal Health Care (UHC).</p>		
CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>10. Deliveries with skilled birth attendant (percentage) Baseline: 71 (2014) Target: 75 (2017)</p> <p>11. Deliveries which are followed by adequate post-natal care (percentage) Baseline: 78 (2014) Target: 80 (2017)</p>	<p>Health financing strategy Baseline: None (2014) Target: Approved (2016)</p> <p>Health facility grants transferred to township and below based on formula Baseline: No (2014) Target: Yes (2016)</p>	<p>Ongoing: <i>World Bank:</i> [P149960] Essential Health Services Project; [P145346] MM Health Systems Strengthening Advisory and Technical Services;</p> <p>Planned: <i>World Bank: Improving Financial Protection for UHC</i></p>

Objective 2.3: Expanded and improved education coverage and measurement of learning outcomes

Intervention Logic

While school enrollment rates in Myanmar are relatively high, completion rates lag behind the country’s peers. Education, especially in rural areas, had historically been underfunded, and this has exacerbated inequalities, as poorer and more isolated areas comparatively lack financial means and technical capacity. Increased access to basic education has the potential to play a critical role to ensuring inclusive growth. The Government is working to increase retention rates, and IDA investments to support reform of basic education will focus on improving and expanding Myanmar’s existing school grants and targeted student stipends programs as part of this effort, as well as on the implementation of professional development programs for township and school officials and periodic early grade reading assessments. The operations will support reforms through (i) expanding the coverage of the stipend program and improving operational mechanisms for targeting poor and vulnerable students which would improve retention, (ii) improving the reliability and transparency of the school grants scheme; and (iii) building the capacity of the Ministry of Education, townships, schools and communities to implement these programs and monitor their progress.

CPF Objective Indicators

Supplementary Progress Indicators

WBG Program

12. Students receiving stipend payments
Baseline: 0 (2014)
Target: 30,000 (2017); of which at least 40 percent female

13. States/Regions that have conducted assessment for early grade reading performance in primary schools
Baseline: 1 (2014)
Target: 5 (2017)

States/regions with revised guidelines for student stipends and school grants
Baseline: 1 (2014)
Target: 15 (2017)

Ongoing:
World Bank:
[P146332] MM Decentralizing Funding to Schools; [P151137] Monitoring school grants and stipends

Objective 2.4: Increased understanding of poverty and key related issues

Intervention Logic

Significant data constraints in Myanmar limit an understanding of poverty and related factors, and complicate efforts at targeting interventions, measuring impact, and applying global experience in policy design and implementation. The WBG will support the GoM to conduct a nationally-representative household survey to better understand dimensions of poverty in Myanmar and allow targeting of interventions towards the poor, including a better understanding of poverty among Myanmar’s ethnic minorities. The WBG will also continue to support the preparation and implementation of a National Strategy for the Development of Statistics, to help Government map and fill critical knowledge gaps. These engagements will be complemented by analytical and diagnostic work on key thematic issues as well as on reform sequencing, expected to include trade and agricultural opportunities, land governance, social inclusion, ethnicity and gender, migration, labor markets, skills development and job creation, and access to finance in remote areas.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>14. National statistics strategy endorsed Baseline: No strategy (2014) Target: Government endorsement (2015)</p> <p>15. Increase government knowledge on poverty and public expenditures Baseline: limited data (2014) Target: Poverty assessment and expenditure review completed (2015)</p>	<p>Poverty assessment conducted Baseline: No updated assessment (2014) Target: Updated assessment (2016)</p>	<p>Ongoing: <i>World Bank:</i> [P146127] Developing a National Strategy for Development of Statistics for Myanmar; [P146898] MM Poverty Monitoring and Diagnostics; [] Country Economic Memorandum;</p> <p>Planned: <i>World Bank:</i> [P092731] MM Economic Update and Watching Brief [P130963] Qualitative Social and Economic Monitoring</p>

