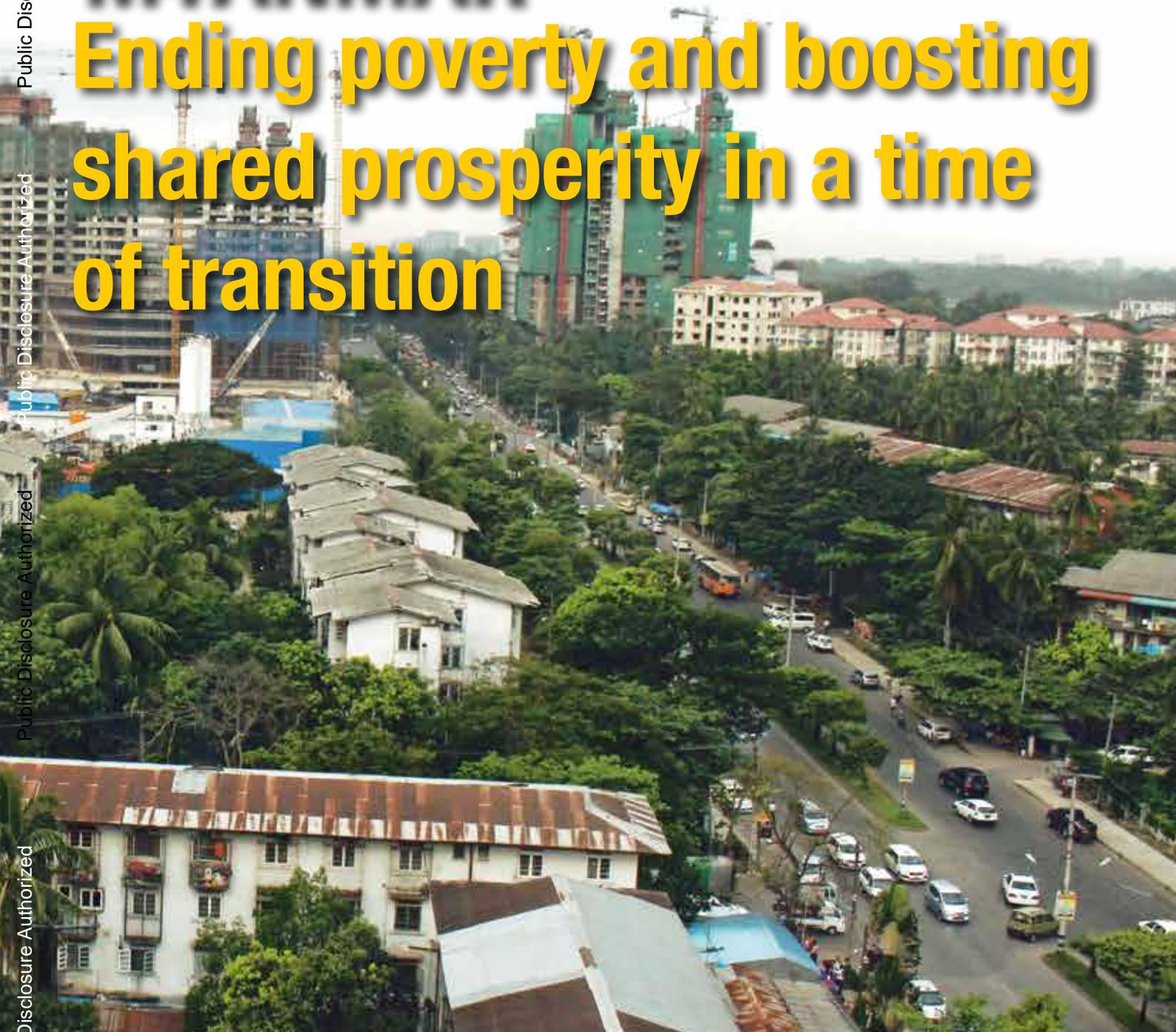


NOVEMBER,
2014

MYANMAR

Ending poverty and boosting shared prosperity in a time of transition



A SYSTEMATIC COUNTRY DIAGNOSTIC



WORLD BANK GROUP

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank	MOHT	Ministry of Hotels and Tourism
AIDS	Acquired Immunodeficiency Syndrome	MNPED	Ministry of National Planning and Economic Development
ASEAN	Association of Southeast Asian Nations	MP	Member of Parliament
ATM	Automated Teller Machine	MPLCS	Myanmar Poverty and Living Conditions Survey
CBM	Central Bank of Myanmar	MPT	Myanmar Posts and Telecommunications
CEDAW	Committee on the Elimination of Discrimination against Women	MSE	Microfinance Supervisory Enterprise
CESD	Center for Economic and Social Development	MSME	Micro Small Medium Enterprise
CESR	Comprehensive Education Sector Review	NGO	Non-Governmental Organization
CPF	Country Partnership Framework	NRC	National Registration Card
CSO	Civil Society Organization	NSDS	National Strategy for the Development of Statistics
DB	Defined Benefit	NTM	Non-Tariff Measures
DFID	Department for International Development	OECD	Organization for Economic Co-operation and Development
DSA	Debt Sustainability Analysis	OOP	Out-Of-Pocket
DTIS	Diagnostic Trade Integration Study	PEFA	Public Expenditure and Financial Accountability
DU	Delivery Unit	PER	Public Expenditure Review
EAP	East Asia Pacific	PFM	Public Financial Management
EITI	Extractive Industries Transparency Initiative	PPP	Public-Private Partnership
EMIS	Education Management Information System	PSC	Production Sharing Contract
ESIA	Environmental and Social Impact Assessment	QSEM	Qualitative Social and Economic Monitoring
EU	European Union	SABER	Systems Approach for Better Education Results
FAB	Farmland Administration Body	SCD	Systematic Country Diagnostic
FDI	Foreign Direct Investment	SEE	State Economic Enterprise
FESR	Framework for Economic and Social Reform	SEZ	Special Economic Zone
FIL	Financial Institutions Law	SIDA	Swedish International Development Agency
GDP	Gross Domestic Product	SIM	Social Impact Monitoring
HIV	Human Immunodeficiency Virus	SLORC	State Law and Order Restoration Council
HRD	Human Resource Development	SLRD	Settlement and Land Records Department
ICA	Investment Climate Assessment	SME	Small and Medium Enterprise
ICT	Information and Communications Technology	SMP	Staff Monitored Program
IDP	Internally Displaced People	SNA	System of National Accounts
IFC	International Finance Corporation	SOE	State Owned Enterprise
IHLCA	Integrated Household Living Conditions Assessment	SP	Social Protection
IHLCA-2	Integrated Household Living Conditions Assessment - 2	STEPS	Skills for Training, Employment, Progression and Self-development
ILO	International Labor Organization	SWG	Sector Working Group
IMF	International Monetary Fund	TSI	Trade Support Institution
INGO	International Non-Governmental Organizations	TVET	Technical and Vocational Education and Training
IPP	Independent Power Producer	UMEHL	Union of Myanmar Economic Holdings Limited
IRD	Internal Revenue Department	UN	United Nations
JICA	Japan International Cooperation Agency	UNCTAD	United Nations Conference on Trade and Development
JMP	Joint Monitoring Program	UNDP	United Nations Development Programme
KIO	Kachin Independence Organization	UNICEF	United Nations Children's Fund
KNU	Karen National Union	UNODC	United Nations Office on Drugs and Crime
LSCI	Liner Shipping Connectivity Index	USA	United States of America
LUC	Land Use Certificate	USD	United States Dollar
MADB	Myanmar Agricultural Development Bank	USDA	United States Department of Agriculture
MDRI	Myanmar Development Resource Institute	USDP	Union Solidarity and Development Party
MEB	Myanmar Economic Bank	VFV	Vacant, Fallow, and Virgin
MEC	Myanmar Economic Cooperation	WASH	Water, Sanitization and Hygiene
MFI	Micro Finance Institution	WB	World Bank
MIC	Myanmar Investment Commission	WBG	World Bank Group
MICS	Multiple Indicator Cluster Survey	WDR	World Development Report
MIGA	Multilateral Investment Guarantee Agency	WHO	World Health Organization
MOE	Ministry of Education	WTO	World Trade Organization
MOF	Ministry of Finance		
MOH	Ministry of Health		

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EXECUTIVE SUMMARY

- 1. Myanmar is going through a critical transformation in its development path - from isolation and fragmentation to openness and integration; and from pervasive state control, exclusion, and individual disengagement, to inclusion, participation, and empowerment.¹** This dual shift is happening against a backdrop of broader political reforms that started in 2011 when a new administration took office. The country's transition after the planned elections in 2015 will be a major test of the progress on political reforms. There remain risks of political instability, policy discontinuity, and stalled reforms due to vested interests.
- 2. The country's history, demography, and geography create 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, and the only country sharing borders with both India and China, with prospects for rapid economic growth and "catch-up" improvements in the lives of people; (iv) a dominance, albeit slowly receding, of the military and associated groups in the economy, and (v) progress towards peace after a long period of conflict in border areas.
- 3. Despite its potential, Myanmar today is one of the poorest countries in Southeast Asia.** With a population of 51.4 million, the country has a per capita GDP of \$1,105, and the poverty rate is 37.5 percent, one of the highest in the region. Among ASEAN countries, Myanmar has the lowest life expectancy and the second-highest rate of infant and child mortality. Less than one-third of the population has access to the electricity grid, road density remains low, at 219.8 kilometers per 1,000 square kilometers of land area, and ICT connections are scarce, with mobile phone and internet penetration rates at 1.1 percent and 0.3 percent, respectively. Myanmar's level of development used to be on a par with countries such as Thailand and Malaysia only a few decades ago; today it is much lower, comparable with Lao PDR and Cambodia.
- 4. The low level of development can be traced to Myanmar's long history of isolation, conflict, and military control of political and economic life.** For most of its post-independence period, Myanmar has been under military dictatorship and has been ravaged by conflict in the ethnic minority border areas. State controls and economic isolation resulted in suppressed entrepreneurship and a diminished role of the private sector, stagnating infrastructure and technology, under-developed markets, and low levels of foreign di-

rect investment. As Myanmar has been opening up, the dominance of the military and groups associated with it in the economy has begun receding, yet the shift is a gradual one.

- 5. Myanmar has made some progress in ending armed conflicts in the border areas.** Bilateral ceasefires have been signed with several ethnic insurgent groups that for decades had been engaged in armed conflict with the central government. However, the situation remains fragile and a national ceasefire is still under discussion. An important recent concern is the recurrent outbreaks of religious violence, primarily targeted at the country's Muslim minorities and particularly at those who identify themselves as Rohingya in Rakhine State.
- 6. Growth has accelerated since the transition, buoyed by improved macroeconomic management, increased gas production and exports, and stronger performance in non-gas sectors due as the economy opened up.** On average, the Myanmar economy grew at 5.1 percent between 2005/06 and 2009/10, and then at an average of 6.5 percent since the transition. One of the key drivers of this growth has been the export of natural gas, which is highly capital intensive and not intrinsically inclusive. Manufacturing, construction, and services have also registered strong performance due to the opening up. At the same time, the contribution of the more labor-intensive agriculture to growth has been small and variable. Overall, notwithstanding significant structural change since the mid-1980s, driven by the gas sector, Myanmar's current economic structure resembles that of a lower income country. In 2012, agriculture still accounted for 36.4 percent of GDP (and employed over half of the workforce), compared to 37.3 percent for services and 26.3 percent for industry.
- 7. This Systematic Country Diagnostic (SCD) aims to identify priorities for Myanmar to reduce extreme poverty and boost shared prosperity.** In line with the WBG's new country engagement model, the findings of the SCD will provide inputs for the preparation of the upcoming Country Partnership Framework (CPF), which will outline the WBG's engagement to help Myanmar achieve these twin goals for its member countries. Significant information gaps make this exercise a particular challenge. The SCD draws on data from various sources, including a review of existing reports on Myanmar, a more in-depth analysis of the 2009/10 Integrated Household Living Conditions Assessment (IHLCA) survey data (the most recent survey on poverty and living conditions), information from other non-IHLCA surveys such as the Qualitative Social and Economic Monitoring (QSEM) survey, the Investment Climate Assessment (ICA) Enterprise Survey recently conducted by the World Bank, and extensive consultations with stakeholders across the country. Weaknesses in data quality—particularly with regard to poverty, national accounts and population—constrain the analysis in this SCD (see Box 3).

¹ 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. This 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.

8. **Conceptually, the framework for the Myanmar SCD has four elements.** First, it determines the profile of the poor in Myanmar, in order to understand their characteristics, where they live, and the drivers of poverty. Second, it identifies the key pathways for ending poverty and boosting shared prosperity. Third, it determines the constraints that lie along these pathways and hence, fourth, the possible areas of intervention for the country to accelerate progress towards ending poverty.
9. **With an estimated poverty rate of 37.5 percent in 2010, Myanmar's absolute poor overlap with the bottom 40 percent.** This poverty rate, based on an internationally comparable method of analysis, is higher than an earlier estimate of 26 percent using the same 2009/10 national household survey. Most of the poor live in rural areas (76 percent), and poverty is most heavily concentrated in conflict-affected areas: poverty rates in Chin State stand at 71 percent and, in Rakhine at 78 percent, both with substantial numbers of ethnic minorities. Urban poverty (34.6 percent) is higher than expected. With a Gini coefficient of 0.29, income inequality in Myanmar is relatively low, compared with neighboring countries.
10. **A range of economic and social factors are responsible for driving people into poverty in Myanmar.** The key drivers include low labor productivity, and in a largely rural society, low agricultural productivity (particularly for rice, the country's main crop), landlessness, erratic rainfall, lack of access to markets due to poor rural infrastructure, internecine conflict and communal violence, and poor government policies. Data also show that many households in Myanmar are vulnerable to unanticipated shocks, which cause them to stay or to fall back into poverty.
11. **The SCD identifies 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 factors like land and finance. The “transitional” poor often 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 are excluded from 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 that are common to all of them, and some that are specific to each group.
12. **Ending the poverty of the working poor, both “traditional” and “transitional”, will require increasing returns to their main asset—their labor.** For the majority, the “traditional poor”, who currently depend on agriculture for their livelihood, 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. For the “transitional” poor, the opportunities for private-sector led off-farm employment and income generation will be critical.
13. **Investments in human capital and better access to quality basic services will be critical to ending the poverty of all three groups of the poor — both their income and non-income dimensions of poverty.** 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, enhance current income generating opportunities and lower the inter-generational perpetuation of poverty.
14. **Lastly, for the “excluded” poor—communities in remote conflict-affected areas, members of socially-marginalized groups, families without anyone capable of productive work—a focus on increasing the returns to labor is unlikely to be sufficient.** By definition, these groups have been or are likely to be excluded from or less connected to opportunities for productive economic activity. For these groups the pathways out of poverty will likely have to include specific targeted interventions and programs of assistance.
15. **Grounded in the poverty diagnostic, the SCD identifies two main pathways for ending poverty and boosting shared prosperity in Myanmar.** The first pathway entails promoting **openness** and sustainable **private sector-led growth** for more jobs. Growth is expected to come from a combination of investment, continued increase in natural resource exports, and increasing productivity. A key over-arching principle is ensuring greater participation of the domestic and foreign private sector in the economy (particularly in the sectors with greater potential for job creation), fostering integration with the global economy, enhancing labor productivity, and adopting an integrated approach to the management of its natural resources, particularly the Ayeyarwaddy river basin. The other pathway entails promoting **universal access to basic services and empowerment** for inclusive growth, particularly in rural areas. This pathway will benefit all groups of poor.
16. **Priorities for Myanmar to create jobs in manufacturing and services include opening up the space for foreign and domestic investors and facilitating access to domestic, regional, and international markets.** One “quick win” will come from removing the remaining policy and institutional constraints to entry by new domestic and foreign private sector investors,

to the expansion of operations by existing investors, and to domestic, regional, and international market access. Some of the required policy and institutional changes may take time to be carried out or may be politically sensitive but most can be implemented in the short to medium term.

- 17. Increasing agricultural productivity is expected to have a high impact on poverty, with much scope for short term gains.** Since the majority of the traditional poor are engaged in agriculture, increasing productivity would have a high impact on poverty reduction as it would increase returns to labor. There is huge potential for improvement in Myanmar - wide deficiency gaps exist in rice yields, diversification, and value-addition. Increasing access to land and tenure security will support increased agricultural productivity but great care will need to be taken in carrying out land reforms. In the short term, the focus should be on fully understanding the nature and scale of the problem, as well as carrying out consultations on the way forward.
- 18. Addressing shortages in power, an under-developed financial sector, shortages in skilled labor, and low supply of ICT services will have a significant impact.** In the short to medium term, it will be important to build on efforts already underway to increase overall generation, transmission, and distribution of electricity. Similarly, significant progress can be made in the short term in modernizing and deepening the financial sector. Finally, to ensure long-term sustainability of poverty reduction efforts, it will be important for Myanmar to adopt an integrated approach to the management of the Ayeyarwaddy river basin and develop a nationally agreed environmental and social Safeguards framework that is based on best practices.
- 19. Promoting universal access to critical services and extending them to the rural areas and other disadvantaged groups will have a high impact.** Given that most poor people in Myanmar live in rural areas and

have limited access to critical services, extending such services to currently under-served rural areas and disadvantaged groups (such as the excluded poor) is important for reducing poverty. Expanding the coverage of the health system and the quality of health services is a priority where action can be immediately scaled-up. Increasing education services and vocational training will also be important although its impact will not be realized in the short-term. Interventions for increasing access to water and sanitation are also likely to have a high impact on poverty reduction. In addition, access to electricity, better rural road connectivity, microfinance, and rural telephone services all will empower the poor both by facilitating access to social services and enhancing opportunities to engage in productive income generating activities.

- 20. In addition to the two main pathways, the SCD identifies four critical pre-requisites for Myanmar's development:** facilitating the political transition, enhancing social inclusion, maintaining macroeconomic stability, and improving public sector capacity and governance for policy making, coordination, and service delivery. Continuous action in all these areas will be essential for sustained and inclusive growth, poverty reduction and shared prosperity.
- 21. Finally, the SCD identifies various knowledge gaps and offers suggestions on future analytical work to help fill these gaps.** For example, there is need for further work to better understand the extent and nature of poverty in Myanmar, particularly the situation in the border areas, as well as update the poverty numbers. The census that was recently conducted is expected to provide an updated sampling frame for carrying out a nationally representative IHLCA, to lay the basis for having more credible poverty numbers. Some of the knowledge gaps to be filled will help in identifying priorities at a more granular level i.e. priorities within priorities.



I. COUNTRY CONTEXT SETTING THE STAGE

- A. The transformation of Myanmar's polity, economy, and society**
1. **Myanmar is going through a critical transformation in its development path characterized by a dual shift - from isolation and fragmentation to openness and integration; and from pervasive state control, exclusion, and individual disengagement, to inclusion, participation, and empowerment.**² For over a quarter of a century, Myanmar was under self-imposed isolation from the rest of the world, and under economic sanctions by the West. As a result, Myanmar's trade and investment relations have been limited to a few countries in the region that it considered friendly. Similarly, the country has followed a fragmented approach to environmental sustainability, including the management of its key water resource, the Ayeyarwaddy river. At the same time, there has been pervasive state interference and dominance in the economic space normally occupied by the private sector in other countries while a majority of the poor, particularly in rural parts of the country, have not had access to certain critical services and have therefore been disempowered to extricate themselves from poverty through participation in productive income earning opportunities. Since the transition started, these patterns are being reversed: the country has been opening up to and integrating with the outside world in the areas of trade and investment, the state is rolling back and encouraging greater private sector participation in many areas of the economy, while investments in key services are being expanded.
 2. **These critical socioeconomic shifts are happening against a backdrop of political reforms that started in 2011 when a new administration took office.** Key milestones in the political transition include the release of political prisoners and the opening up of space for the opposition through the holding of by-elections in 2012 that brought in a significant number of opposition MPs into parliament, including the opposition leader, Aung San Suu Kyi.
 3. **Myanmar's elections next year and the transition to the next government will be an important test for progress with political reforms.** An immediate challenge is how the country will deal with calls for various constitutional amendments, including a provision that makes the opposition leader ineligible to run for president.
 4. **Some progress has also been made towards ending the country's armed conflicts in the border areas, although the situation remains fragile.** Ceasefires have been signed with several ethnic insurgent groups that for decades had been engaged in armed conflict with the central government. However, conflict continues with the Kachin Independence Organization (KIO) in Kachin State, where armed clashes increased in the first half of 2014 despite the KIO's participation in discussions about a national ceasefire. In November 2013, leaders of ethnic armed groups met at a "Leaders' Summit" to consider the government's proposal to begin a national ceasefire process (i.e. a roundtable including all 13 armed groups, rather than a series of bilateral discussions) and formed a National Ceasefire Coordinating Team (NCCT). While subsequent discussions between the NCCT and the government's negotiating team underlined remaining differences between the two sides, there remains a shared commitment towards a peaceful solution.
 5. **An important additional dimension of establishing peace and security across the country involves finding a sustainable solution to address the systematic exclusion of the Muslim minority that identifies itself as Rohingya in Rakhine State.** The government considers members of this Muslim minority 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 to separate communities and avoid further violence.³ 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 early 2014.⁴ As of January 2014, the number of displaced persons in Rakhine had reached 140,000.⁵

B. Country's economic situation and historical context

6. **Myanmar is one of the poorest countries in the South East Asian region and has certain features that are unique to its country context (See Box 1).** In 2013/14, the country's GDP was estimated at US\$56.8 billion. Based on the preliminary population figure of 51.4 million from the census conducted in March/April 2014, the country's per capita income is therefore around US\$1,105, one of the lowest in the East Asian region. Analysis of the last nationwide

³ Report of the Special Rapporteur on the Situation of Human Rights in Myanmar, UNOHCHR, August 2012.

⁴ International Crisis Group, Myanmar Crisis Watch, April 2014. <<http://www.crisisgroup.org/en/publication-type/crisiswatch/crisiswatch-database.aspx?CountryIDs=%7b7E12FB4D-6C23-449D-AF08-550AD5FD-2F2E%7d#results>>

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

² 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. This 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.