Focus Area 3: Supporting a dynamic private sector to create jobs

Sustainably reducing poverty and boosting shared prosperity will involve moving beyond extractive-based to inclusive economic growth that can create jobs. This focus area aims to foster inclusive growth and a vibrant private sector that can drive job creation to reduce poverty. In order to sustainably reduce poverty for the transitional and traditional poor in Myanmar, jobs outside agriculture will be essential. Yet given that the gas sector is not labor intensive, efforts will need to focus on promoting greater private sector investment in non-gas sectors such as manufacturing, mining, tourism, ICT, the financial sector, and construction. Creating employment opportunities in and around towns and cities will be critical to ending urban poverty, particularly through Small and Medium Enterprises (SMEs) alongside large firms. Current efforts to open up space for foreign and domestic investors will need to be a priority, complemented by facilitation of access to domestic, regional, and international markets. In addition to opening up the economic space, attention will also need to focus on removing key constraints related to actual factors of production that are critical to business start-up and increased productivity – such as electricity, finance, and ICT.

Objective 3.1: Improved financial infrastructure and access to finance

Intervention Logic

Access to finance in Myanmar is limited, yet critical to promote inclusiveness of growth and empowerment of people. Only 30 percent of Myanmar's adult population has access to financial services provided either by commercial banks or microfinance institutions. The WBG aims to support the implementation of the country's Roadmap for Financial Inclusion by modernizing payment systems, strengthening financial sector intermediaries, fostering new financial products, and building capacity of financial sector regulators and supervisors. WBG interventions in the area of financial inclusion would be structured in a comprehensive program that is joint between WB, IFC and interested bilateral donors around four areas: (i) modernizing payment systems and financial sector infrastructure, (ii) strengthening private financial institutions critical for financial inclusion (microfinance institutions, private banks) and transforming select State-owned banks into financially sustainable institutions, (iii) expanding financial instruments and products (SME lending, agriculture

lending, insurance, digital finance, etc.); and (iv) strengthening the capability of the Central Bank of Myanmar and Ministry of Finance to monitor the soundness and integrity of the financial system.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>16. Additional people, microenterprises and SMEs reached with financial services Baseline: 0 (2014) Target (2017): 200,000 (2017)</p> <p>17. Value of additional financing facilitated (US\$ million) Baseline: 0 (2014) Target: 40 (2017)</p>	<p>Financial sector master plan Baseline: No master plan (2014) Target: Master plan developed (2015)</p> <p>Bank and Financial institutions law Baseline: Outdated law (2014) Target: A new Bank and Financial Institutions Law passed by Parliament (2015)</p> <p># of investments committed (IFC) Baseline: 3 (2014) Target: 5 (2017)</p>	<p>Ongoing: <i>World Bank:</i> [P145173] Building Financial Sector Development AAA; [P153898] Scaling Up Financial Services for the Poor; [599806] Myanmar Credit Bureau project; [] Assistance to review and amend laws and regulations for bank and microfinance institutions; [] New Financial Sector Development Strategy; [] Assessment of all state-owned banks.</p> <p>IFC: [32731] ACLEDA Myanmar I; [33664] GTFP MOB Bank; [34178] Yoma Equity; [TBD] Myanmar Corporate Governance</p> <p>Planned: <i>World Bank: TBD Larger operation to scale up access to finance in discussion; IDA is planning to carry out a \$250 or so million dollar financing operation to support financial inclusion</i> <i>IFC: Investments in SME banks and MFIs.</i> <i>MIGA: Political risk guarantees for commercial bank expansion</i></p>

Objective 3.2: Improved enabling environment for private sector investment in productive and services sectors

Intervention Logic
Jobs are a pathway out of poverty. Sustained employment generation is premised on a diversified investment base across the real sectors. For Myanmar to create more jobs in the non-gas and non-agricultural sectors, continuing with current efforts to open up the space for foreign and domestic investors will need to be a priority. The WBG will assist the GoM in creating a business environment that is conducive to private sector investment. This will involve improving the legal and regulatory framework to strengthen investor protection,

streamlining investment entry procedures and improving the investment incentive regime. IFC will undertake additional work aimed at improving the regulatory framework and business environment, including technical assistance to Government for a new investment law and support for the Myanmar Business Forum to strengthen public-private dialogue.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
18. Reform - investment policy (number): Baseline: 0 (2014) Target: 1 (2017)	Number of recommended laws/regulations/amendments/codes enacted or government policies adopted Baseline: 0 (2014) Target: 4 (2017)	Ongoing: World Bank: [P143595] Investment Climate Assessment IFC: [600309] Myanmar Investment Policy; [600430] Myanmar IC Reforms and Myanmar Business Forum
19. Mobilization of private investment (million): Baseline: 0 (2014) Target: 150 (2017)		