Integrated Household Living Conditions Assessment (IHLCA) conducted in 2009/10, found that 26 percent of the population was living below the poverty line⁶. New calculations by the World Bank that expand the consumption basket used to determine the poverty line by including expenditures on health and durable goods, and also takes into account spatial differentials in cost of living, finds a substantially higher poverty rate of 37.5 percent⁷ of the population, and a high concentration of households living very near the poverty line and thus vulnerable to falling into poverty.

Box 1: Myanmar's Unique History and Circumstances

Myanmar's history, demography, and geography create 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, and the only country sharing borders with both India and China, with prospects for rapid economic growth and “catch-up” improvements in the lives of people; (iv) a dominance, albeit slowly receding, of the military and associated groups in the economy, and a fragmented society with diverse ethnic and religious groups; and (v) progressive peace after a long period of conflict in border areas.

Myanmar is emerging from a long period of isolation, with a devastating impact on its economy and the well-being of people. For the past fifty years, private entrepreneurship has been heavily suppressed and distorted: initially, following the military coup in 1962, by widespread nationalization of industries and closure to outside markets and investors, then, following attempts at reform in the 1990s, by a focus on natural resource extraction controlled by a small, politically connected elite. Over the past twenty years, this focus on resource extraction was amplified by economic sanctions that further limited market opportunities. As a result, market institutions and government capacity to regulate them are nascent and trade and investment relations limited, while the country's human capital has been depleted, as the education system, once one of the best in Asia, withered. While several other countries such as Vietnam, Cambodia and Laos, have emerged from shorter periods of isolation, Myanmar is one of a handful of countries that has remained largely isolated for almost half a century.

Myanmar's reforms today and its strategic location in the fastest growing region in the world, between the two huge markets of China and India, create important opportunities for economic development, but also some risks. Myanmar is well placed to join the global manufacturing networks that have propelled growth in Asia. A young population and access to the sea provide additional advantages. However, this strategic location, along with rich resources, also means that international powers and domestic vested interests will compete for influence in Myanmar.

Myanmar enjoys rich land, mineral and water resources. Exports of natural gas to Thailand have been an important source of foreign exchange and macroeconomic stability in recent years. Exports of oil are starting and exploration is underway as the potential for further finds are high. Myanmar also has significant jade and other precious stones, forestry and other resources. Myanmar is blessed with a long coast line and relatively abundant rainfall. However, many of the natural resources are located in border areas and their extraction has contributed to conflicts. Myanmar's strategic location, rich resources, and the interest and conflicts around them put a premium on strong and transparent governance.

Myanmar has a long history of armed conflict of ethnic groups along the border with the country's central authorities, with entrenched patterns of political, social, and economic exclusion. There are officially 135 different ethnic groups in Myanmar. In addition, although a large majority of the population practices Buddhism, other religions are present too, mainly Christianity, Islam, and Hinduism. This ethnic and religious diversity has been a source of tensions and conflict in the country. The main drivers of exclusion have been religion, ethnicity and citizenship, gender, geography, and conflict. There has been long-standing discrimination and marginalization of non-Buddhists, dating back to colonial times became highly visible recently, as deadly religious violence, particularly directed at Muslim minorities, erupted in various parts of the country. Significant parts of the country are not entirely within the Government's controls. The Government has made significant progress in reaching agreements with the various ethnic groups along the border, including through the launch of a decentralization process, and the successful conclusion of ongoing negotiations will be important for sustained development and poverty reduction.

Finally, almost unique to Myanmar is an attempt to address the challenges and harness the potential benefits all at once. Other transition countries have either not been isolated in the same way, had relatively slow transitions towards democracy or make slow economic transitions. Due to its unique circumstances, Myanmar is undertaking multiple challenges simultaneously. The potential benefits are enormous and the risks are commensurately high.

⁶ Integrated Household Living Conditions Survey in Myanmar (2009–2010): Poverty Profile. Prepared jointly by MNPED, UNICEF, UNDP, and SIDA, 2011.

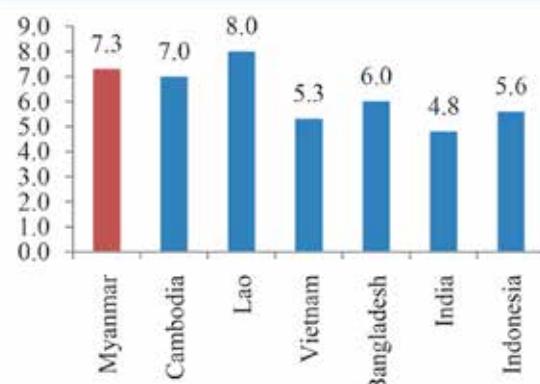
⁷ The recalculated poverty rate of 37.5 percent has been presented to the authorities in Myanmar who have acknowledged the fact that a variation in the measurement methodology shows that poverty may have been higher in 2009/10. However, the official figure remains 25.6 percent as originally published.

- 7. The low level of development can be traced to Myanmar's long history of isolation, conflict, and military control of political and economic life.** (Box 1) For most of its post-independence period, Myanmar has been under military dictatorship and has been ravaged by conflict in the ethnic minority border areas. State controls and economic isolation resulted in suppressed entrepreneurship and a diminished role of the private sector, stagnating infrastructure and technology, under-developed markets, and low levels of foreign direct investment. As Myanmar has been opening up, the dominance of the military and groups associated with it in the economy has begun receding, yet the shift is a gradual one.

C. Economic growth, structure, and transformation

- 8. Real growth has been accelerating** ever since the massive destruction caused by hurricane Nargis. Much of that growth was driven by natural resource exports, particularly gas. At the same time, the pace of structural transformation has been limited. Labor productivity has improved, while the reallocation of labor appears to have stalled. A carefully designed sequence of policy and institutional reforms will be needed for Myanmar to realize its growth potential.
- 9. Growth has accelerated since the transition, but the economy had been growing at reasonably enviable rates even before then (See Figure 1 below).** On average, it grew at 5.1 percent between 2005/06 and 2009/10 and could have been higher if not for the devastation caused by cyclone Nargis in 2008 when growth slowed down to 3.6 percent. However, since the transition started, the economy has grown at an average of 6.7 percent.

Figure 2: Growth rates for comparator countries, 2012/13



Source : World Development Indicators, IMF

- 10. Myanmar's international trade is growing rapidly from a low base.** Myanmar had long been living in economic isolation due to economic sanctions and inward-looking policies. The opening up of the economy and gradual lifting of sanctions have produced rapid growth in international trade, with exports and imports of goods and services growing at estimated annual average rates of 11 percent and 17 percent, respectively, between 2008/09 and 2013/14.⁸ Consequently, Myanmar has become the second fastest-growing importer among ASEAN countries. However, the export response in Myanmar has been slower than it was in Vietnam at the start of Vietnam's transition, especially in the rice sector.

- 11. Exports increased substantially in 2012/13 compared to 2010/11, with natural gas contributing the largest gains.** Exports in 2008/09 were approximately US\$7.2 billion, as illustrated in Figure 3. They increased to US\$8.8 billion in 2010/11 and at least US\$10.3 billion in 2012/13 with US\$11.9 billion expected in 2013/14.⁹ Between 2010/11 and 2012/13, natural gas exports grew by US\$1.1 billion, and saw logs and veneer grew by US\$0.4 billion, as did textiles, clothing, and footwear.¹⁰ Recorded rice exports are minimal. There are indications of unrecorded exports over land to China in 2012/13 and 2013/14. Nevertheless, weak export performance of non-mineral products after three years of economic liberalization is a matter of concern. There is also an opportunity for future growth if export obstacles can be identified and removed.

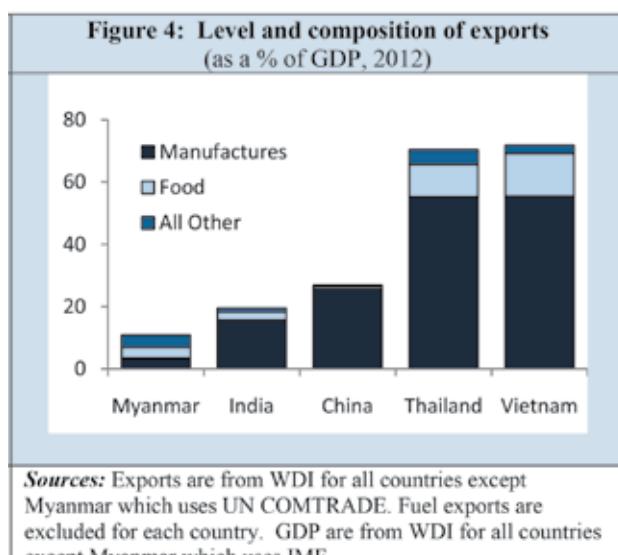
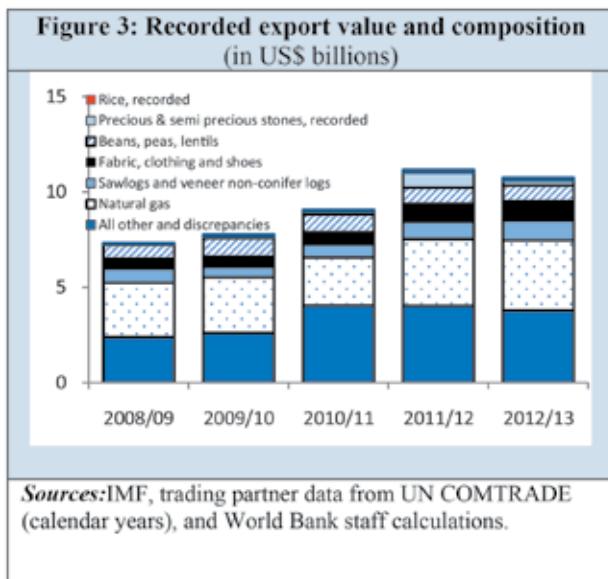
Figure 1: Myanmar real GDP growth rate, 2005/06–2013/14



⁸ From IMF Country Reports. The corresponding growth rates for goods based on trading partner data from the UN COMTRADE are 9 percent for exports and 31 percent for imports.

⁹ Ibid.

¹⁰ UN COMTRADE.



12. Trade in Myanmar had been limited by both sanctions and policy. An Asian Development Bank working paper suggests that Myanmar had been trading at only 15 percent of its potential through 2010.¹¹ Figure 4 shows that exports in 2012, as a share of GDP, were far higher in neighboring countries than in Myanmar.¹² For example, Vietnam and Thailand both exported the equivalent of 70 percent of GDP in 2012. Larger countries typically need to export less, given their large internal markets. Thus, India exported 20 percent of GDP while China exported 27 percent of GDP. Figure 4 also shows that the exports from Myanmar's neighbors had a much higher manufactured content. Much of this shortfall was attributed to a lack of trade with industrialized economies. Other constraints included policies such as import and export licensing requirements, the old dual exchange rate system, and government monopolies on trade in certain commodities

(rice) and categories (vehicles).¹³ It is expected that Myanmar's exports will move increasingly toward the level and composition seen elsewhere as sanctions are phased out and policies improve. As a sign of normalization, the United States suspended sanctions barring U.S. investment in Myanmar in July 2012, and the European Union reinstated trade preferences to Myanmar under the EU's Generalized System for Preferences for least-developed countries in July 2013.

13. The economic structure of Myanmar is consistent with that of a lower income country. According to official national accounts estimates for 2010 summarized in Table 1, 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. The industrial share of employment is low compared to regional outcomes.¹⁴ Cambodia and Vietnam have levels of GDP/capita that are close to Myanmar's. Their industrial employment shares in 2010 were 16 percent and 21 percent respectively compared to 12 percent in Myanmar.

Table 1: Economic Activity by Sectors of Origin

	Current Price GDP Share 2010	Value-added per Worker 2010 (US\$)	Percent Rural 2010	Percent of Active Population 2005	Percent of Active Population 2010	Percentage Change within Active Population 2005-2010
A. Agriculture	36.7	907	89.2	53.0	52.4	-0.6
B. Industry	26.4	2,851	35.2	11.6	12.0	0.4
1. Mining and Utilities	2.0	1,226	40.4	1.5	2.1	0.6
2. Manufacturing	19.8	4,349	32.4	7.4	5.9	-1.5
3. Construction	4.6	1,494	37.0	2.7	4.0	1.3
C. Services	36.9	1,340	24.4	35.4	35.6	0.2

Sources: UN Statistical Division for national accounts, population and percent of population between ages 15 and 64; UNDP IHCLA 2011 for all other data.

Table 2: Labor Productivity, Constant 2005 US\$ 1

	Agriculture	Industry
Cambodia	885	1,911
China	2,197	13,003
Indonesia	2,660	16,225
Malaysia	16,516	31,636
Mongolia	2,368	11,158
Philippines	2,040	11,943
Thailand	2,693	17,999
Vietnam	908	4,196
Myanmar	907	2,851

1. Defined as value-added per worker.

2. Value-added per worker in agriculture divided by value-added per worker in industry.

Sources: World Development Indicators and Table 1.

13 According to the WTO (2014), several monopolies may still be in place. See Section 3.1.9 State Trading, and Section 3.2.5 Export Operations of State Enterprises, or State Trading.

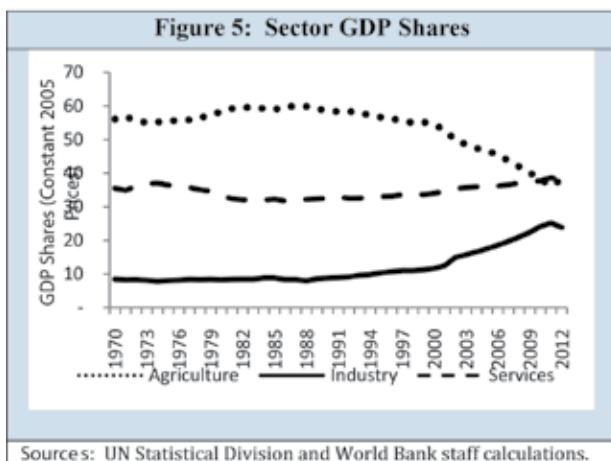
14 This sector is dominated by manufacturing but also includes mining and quarrying, construction, and the provision of electricity, gas and water.

11 "Myanmar's Trade and its Potential" (ADB 2013).

12 The data has been adjusted to remove receipts from fuel exports from each country depicted in order to make cross-country comparisons easier.

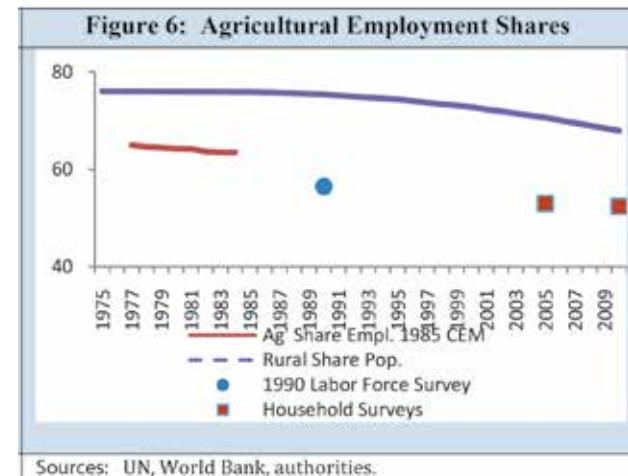
14. Labor productivity in Myanmar, defined as value-added per worker, is low in all sectors and is much lower than in most other countries in the region. Most comparator countries in East Asia, except Cambodia and Vietnam, have substantially higher labor productivity in agriculture than Myanmar (see Table 2). Myanmar's productivity is the lowest among these comparator countries in services, and is also the lowest except for Cambodia in industry.

15. Structural transformation has proceeded slowly to date. Myanmar is still largely dependent on agriculture where labor productivity is very low. Figure 5 shows that the agricultural share of GDP has fallen significantly from a peak of 61 percent in 1986 to 36 percent in 2011, while the share of industry increased from less than 10 percent to 26 percent over the period. This coincides with the agricultural reform of 1987 and the formal official abandonment of the "Burmese Way of Socialism" in 1988.¹⁵ The share of agriculture in the workforce remained essentially unchanged during 2005-2010, while its contribution to GDP has been declining.¹⁶ The labor productivity in agriculture is the lowest compared with other sectors. Labor productivity in manufacturing is the highest and over four-times that of agriculture (see Table 1).

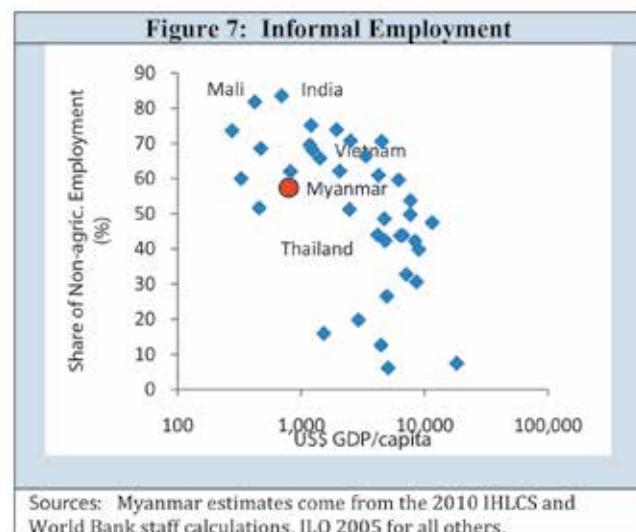


¹⁵ In response to falling rice production and exports, the government in 1987 decided to reduce the amount of statutory government procurement and gave farmers more freedom to sell the surplus in private markets. Although rice export was still under the state monopoly, domestic paddy/rice marketing was deregulated, resulting in active participation by private traders.

¹⁶ The estimates are based on survey data. After accounting for margins of error, it is unlikely that the difference between 2005 estimate of 53.0 and the 2010 estimate of 52.4 percent is statistically significant.



16. 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. This estimate is up 4 percentage points from the 2005 estimate of 69 percent. If agricultural activities are excluded, per ILO practice, the share of the informal sector in 2009-10 was an estimated 57 percent.¹⁷ By way of comparison, according to ILO estimates, the informal sector share of non-agricultural employment was 42 percent in Thailand (2010) and 68 percent in Vietnam (2009). The average for a sample of 39 lower and middle income countries was 51 percent (see Figure 7). Importantly, the household survey data in Table 3 show that those in the informal sector represent the dominant share of the poor in Myanmar.



¹⁷ The job-based definition for informal sector workers from the ILO includes the non-professional self-employed, domestic workers, contributing family workers, and workers in enterprises employing 5 or fewer workers. See Hussmann (2004).

Table 3: Informal Employment and Poverty		
Employment Types	Share of Economically Active Population (%)	Share of Poor Population (%)
Total	100	100
A. Formal	27	27
1. Employer	5	3
2. Government Employee	19	20
3. All Other	3	4
B. Informal	73	73
1. Self-employed	40	33
2. Unpaid Family worker	15	12
3. Casual	18	28

Source: Integrated Household Living Conditions Survey and World Bank staff calculations.

17. The high share of natural resource exports may constrain opportunities for the reallocation of labor. Natural gas is becoming a key driver of export growth but it brings new challenges. Myanmar has large proven reserves of gas estimated at 23 trillion cubic feet, (20 trillion are off-shore and 3 trillion on-shore), equivalent to more than 46 years of current production (about 498 billion cubic feet (bcf) per annum). Full scale commencement of production and exportation of gas was achieved in 2002. In 2014 natural gas exports were \$4.2 billion, equivalent to 34 percent of total exports and 7 percent of GDP.¹⁸ The sector is the main destination for FDI, particularly with several large projects ongoing. As portrayed in Figure 3, there are also large exports of timber and smaller exports of gemstones – although this volume is likely under-recorded. Given that these sectors are highly capital-intensive, their growth is not likely to contribute to poverty reduction unless revenue proceeds from the sectors are used in a manner that promotes growth in labor-intensive sectors, helps to expand and improve public service delivery, or to implement critical social protection programs. In addition, world prices for commodities are generally much more volatile than manufactures. This may create a risk of macroeconomic volatility to the extent that one commodity, in this case, natural gas, dominates.

D. Rationale for a Systematic Country Diagnostic

18. Going forward, a key measure of success of the economic and political reforms under the transition will be the extent to which progress can be made towards ending poverty and boosting shared prosperity. The President has challenged his cabinet to reduce poverty in Myanmar from the earlier estimate of 26 percent to 15 percent by the end of this Government's tenure, with a particular focus on rural poverty reduction through "people-centered development." While the specific targets are ambitious, the main thrust

of the goal is consistent with the World Bank Group's goals of helping its member countries end absolute poverty and boost shared prosperity.

19. The World Bank Group is undertaking a Systematic Country Diagnostic (SCD) in order to identify priorities for accelerating progress in ending poverty and boosting prosperity. The SCD seeks to identify key constraints to remove and key opportunities to leverage in order to end poverty and boost shared prosperity, and hence, priority areas of focus for the development of the country (See Box 2 for additional information). This report presents the key findings of the SCD conducted on Myanmar. Apart from being a public good, the findings of the SCD will be used as inputs in the preparation of the WBG's engagement strategy in Myanmar, the CPF.

Box 2: What is an SCD?

The SCD is an analytical report prepared by World Bank Group Staff under the Bank's new country engagement model. The objective of the SCD is to identify the most critical constraints and opportunities facing a country in accelerating progress toward the goals of ending extreme poverty and promoting shared prosperity in a sustainable manner. Thus, unlike most other WBG analytical reports, the SCD has a sharper focus on what it will take for a country to end poverty and boost shared prosperity, the twin goals that the WBG has committed to helping its member countries to achieve.

The WBG will use the SCD as an input towards the preparation of its Country Partnership Framework (CPF), which will outline a framework for the Bank's engagement and support in a country. The SCD is therefore intended to become a reference point for consultations with the Government and other stakeholders on priorities for WBG country engagement. It is intended to help the country, the World Bank and other development partners establish a dialogue to focus their efforts around goals and activities that have high impact and are aligned with the global goals of ending absolute poverty and boosting shared prosperity in a sustainable manner.