Objective 3.3: Improved capacity to facilitate (and benefit from) trade

Intervention Logic
Given its long period of international isolation, to seize increased trade and FDI opportunities, Myanmar will need to be part of the regional and global production/value chain networks. Transaction costs for international trade can be reduced through reforms of institutions, policies, and procedures, and through applying conflict and gender sensitive approaches. Reforms are needed to address non-tariff measures (NTMs) and border management procedures that are bureaucratic and slow and that raise the cost of doing business and discourage the growth of overseas trade. A Diagnostic of Trade Integration Study (DTIS) will be carried out to identify opportunities for improving Myanmar’s capacities to benefit from trade. Technical work following on the DTIS could include additional knowledge work on trade and transport facilitation assessments, customs modernization, and sector specific technical assistance. These engagements would build on the WBG investment climate assessment, which will support a policy dialogue on critical bottlenecks for the private sector. Advisory services in key sectors, including agriculture and tourism, will enhance Myanmar’s ability to benefit from regional integration and support development in key value chains.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
20. Reform - trade policy (number): ³¹ Target: 1 (2017) Baseline: 0 (2014) Target: 1 (2017)	Trade related regulations published on public website Baseline: No (2014) Target: Yes (2017)	Ongoing: <i>World Bank:</i> [P153934] DIAGNOSTIC OF TRADE Integration Study; [P149672] Trade Facilitation and Competitiveness in Myanmar IFC: Trade component of project [600430] Myanmar IC Reforms
21. Number of recommended laws/regulations/amendments/codes enacted or government policies adopted Baseline: 0 (2014) Target: 3 (2017)		

³¹ As there is some uncertainty regarding which policies will move forward during the CPF period, this will be fine-tuned during the PLR.

		<p>Planned: WB: [P152354] Non-Tariff Measures in Myanmar; [TBD] Gap Assessment for ASEAN Trade in Goods Agreement</p> <p>IFC: [TBD] Agribusiness Investment Climate and [TBD] Tourism Development</p>
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Objective 3.4: Increased access to ICT

Intervention Logic
Access to telephone services was estimated at 20 percent in 2014 while internet penetration stood at 10 percent, the lowest rates in Southeast Asia. Increased access to ICT will be critical for Myanmar to seize increased trade and FDI opportunities, use technology for leapfrogging on issues such as increased access to finance, and support a vibrant private sector. The WBG will continue implementation of the Telecommunications Sector Reform Project, which will support regulatory reforms which will enable the licensing of new private operators to lower the cost of doing business and foster competition leading to lower prices, increased access and improved quality of services. The project will also build capacity of public sector institutions, including in better spectrum management and developing e-government applications. Finally, it will contribute to the extension of basic telecommunications services into remote and poor rural communities through a universal access program.

CPF Objective Indicators	Supplementary Progress Indicators	WBG Program
<p>21. Access to telephone services (fixed mainlines and cellular phones per 100 people) Baseline: 20 (2014) Target: 50 (2017)</p> <p>22. Access to Internet services (number of subscribers per 100 people) Baseline: 10 (2014) Target: 15 (2017)</p>	<p>Universal service strategy adopted Baseline: No strategy (2014) Target: Strategy adopted (2015)</p> <p>Licensed telecommunications operators (number) Baseline: 3 (2014) Target: 8 (2017)</p>	<p>Ongoing: <i>World Bank:</i> [P145534] MM Telecommunications Sector Reform; [P132295] ICT Sector Policy Dialogue</p>

Annex 7: ISN Retrospective

	Activity	Status
Pillar 1: Transforming Institutions		
Knowledge work	<u>AAA</u> : Public Expenditure and Financial Accountability Assessment (PEFA)	Completed
	<u>AAA</u> : Public Expenditure Review (PER)	Programmatic, ongoing
	<u>AAA</u> : Investment Climate Assessment (ICA)	Completed
	<u>AAA</u> : Financial sector master plan, legal reform, and supervision strengthening	Completed
	<u>AAA</u> : Knowledge support on economic transition	On demand, ongoing
Financing	<u>IDA credit</u> : Possible PFM and/financial sector support project (US\$30m)	PFM project approved in April 2014, under implementation
	<u>IFC investment</u> : IFC support for microfinance (US\$2m)	Initial investment in microfinance institution approved in November 2012
Pillar 2: Building Confidence		
Knowledge work	<u>AAA</u> : Agricultural productivity policy work	Completed
	<u>AAA</u> : Policy advice for ICT reform	Completed, plus \$30m IDA credit approved in February 2014
	<u>AAA</u> : Support to civil society to promote social accountability	Dropped, given ongoing similar work by other partners
Financing	<u>IDA grant</u> : National CDD project (US\$80m)	Approved in November 2012, under implementation
	<u>Korean TF</u> : Support to peace process (US\$3m)	Approved in July 2013, under implementation
	<u>IDA credit</u> : Possible emergency power rehabilitation project (US\$140m)	Approved in September 2013, under implementation
Pillar 3: Preparing for the Road Ahead		
Knowledge work	<u>AAA</u> : Household survey	Pilot underway now, full survey planned for 2015
	<u>AAA</u> : Gender assessment and policy notes	Ongoing
Financing	<u>AAA</u> : Qualitative M&E services for livelihoods trust fund	Approved in 2012, under implementation
	<u>IDA credit</u> : Development policy operation (US\$410m)	Approved in 2013, closed

Annex 8. World Bank Group CPF Consultations in Myanmar

1. Between February and August 2014, the World Bank Group hosted a series of public consultations across Myanmar and outside the country to seek inputs on Myanmar’s development challenges and the World Bank Group’s strategy from a broad range of government, civil society, development partner and private sector participants. The first round of these consultations, between February and June, focused on identifying and prioritizing the key development opportunities to eliminating extreme poverty and boosting shared prosperity in Myanmar to feed into the Systematic Country Diagnostic and took place between February and June 2014 with 15 events in six locations. A second round of consultations, focused specifically on the CPF, took place between July and August 2014 and sought input on which of the development priorities for Myanmar identified in the SCD the WBG should address. A summary of these consultations is available on the World Bank website. These consultations complemented an ongoing dialogue with stakeholders on the World Bank Group’s engagement in Myanmar which will continue throughout the CPF’s implementation.

2. The consultations on the CPF included 16 meetings in eight locations bringing together over 600 people representing some 380 organizations from civil society, government, development partners, private sector, media and researchers. The meetings were held in five locations within Myanmar (Nay Pyi Taw, Hpa An, Yangon, Mandalay, and Taunggyi), two in Thailand (Chiang Mai and Mae Sot) and one in the US (Washington, DC). Online feedback was also solicited through the WBG Myanmar website. Written inputs were received from a number of organizations, including Oxfam, Human Rights Watch, Global Witness, and Myanmar IFI Watch.

3. The consultations adopted an approach and standards agreed on upfront in discussions with a group of civil society representatives. Invitation packages were sent out at least two weeks in advance of each event, included summaries of the previous round of consultations, background information on the WBG and its activities in Myanmar, and information on the key content of the consultation, in English and Myanmar in order to enable participants to prepare for the event. Based on feedback from the first round of consultations on the SCD, pre-visits were undertaken to each of the locations ahead of the consultations to assist with identifying invitees and distributing paper invitations and hard copies of materials given the difficulty of some participants to access materials via email or online. These efforts resulted in significantly increased participation at consultations on the CPF.

4. Key recommendations, concerns and ideas discussed during the consultations were largely aligned with priority areas of the proposed WBG program. In particular, participants noted the importance of agricultural development (noting that between 60 and 70 percent of the population in Myanmar are dependent on agriculture) as well as the provision of basic health and education services. Participants also noted the need for comprehensive, long-term engagements in these areas.

5. Many participants also stressed the importance of capacity building for government—particularly in regard to transparency and accountability—and urged WBG support in this area. Several participants suggested that the WBG should prioritize strengthening governance of natural resources given the importance of this sector on the

economy. A number of participants pointed to the need to improve public financial management, including the need to increase tax revenue. They also called on the World Bank Group to support the development of the banking system in Myanmar to increase access to finance and to control inflation.