Although the SCD is expected to help inform the identification of areas where the WBG can support a country and which will be outlined in the CPF, it will not be limited a priori, to areas or sectors where the WBG is currently active or where the WBG expects government demand. The SCD simply seeks to identify areas that will have the biggest impact on ending poverty in a country and boosting shared prosperity, whether the WBG will be involved or not. By not limiting the scope of the analysis, the SCD can stimulate an open and forward-looking dialogue between the WBG, member governments, and the broader public, with a focus on what is important for the country's development agenda rather than the WBG's areas of engagement.

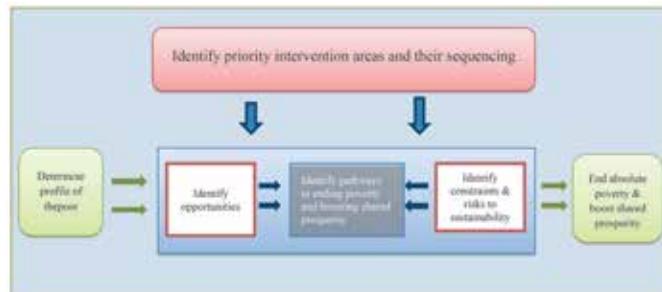
¹⁸ Consolidated public sector oil and gas revenues are those collected by the oil and gas SEEs less the income and commercial taxes they paid to the Union.

The SCD is based on the best possible analysis, drawing on available evidence. It also identifies critical data and knowledge gaps that merit attention. It draws upon and synthesizes existing knowledge and evidence, complemented by additional analysis as necessary, including consultations with various stakeholders. Knowledge products it could draw upon include those produced by the WBG (e.g. country, sectoral or thematic reports including poverty, equity, fragility, social, gender or investment climate assessments, country economic memorandums, public expenditure reviews, lending and Technical Assistance programs, and others), the country government (e.g. national or sectoral development plans), as well as national and international researchers, think tanks, the private sector or other development partners, as relevant.

E. Conceptual framework for the Myanmar SCD

20. The guiding framework for the Myanmar SCD is as follows (See Figure 8): The starting point is determining the profile of the poor in Myanmar, in order to understand their characteristics, where they live, and the drivers of poverty. The second aspect of the framework is the identification of key pathways for ending poverty and boosting shared prosperity. This entails identifying activities and aspects of men and women's livelihoods that have strong direct or indirect links to ending absolute poverty and boosting shared prosperity. For example, the ability of a person to earn income from productive economic activities (e.g. farming, micro-enterprises, wage employment) is an example of a pathway to ending poverty. Significant changes to the pathways can impact on a person's chances of coming out of poverty or falling into it. Therefore, another key element of the diagnostic is to identify challenges, constraints, and risks that lie along these pathways and therefore act as headwinds against efforts to ending poverty as well as opportunities that need to be leveraged. Gender equality along with cross important cross-cutting issues such as governance and conflict will influence all the key diagnostics of pathways out of poverty. The final element of the diagnostic is the identification of priorities for removing the identified constraints and challenges.

Figure 8: Conceptual Framework for Ending Poverty and Boosting Shared Prosperity



F. Sources of information, consultations, and quality of data

21. It is worth mentioning from the outset that the country suffers from significant information gaps that make a comprehensive and rigorous diagnostic difficult to undertake. The national accounts data are not reliable as are survey data because they are based on an old sampling frame – before the 2014 census whose preliminary results were released in August, the last was conducted in 1983. This paucity of data not only makes it difficult for government and the private sector to make decisions, but also complicates efforts to carry out a comprehensive and rigorous diagnostic. Box 3 provides an overview of the key data issues in Myanmar. In some cases, a problem might be identified, but there may not be enough information to determine what needs to be done about it because of lack of key Myanmar specific data and information. Although the preliminary results of the census show a lower total population figure (51.4 million) than previously estimated by the Government (60 million), those socio-economic indicators used in the SCD expressed in per capita terms are not affected. This is because the main source of such data was the WDI, which has already been using a population estimate broadly consistent with the census results.

Box 3: Overview of key data issues in Myanmar

Myanmar's statistical system is generally characterized by poor quality data. This is the result of limited capacity and funding over the years, while the use of some data became highly politicized. Since taking office, the current Government identified improving the quality of statistics as one of its key strategic development goals. Some of the key data issues are summarized below.

Poverty: Two Integrated Household Living Conditions Assessment (IHLCA) surveys were conducted, one in 2005 and one in 2010. There are two weaknesses inherent in these surveys. First, given that until the 2014 population census, the last was conducted in 1983, the sampling frame used for the survey may not be representative of the population. Second, due to conflict, the survey did not cover some of the border areas. These weaknesses have called into question the extent to which the survey data was representative of the country. Some of the results appear to be inconsistent with available data regarding public service delivery and infrastructure. It is hoped that the results of the 2014 population census will provide a more up to date sampling frame for the next full round of IHLCA, currently planned for 2015.

National accounts: Historical data show high real growth rates that are inconsistent with economic fun-

damentals and available data from key sectors. Public sector activities were recorded at significantly over-valued exchange rates. Growth rates from recent years appear to be more realistic and consistent with other indicators but there remains considerable uncertainty about the actual level of GDP. The IMF Assessment of Data Adequacy for Surveillance observes several additional short-comings but also notes good progress in improving the quality of new estimates.

Population: Until preliminary results from the most recent census, conducted in March/April 2014 were announced, there had been uncertainty around Myanmar's population figure, with numbers ranging from 48 to 61 million, with an estimated 3 million people living abroad. Uncertainty about the true population size has created doubts about estimates of GDP per capita. The last census was conducted in 1983.

Trade: There are substantial flows of jade and timber from the border areas which is difficult to capture in officially produced export statistics. Trade data are recorded at the time of entries by customs, causing serious volatility in values and incorrect time records. As in many countries, data recorded by the authorities and data recorded by trading partners are inconsistent. Recent data are, however, fairly well correlated over time.

Balance of payments: According to the IMF Assessment of Data Adequacy for Surveillance, detailed data on services transactions and financial flows are generally not available and transactions that are not undertaken through the official banking system are usually not estimated.

External debt: Systems for recording and monitoring debt exist but are largely manual. Nonetheless, records on external debt and debt service payments in arrears are comprehensive, up to date, and broadly consistent with records from creditors. The good record keeping and tracking of debt and arrears was critical in the speedy resolution of arrears. However, a key weakness is that the evaluation of external obligations which are not nominated in U.S. dollars is conducted irregularly. Historical data are sometimes distorted by applying the exchange rate at the evaluation point.

Consumer price statistics: Consumption basket weights represent urban households only. Some construction inputs are included; rentals of owner occupied housing are excluded; missing prices are not imputed; and the classification of items is outdated.

Fiscal data: Myanmar's budget classification system, which is the backbone of its fiscal accounts, is not fully consistent with modern classification structure such as the Government Financial Statistics (GFS). While fiscal data are broadly credible, no comprehensive monthly or quarterly compilation is done for sharing with external stakeholders. Annual comprehensive data are compiled with delays of up to 12 months after

the end of the reference year although this is not unique to Myanmar. In addition, only consolidated data for state economic enterprises are available, and some transactions are recorded partly on an accrual basis and partly on a cash basis. It is difficult to know the true size of consolidated government because the full array of transactions between the Union government and its state economic enterprises are not well identified. Fiscal and monetary data are not consistent. The recording of government debt statistics is not comprehensive.

Monetary and financial statistics. The monetary survey compiled by the CBM covers the central bank and all commercial banks (public and private). Reporting of monetary data in accord with IMF classification principles was established only by January 2012. Prior data may have problems associated with the use of the previously overvalued official exchange rate for valuing foreign currency-denominated balance sheet accounts.

Sector level data: Quality of data on key sectors including agriculture, health, and education varies, but is generally poor. Administrative data are more credible than survey data.

Sources: IMF Assessment of Data Adequacy for Surveillance and World Bank staff assessments.

22. Taking into account the information gaps, the analyses in this SCD have been informed by data from various existing reports and surveys. First, the analyses have benefited from reviewing existing study reports on Myanmar. A full list of all the reports reviewed is presented in the bibliography. Second, the SCD has also been informed by more in-depth analyses of household level data from the 2009/10 Integrated Household Living Conditions Assessment survey, particularly for the poverty diagnostic. The findings from the analysis of the IHLCA have been complemented by information from other surveys—albeit smaller scale or more narrowly focused in terms of geographic or thematic coverage than the IHLCA—as well as a number of qualitative studies. Third, the SCD has benefited from the Investment Climate Assessment (ICA) survey recently conducted by the World Bank.

23. In addition, the SCD findings have also been informed by extensive consultations with key stakeholders in Myanmar. The range of stakeholders consulted included Government officials both at central level as well as sub-national level, members of parliament at central as well as sub-national level, the private sector, civil society organizations, development partners, academics, think tanks, and researchers. The purpose of the consultations was to seek inputs from key external stakeholders on specific issues as part of the systematic and evidence-based identification of Myanmar's key opportunities and challenges towards achieving the twin poverty goals, and subsequently,

in identifying the priorities for taking full advantage of these opportunities and removing the constraints. In addition, consultations were used to triangulate and validate some information collected from study reports, fill in gaps, as well as obtain further insights that were useful in carrying out the diagnostic. Table A.2 in the Annex contains a summary of the consultations meetings held, including some of the key focus areas that came up from each of the individual meetings.

Box 4: The Myanmar SCD consultations process

Preparation of the Myanmar SCD benefited significantly from an extensive consultation process. The consultations were undertaken over a period of February to June 2014. In total, 15 consultation events were held across the country in six locations: Yangon, Nay Pyi Taw, Pathein, Mandalay, Taungyi, and Hpa An. Apart from the meetings, inputs were also received through the World Bank's website and via email submissions.

Stakeholders consulted included central Government officials; state and regional Government officials, parliamentarians at central and state/regional level; civil society representatives including from NGOs, INGOs, CBOs, political parties; private sector representatives; researchers and think tanks; and development partners.

Invitations and materials for consultations were sent out at least two weeks in advance for most of the events, both in English and Myanmar language. Consultation meetings were announced on the World Bank website, Facebook page, and local newspapers. Translation was available at each event, and participants completed feedback forms to help improve the format of future consultation events.



II. A PROFILE OF POVERTY IN MYANMAR

24. The profile of poverty in Myanmar presented in this section is based mainly on analyses of data from the 2009/2010 IHLCA (IHLCA-2) survey, but draws on other information sources as well, both quantitative surveys and qualitative studies.¹⁹ The IHLCA-2 covered 18,660 households nationwide, and was implemented in two rounds – December 2009/January 2010, and May 2010.²⁰ The IHLCA is comprehensive in its coverage of a wide range of household level activities and outcomes. It thus promises a fertile source of information on livelihoods needed to understand the causes and dimensions of poverty in Myanmar. There are two weaknesses inherent in the survey. First, because the last population census was conducted in 1983 and hence was out-of-date, the sampling frame used for IHLCA-2 was based on administrative data of unconfirmed reliability. Second, due to conflict, the survey did not cover some of the border areas. These weaknesses have called into question the extent to which the IHLCA-2 survey data are representative of the country. Nonetheless, the survey is the only source of information that comes close to providing a national-level and relatively comprehensive picture of the poverty situation in Myanmar. And so the approach taken here in constructing a poverty profile for Myanmar is to carefully and selectively use analysis of data from the IHLCA, and combine this with insights gleaned from the numerous other studies and surveys that are smaller-scale or more narrowly focused--in terms of geographic scope or thematic coverage—but provide a more granular picture, to both validate and flesh out the IHLCA-based analysis. With the successful completion of the Population Census in March 2014, and with a number of technical assistance and surveys planned in the next three years, it will be possible, going forward, to measurably improve the quality and depth of the household-level information available in Myanmar for evidence-based policies and programs and to develop an up-to-date information base on poverty and living conditions in Myanmar.