6. Participants also offered suggestions related to support for the development of the private sector in Myanmar. This included improved access to international markets, increased supply of electricity and support for the development of legislation to promote trade and encourage foreign investment. The issue of land governance came up frequently. Some stakeholders drew attention to the fact that foreign direct investment and overall economic development could increase the value of land and the potential for land confiscation and landlessness at a time when proper land governance legislation and systems are not yet in place. For example, while many participants recommended the World Bank Group support for the development of the telecommunications sector, they also urged the World Bank Group to carefully assess the risks to land rights involved in building communications infrastructure. Several participants also recommended that even small scale hydro-power production must be avoided in contested areas during the peace process, as this could disrupt the process.

7. The most common response on the question of what the WBG should *not* do in Myanmar was supporting Foreign Direct Investment (FDI). Many participants felt that the legal framework needed to protect local organizations and workers, and to ensure that FDI met environmental and social standards, was not yet in place, and suggested the WBG should instead work to ‘level the playing field’ and support the development of SMEs through capacity development programs and improving access to finance.

8. Discussions during the consultations also focused on *how* the WBG should engage in Myanmar going forward. Specifically, participants emphasized the importance of adhering to international standards and principles on all WBG programs and investments in Myanmar. Some stakeholders suggested that the WBG has the opportunity to – and should – step up to play a leadership role in the development process in Myanmar, including through donor coordination. Several participants noted the importance of ensuring that all WBG projects are conflict sensitive, including through the conduct of conflict analysis. The primary focus of discussions on conflict sensitivity was on operations in contested areas. Several participants underlined that the WBG should recognize the importance and effectiveness of and provide support to alternative public services provided by community-based groups, CSOs, the border-based health and education programs, monastic education programs and INGOs. Concerns related to the problems in Rakhine State and the rise of nationalism in Myanmar in general, were also raised. Finally, participants emphasized the need for the WBG to ensure adequate staff in country to effectively manage the work it undertakes given the complexities of the country context.

Annex 9: Country Financing Parameters

The following country financing parameters for Myanmar were approved by the Regional Vice President, East Asia and Pacific in November 2013.

Item	Parameter	Remarks / Explanation
Cost sharing. Limit on the proportion of individual projects that the Bank may finance	Up to 100%	Individual projects may be financed up to 100% based on case by case merit/ justification. The actual cost-sharing would be determined on a project by project basis within the context of the borrowers overall development program, alternative evidence of borrower commitment, and borrower financing of the sector concerned. For projects implemented by independent revenue-earning, the entity's financial position and debt capacity would be taken into consideration. In some projects, contributions from beneficiaries may be required as an indication of commitment, e.g. CDD projects.
Recurrent cost financing. Limit that would apply to the overall amount of recurrent expenditures that the Bank may finance	Subject to project/ program-level assessment of sustainability, there is no country limit on financing recurrent costs	Bank financing of projects is expected to represent relatively a marginal share of the overall government budget. In determining recurrent cost financing in individual projects, the Bank would take into account sustainability issues at the sector and project level particularly the sustainability of project achievements, and implied budgetary outlays. The Bank does not expect the level of recurrent cost financing to increase significantly. To be applied on a selective and case-by-case basis, subject to project or program-level assessment of sustainability.
Local cost financing. Are the requirements for Bank financing of local expenditures met, namely that: (i) financing requirements for the country's development program would exceed the public sector's own resources (e.g., from taxation and other revenues) and expected domestic borrowing; and (ii) the financing of foreign expenditures alone would not enable the Bank to assist in the financing of individual projects	Yes	The country's financing requirements for the country's development exceed the public sector's own resources and expected domestic borrowing for the foreseeable future and financing of foreign expenditures alone would not enable the Bank to assist adequately in the financing of individual projects

<p><i>Taxes and duties.</i> Are there any taxes and duties that the Bank would not finance.</p>	<p>No</p>	<p>Low to moderate taxes, not considered excessive and discriminatory to Bank-financed projects. The Bank can finance all taxes and duties associated with project expenditures, except in projects where these have been determined by the Bank to constitute an excessively high share of project cost and/or the Government grants an exemption.</p>
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Annex 10: Map of Myanmar

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