A. The incidence of poverty and the extent of inequality

25. The analysis of the IHLCA-2 data (see UNDP (2011)), found a poverty rate of 25.6 percent in 2009-2010, but more recent analysis of the same data, using a different methodology, suggests that the incidence of poverty may have been considerably higher, at 37.5 percent. The more recent analysis used the same cost-of-basic needs approach as earlier, and retained the same caloric threshold—2,300 calo-

19 Information sources included, amongst others, the LIFT [Livelihoods and Food Security Trust Fund] surveys, the Multiple Indicators Cluster Survey (MICS) by UNICEF, and surveys carried out by the Border Consortium, as well as the Qualitative Social and Economic Monitoring (QSEM) studies.

20 The survey was implemented in two rounds so as to cover both the main harvest season and the main lean season in terms of agricultural cultivation. In Myanmar, as in many other poor agrarian economies, consumption levels and household welfare can vary seasonally with the seasonality in incomes stemming from the agricultural cycle.

ries per adult equivalent per day—to anchor the poverty line. But, in keeping with the latest international practice, the re-estimation used a more comprehensive measure of consumption expenditures, which included health costs and expenditures on durable goods. Further, a new approach, also in line with international practice, was used to capture and adjust for the cost of living differences in different regions of the country in coming up with the poverty lines.

- 26. A direct comparison of the incidence of poverty in Myanmar to that in other countries, using a 2005 PPP \$1.25-a-day line, is not possible because there are no reliable price survey-based estimates of the 2005 PPP conversion factors for Myanmar.** Myanmar was not part of the 2005 round of globally comparable price surveys carried out under the International Comparison Project (ICP).²¹ Myanmar did participate in the 2011 ICP round, and it will therefore be possible to include Myanmar in the global poverty monitoring system once the 2011PPP-based poverty numbers are finalized.
- 27. The new census and the resultant sampling frame will allow potential biases in the IHLCA-2 poverty estimates to be revisited by “reweighting” the IHLCA-2 sample.** As indicated in Box 3 under data issues for Myanmar, the IHLCA-2 survey was conducted using an outdated sampling frame, based on the 1983 census. Therefore, the poverty estimates based on the IHLCA-2 data are likely to have some bias. However, it is not possible to know ex-ante, which direction the bias is likely to go.
- 28. More importantly, the new census will provide an updated sampling frame for the planned MPLCS and potential IHLCA-3 that will help provide more up to date poverty numbers.** Initially, a Myanmar Poverty and Living Conditions Survey (MPLCS) will be conducted as a pilot small-scale (3,500) household survey to collect information on consumption and income levels as well as additional key welfare and other indicators of relevance to specific sectors. The MPLCS will aim to quickly generate up-to-date and credible estimates of poverty, and to inform the design and implementation of the large-scale (18,000 households) national survey (IHLCA-3). The IHLCA-3 will provide more comprehensive and updated poverty estimates. The new census will therefore be critical in providing an up to date sampling frame for both surveys.
- 29. Key socio-economic indicators also show a high incidence of non-income poverty.** More than a third of children under five years of age in Myanmar are reported to be stunted while about 23 percent are underweight. While these rates lower than in Laos and Cambodia, they are significantly higher than those

21 There are some indirect estimates of the PPP conversion factor available but these are unlikely to be reliable given the highly distorted dual exchange rate system in place in Myanmar in 2005.

prevailing in Vietnam, the Philippines, Thailand and China. Similarly, while the maternal mortality rate in Myanmar (200 deaths per 100,000 live births) is lower than in Laos and Cambodia, it is more than double than that in the Philippines and more than 3 times high than in Vietnam. Housing indicators also suggest that standards of living in Myanmar lag behind in the region. Several surveys in Myanmar including the LIFT baseline survey and the IHLCA 2 indicate that only about half of the households in Myanmar live in houses that have durable roofing, compared to more than 80 percent in neighboring countries. **Source:** World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

Figure 9: A large fraction of the population is clustered around the poverty line

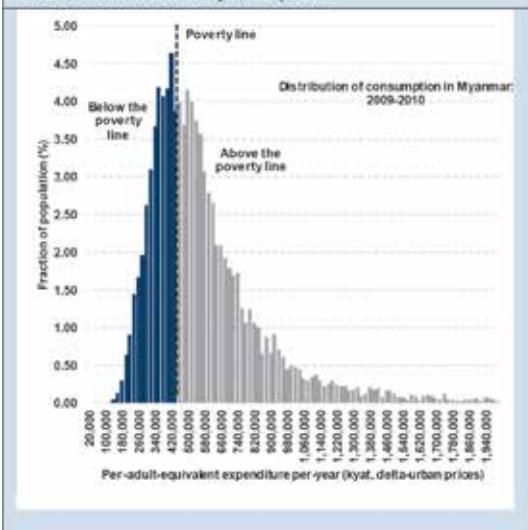
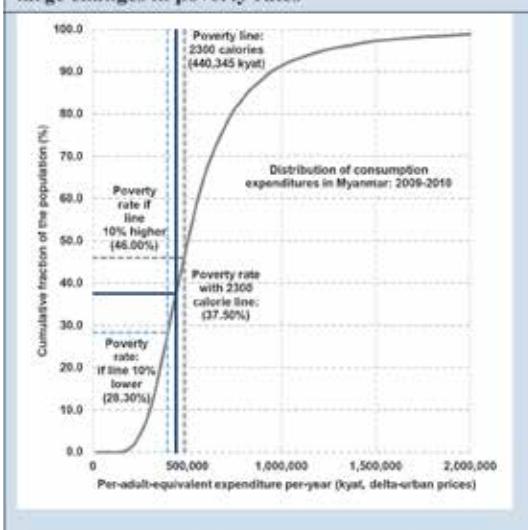


Figure 10: Small changes in the poverty line lead to large changes in poverty rates



30. Not unlike in many low income economies, a large fraction of Myanmar's population was clustered around the poverty line, both above and below, in 2009-2010 (Figure 9). What this implies is that the measured incidence of poverty will be sensitive to slight differences in where the poverty line is set (Figure 10). If, for instance, a 2,100 calories per day standard were used to anchor the poverty line, resulting in a poverty line that is 10 percent lower in monetary terms, the measured poverty would be 28.3 percent, nearly 10 percentage points lower. A 10 percent increase in the poverty line would, analogously, increase the poverty rate by nearly 9 percentage points. The clustering of households around the poverty line also implies that relatively small changes in circumstances—adverse shocks or increase in incomes—can lead to significant movements into and out of poverty.

31. With a poverty rate of 37.5 percent, the poor and the bottom 40 percent are largely synonymous in Myanmar. Therefore, for all practical purposes, as of 2010, the aim of enhancing shared prosperity coincided with the goal of ending absolute poverty in Myanmar. And both entail raising the incomes of the poor, and ensuring that they continue to rise as the economy prospers.

Figure 11: Inequality in Myanmar is relatively low

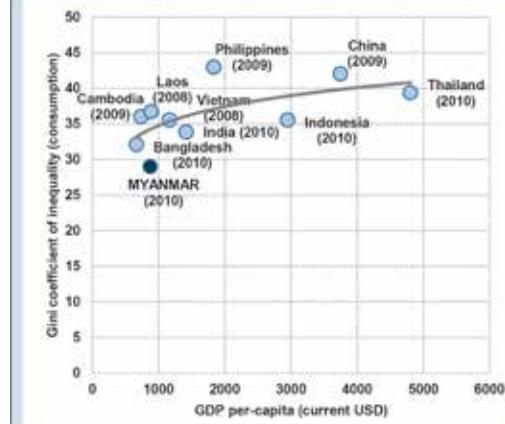
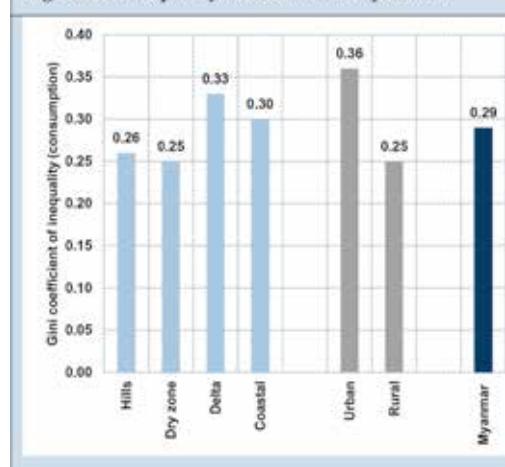


Figure 12: Inequality varies within Myanmar



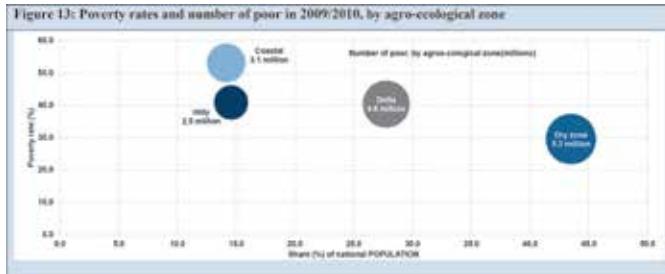
Source: World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

Source: World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

32. Measured consumption inequality in Myanmar is relatively low in comparison with its regional neighbors (Figure 11). The initial analysis of the IHLCA-2 (UNDP and GoM, 2011) produced a Gini coefficient of 0.20, which would have been remarkably low by global standards. The more recent re-examination of the data, which are still subject to wide margins of error (see Box 3), yielded an estimated Gini coefficient of 0.29, higher than the initial estimate but still relatively low. Inequality is higher, in some cases considerably higher, in all of Myanmar's regional neighbors. Within Myanmar, inequality is estimated to be much higher in urban areas (0.36) than in rural areas (0.25) (Figure 12). Among Myanmar's four agro-ecological zones, inequality is estimated to be highest in the Delta (0.33), in part because the region includes the city of Yangon (0.36) but likely also due to high levels of inequality in access to key assets like agriculture land.

B. The spatial distribution of poverty

33. The incidence of poverty varies substantially across the different geographic regions of Myanmar. In terms of agro-ecological zones, poverty rates are highest in the Coastal zone (53.1 percent) and lowest, surprisingly low, in the Dry Zone (29.5 percent), with the Hills (40.9 percent) and the Delta (40.4 percent) falling in the middle, close to the national rate (Figure 13).²² Poverty rates vary as well, across the states and regions, in many cases even within the agro-ecological zones (Figure 14). Rakhine (in the Coastal zone) and Chin (in the Hills), on the eastern border with Bangladesh, are by far the poorest states, with poverty rates of 78 percent and 71.5 percent respectively. Ayeyarwaddy (in the Delta) and Shan (in the Hills) are next with poverty rates in mid-40s. The incidence of poverty in the regions in the Dry Zone on the other hand are uniformly lower than the national rate, as are those in the remaining hilly border states, on the north and the east, adjoining China and Thailand.



Source: World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

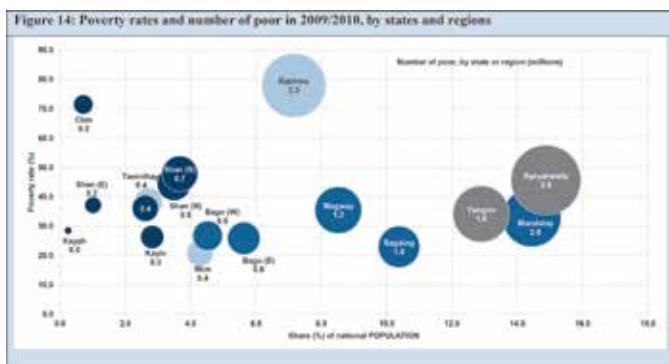
34. The poorest areas—the areas with the highest incidence of poverty—are not always where most of

the poor live and so geographic targeting of the poor needs to take account of both poverty rates and the share of the poor that live in an area. For instance, using 2009-2010 population and poverty data (subject to the significant data quality issues set out in Box 3), although the Dry Zone and the Delta have a lower incidence of poverty than the Coastal zone or the Hills, because of the relatively high population share of the Dry Zone and the Delta, they account for nearly two-thirds of the poor in Myanmar. Conversely, although Chin has the second highest poverty rate (71.5 percent) amongst all states and regions, it accounts for only 1.4 percent of the poor due to its small population. Rakhine and Ayeyarwaddy stand out in that they both have high poverty rates and account for large shares of the poor. The available 2009-2010 data (subject to wide margins of error) indicate that Rakhine has a poverty rate of 78 percent and accounts for 14.9 percent of Myanmar's poor, while Ayeyarwaddy, given its size and moderately high poverty rate (45.7 percent), accounts for 18 percent of the poor—the highest of any state or region. Geographical targeting to reduce poverty must take account of both the rate of poverty and the population share.

35. At 34 percent, the poverty rate for the Yangon region seems surprisingly high (Figure 14). The 33 percent poverty rate for the Mandalay region also seems high, particularly in light of the important commercial role that both Yangon city and Mandalay city play in Myanmar's economy. These high rates of transition poverty in part reflect the high and rising cost of living in urban areas; although urban areas have much better local infrastructure and basic services, residents pay a lot to access these services. Limited access to stable, well-paid jobs is another contributing factor to urban poverty. In recent years, Yangon has become a magnet for rural migrants seeking new employment opportunities and a chance at a better life. But these new opportunities have been slow to develop. According to the 2009/10 IHLCA2, the urban poor are typically employed in the informal sector, or as casual, unskilled workers in construction or other service sectors, and many have limited education and job skills.

36. Although the rate of poverty is high in Yangon, the depth and severity of poverty is relatively low. Many poor households are clustered near and just below the poverty line, and promoting good growth and expanding economic opportunities could ensure they grow out of poverty very quickly. Managing this process of transition—and related issues linked to rising expectations, rising inequality, and ensuring equitable access to public assets and basic services—is an important poverty challenge for Myanmar.

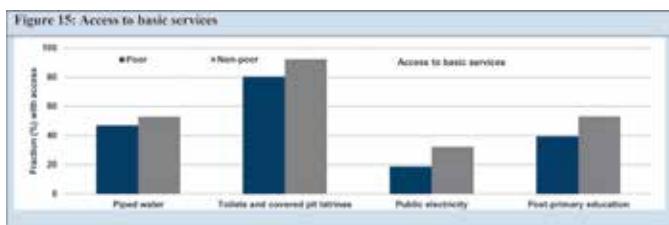
²² The mapping of states and regions into the four agro-ecological zones is as follows: Hills (Chin, Kachin, Kayah, Kayin, Shan), Dry Zone (Bago, Magwe, Mandalay, Sagaing), Coastal (Rakine, Mon, Taninthayi), and Delta (Ayeyarwaddy, Yangon).



Source: World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

C. Characteristics of the poor and the correlates and causes of poverty

37. Like the poor in most low-income economies, the poor in Myanmar live predominantly in rural areas, rely on agriculture and casual employment for their livelihood, have low levels of human capital and few physical and financial assets, lack reliable access to quality basic services, are exposed to a variety of shocks, and are poorly connected to markets because of inadequate infrastructure, imperfectly functioning markets, weak institutions and incomplete information. Many of these characteristics are not unique to the poor. They are also true of the population at large given that Myanmar is a low-income country that has yet to undergo a fundamental structural transformation and is characterized by poor service delivery, weak institutions, low capacity, and under-developed markets. For instance, while 76 percent of the poor live in rural areas, so does 74 percent of the population as a whole. Agriculture is the primary source of livelihoods, not just for half the poor, but also for nearly half of all households. And in terms of many basic services, while it is the case that the poor do have less access, in some cases significantly lower, the numbers are still very low for the non-poor and so the challenge of basic service delivery is one that applies not just for the poor (Figure 15).

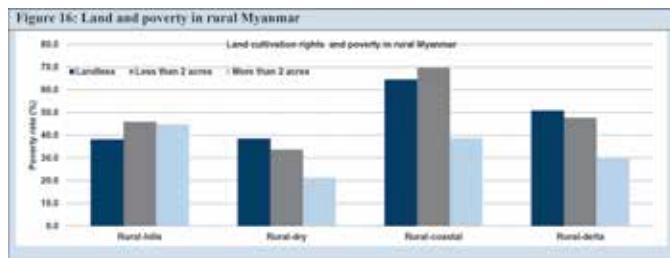


Source: World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

38. In terms of observable household characteristics that are most strongly correlated with a household being poor, three are worth noting—a household's location, land ownership, and religious-ethno-linguistic identity. The importance of location has already been highlighted in the discussion above on the

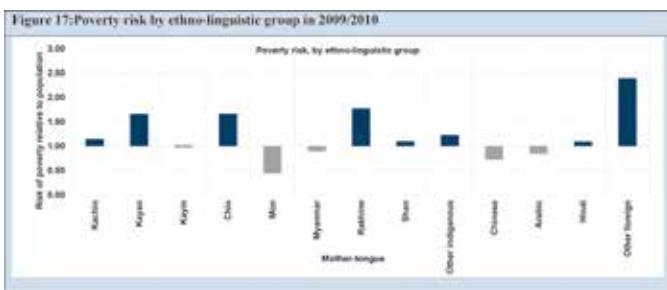
spatial distribution of poverty. The other two prominent correlates of poverty in Myanmar are discussed below.

39. Poverty in rural Myanmar is closely associated with landlessness or functional landlessness—cultivation rights to less than 2 acres of cultivable land—particularly in the Delta, Coastal and Dry Zones. The rural landless and marginal farmers (with cultivation rights to less than 2 acres of land) constitute two-fifths of Myanmar's population, but make up over half the poor. The association between land and poverty is particularly strong in the Delta, Coastal and Dry zones (Figure 16). In the Hills the correlation is less evident but that is mostly because landlessness is less prevalent and shifting cultivation on cleared forest land more common, as well as the fact that the threshold of 2 acres is less relevant in the Hills, where soil quality is poorer and larger tracts of land are needed even for subsistence.



Source: World Bank staff estimates from new analysis of 2009-2010 IHLCA survey data.

40. There is a strong correlation between poverty and ethno-linguistic identity (proxied in the 2009/10 IHLCA by “mother tongue”), suggesting that social and political exclusion are a continuing challenge in Myanmar. Native Myanmar speakers constitute over three-quarters of the population, but only two-thirds of the poor, implying that the risk of poverty is much higher for non-Myanmar groups as a whole. But there is considerable variation amongst the non-Myanmar ethno-linguistic groups, with some, like the Mon, Chinese and Arabic speakers, much less likely to be poor, and others much more so. In particular, Chin speakers (1.2 percent of the population), Rakhine speakers (3.9 percent of the population) and speakers of “other foreign languages” (3.1 percent of the population), who are primarily Muslim minorities identifying themselves as Rohingyas living in Rakhine are, respectively, 1.7, 1.8 and 2.4 times more likely to be poor than the population at large.



Source: World Bank staff estimates from new analysis of 2009–2010 IHLCA survey data.

D. Vulnerability to poverty

41. **Data from the IHLCA survey and other sources indicate that households in Myanmar are exposed to a wide variety of shocks and have limited means to manage them, resulting in significant vulnerability to falling into or further into poverty.** The shocks households are exposed to range from ones that affect individual households to localized shocks limited to certain areas, to those that are economy-wide.
42. **Health-related shocks appear to be the main shocks that affect individual households.** Illness or accidents requiring hospitalization or long-term medical attention, have pushed households surviving just above the poverty level into poverty, while the poorest households are unable to cope financially, due to the combined lack of social protection mechanisms and the burden of out-of-pocket health expenditure. Similarly, old and disabled persons are unable to participate in physical and productive income generating activities.
43. **Weather and climate-related shocks and conflict and communal violence are the main categories of localized area-specific shocks, with the former primarily but not exclusively affecting households that depend on agriculture, and the latter, more prevalent in certain areas (e.g., border states) or relevant for certain ethno-linguistic groups.** Crop loss due to pests and extreme weather events such as droughts and floods are a significant risk for agriculture in all parts of Myanmar. This has introduced a new dimension of vulnerability in rural livelihoods. Myanmar is also highly vulnerable to hydroclimatic extremes, with significant exposure to cyclones, and a quarter of the country faces periodic flood risk (threatening 36 percent of the coastal population). Conflict in the border areas has led to a population of internally displaced families who are at greater risk of poverty because they are unable to participate in normal income earning activities and invest in developing the human capital of their children. The size of this population remains unclear and it is almost certainly the case that poverty amongst them is under-estimated. Understanding the poverty challenges of the Internally Displaced Persons (IDPs) and ethnic minorities in general is currently not feasible, given the limited coverage of the previous “national” household survey (IHLCA-2). Better data and deeper analysis in

future will therefore be important. Finally, other individual characteristics such as ethnicity and religion have put many people at risk of being poor.

44. **The main economy-wide shock households face are fluctuations in the prices of basic needs (including food), as well as essential inputs and crops, with the latter being particularly important for agricultural households.** Price fluctuations, whether they stem from exchange rate shocks, supply shocks, or shocks to transport and logistic costs, matter in two ways. Increases in food prices and in the prices of other basic commodities and services make it harder for the working poor in both rural and urban areas, who are net “consumers”, to meet their basic needs. On the other hand, the main risks that farmers face are declines in the prices of the crops they produce and increases in the prices of essential inputs.
45. **A taxonomy of the poor and what it suggests about pathways out of poverty**
46. **The poverty profile presented above suggests three main faces of poverty in Myanmar: the “traditional” poor, who are heavily concentrated in rural areas, have very low levels of education, depend on agriculture for their livelihood, have limited access to key productive assets and factors like land and finance; the “transitional” poor, many of whom live in urban and peri-urban areas, have transitioned out of traditional rural livelihoods but still work as low-skill casual laborers; and the socially-marginalized and “excluded” poor. The “causes” of poverty for each of these groups are many—some that are common to all of them, as well as some that are specific to each group. And so the pathways out of poverty for each of these groups have some common elements but also some that differ.**
47. **Investments in human capital and better access to quality basic services would be critical to ending the poverty of all three groups of the poor — both their income and non-income dimensions of poverty.** 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, enhance current income generating opportunities and lower the inter-generational perpetuation of poverty.
48. **In order to end the poverty of the working poor, both “traditional” and “transitional”, would require increasing returns to their main asset—their labor.** For the majority, the “traditional poor”, who currently depend on agriculture for their livelihood, 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. For the “transitional” poor, the opportunities for private-sector led off-farm employ-

ment and income generation will obviously be critical. The specifics of the interventions that will be needed are discussed in greater detail in later sections. But they are likely to vary from region to region. For instance, securing land titles and improving access to credit may be essential for increasing plot-level yield-enhancing investments that are particularly important for raising agricultural incomes and alleviating rural poverty in the Delta, further investment in irrigation systems and water basin management may be the most relevant for the Dry Zone, and investments in connectivity infrastructure may be the most critical for the Hills.

48. Lastly, for the “excluded” poor—communities in remote conflict-affected areas, members of socially-marginalized groups, families without anyone capable of productive work—a focus on increasing the returns to labor is unlikely to be sufficient. By definition, these groups have been or are likely to be excluded from or less connected to opportunities for productive economic activity. And so for these groups, the pathways out of poverty will likely have to include specific targeted interventions and programs of assistance.



III. PATHWAYS OUT OF POVERTY AND INTERVENTION AREAS

49. This section seeks to identify the most efficient and effective pathways (strategies) for lifting the poor out of poverty, the critical pre-requisites, constraints to be addressed, and the intervention areas for removing the constraints. A major feature of the SCD is that it has a sharp focus on intervention areas that have a strong direct or indirect link to ending poverty and boosting shared prosperity. Ultimately, the aim is to identify priorities for accelerating progress towards the twin goals. It is in this regard that given the taxonomy of the poor in Myanmar and the country's unique context presented in the previous section, key pathways out of poverty are identified, based on some over-arching principles. Once these pathways have been determined, intervention areas are identified for removing critical constraints within the pathways.

A. Strategic Framework for Inclusive and Sustainable Growth

50. A growth strategy for Myanmar has to fit Myanmar's circumstances. Myanmar is confronted by many of the same challenges seen in most poor, rural and resource based economies. Yet, Myanmar is not typical. It has a potentially powerful advantage with its large internal market (about the same as the Republic of Korea) surrounded on both sides by two of the world's largest markets in China and India. It also trying to resolve 60 years of conflict over ethnic and religious autonomy and deciding how best to complete the transition away from the old, socialist-military model adhered to in earlier years. Thus, both the framework for growth through structural transformation and open trade and investment, and the conflict, security and development framework set out in the World Bank Group's *World Development Report 2011* provide salient elements of a growth framework for Myanmar. Over the medium-term, other factors will also gain importance, such as diversification through imitation and innovation.

51. Shifting labor from low productivity to high productivity jobs, typically from agriculture to manufacturing and services, will drive growth. Achieving this shift will involve careful sequencing of policy reforms and investment. Several initial steps have been taken (see paragraph 53 below). The prioritization in Section III.C identifies some key factors, such as: (i) removal of obstacles to private sector investment arising from instability, poor regulation or lack of finance; (ii) screening of government investments to encourage private investors without crowding them out; (iii) quick and affordable transport of food from rural to urban areas; (iv) quick and affordable access to information about new job opportunities and removal of obstacles to labor mobility; progress toward universal access to quality education and training to upgrade skills. The prospects for poverty reduction are greater when newly released farm labor can find its way to good, formal sector jobs rather than those in the informal sector with its lower wages, lower retirement and healthcare bene-

fits and higher vulnerability to lay-offs and accidents.

52. Myanmar's location in Southeast Asia, large labor force, membership in ASEAN and excellent coastline suggest that joining the manufacturing supply chains centered in Asia can kickstart growth. Myanmar will likely be among the countries to gain the most from increased economic integration through ASEAN Economic Community. Exports make it possible to procure a larger volume and wider variety and good quality capital goods not available locally. Export demand can also help drive the expansion of manufacturing and services jobs required for structural transformation. 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. There are risks for Myanmar too. Opening the economy to more trade almost always creates some losses for some individuals and firms that cannot compete with external products and services. Growth and poverty reduction will be aided by policies that help these people transition to industries where Myanmar has a competitive advantage and to provide welfare programs for those who cannot make the needed transitions.

B. The Government's reform program

53. The Government has launched and begun implementing some key reforms. Initial reforms focused on the political system and national unity, but key macroeconomic reforms were put into play early as well. The severely over-valued official exchange rate was unified under a managed float in 2012. The change has been beneficial to government fiscal operations and has put an end to the unfair advantage over private firms held by state economic enterprises due to their previous access to inexpensive foreign exchange. External arrears were cleared in 2013. The central bank has been divested from the Ministry of Finance in 2013 with independent monetary authority. Details have also been released on increasing transparency in the national budget. New laws to facilitate foreign direct investment have been passed. These changes have been followed by a large number of new laws for almost every sector in the economy – many aimed at facilitating more public and private investment in human and physical capital. However, most ministries have been unable to catch up with the sheer speed and volume of these changes, creating implementation backlogs and bottlenecks. At the same time, as mentioned in Part I above, conflict continues in several parts of the country. These challenges leave private investors with uncertainty, divert government resources and attention from more productive uses, and jeopardize the sustainability of reforms.

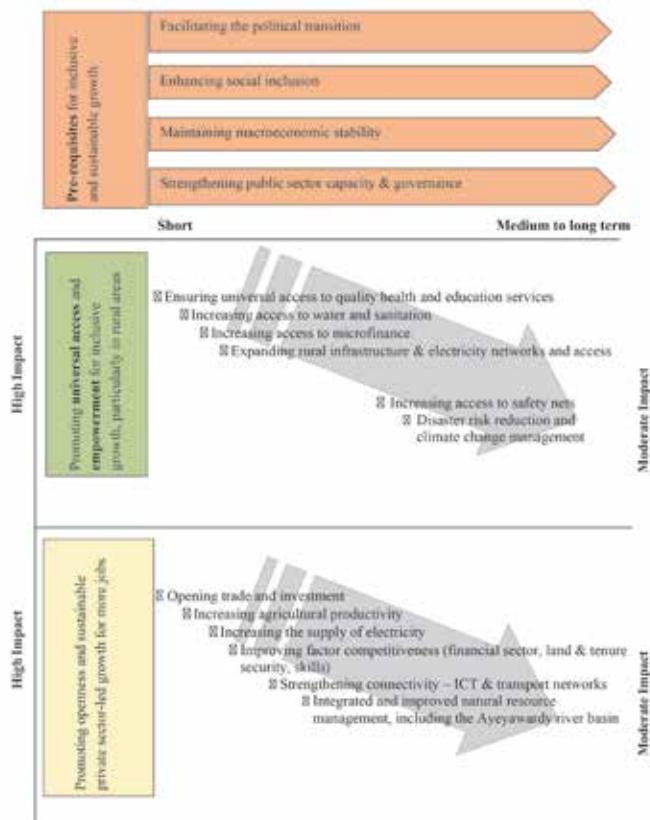
C. Critical next steps

1. *Considerations in identifying priority intervention areas and sequencing*
 54. **Within each pathway, it is important to identify priority intervention areas and how action could best be sequenced over time.** Given Myanmar's current high poverty rate and low level of development more generally, progress will need to be made in many areas for the country to accelerate progress towards ending poverty and boosting shared prosperity. At the same time, it is recognized that there are financial, human, and institutional capacity constraints both in the public and private sectors to adequately deal with all the constraints concurrently, hence the need for prioritization and proper sequencing.
 55. **The main basis for identifying priorities is the likely magnitude of impact on reducing poverty of action on an intervention area.** In turn, magnitude of impact depends on many factors. A key factor is the current severity of the problem. If Myanmar faces a wide deficiency gap in a particular intervention area then action is likely to have a high impact on poverty reduction. Similarly, if an intervention area has strong linkages or complementarities with other intervention areas then action would also have a high impact on poverty reduction.
 56. **Sequencing of intervention areas needs to take into account several considerations.** In particular, time preference need to be first given to those high impact intervention areas whose actions can easily be implemented, where available evidence is strong on the nature and scale of the problem to be solved and what exactly needs to be done, and where the impact on poverty reduction can be realized sooner rather than later. However, the need to have a long-term perspective of development may require that some action starts now even if not meeting the above criteria. For instance, although impact of action in an area may only be evident in the medium to long-term, it may be advisable to start implementing some actions in the short-term since delaying action would only prolong the problem further.
2. *Identified areas of intervention*
57. **The analysis below identifies two pathways encompassing 12 priorities, along with four prerequisites that need urgent attention.** The first pathway focuses on increasing agricultural productivity and creating more lucrative job opportunities. The second pathway focuses on universal access and empowerment for inclusive growth, particularly in rural areas. Finally, there are four prerequisites that, if left unaddressed, will either diminish Myanmar's success in poverty reduction or risk the sustainability of the reform effort. Figure 15 provides a broad picture of how the various interventions can be prioritized and sequenced. A precise rank-order of relative priorities in Myanmar is not

possible because there is not enough data and analytical base to support it.

58. **Growth can be a powerful driver of poverty reduction.** For Myanmar, returns in agriculture and outside agriculture have been low due to low productivity. In addition, the country has not been able to create enough jobs due to limited participation of the domestic and foreign private sector in the economy, and because of isolation from the global economy, while sustainability has been at risk because of a fragmented approach to Myanmar's key natural resource – the Ayeyarwaddy river basin. Therefore, a key over-arching principle is ensuring greater openness and participation of the domestic and foreign private sector in the economy (particularly in the non-gas sectors which have greater potential for job creation), fostering integration with the global economy, enhancing productivity, and adopting an integrated approach to the management of the Ayeyarwaddy river basin. Ultimately, this is about growing the economy in order to increase the pie and ensuring sustainability. Over a 3-5 year horizon, growth will come from increasing investment, continued growth in natural resource exports, and increasing productivity. These considerations lead to the identification of the first key pathway out of poverty in Myanmar: *promoting openness and sustainable private-sector led growth for more jobs.*
59. **All three groups of poor, including the socially marginalized, will need to have access to basic services and infrastructure networks to reduce non-income poverty and become empowered to participate in income earning opportunities – whether in the form of wage or self-employment.** Access to critical services will also help break the inter-generational cycle of poverty. However, as mentioned in the previous sections, access to these services, especially in the rural and remote areas, has been limited due to Myanmar's past political and economic history. Therefore, a second key over-arching principle for ending poverty in Myanmar is universal access and empowerment. While fighting poverty via the first route above is more about fostering growth, this second route is more about making such growth inclusive. This leads to the identification of a second key pathway out of poverty in Myanmar: *promoting universal access to critical services and empowerment for inclusive growth, particularly in rural areas.*

Figure 18: Pre-requisites, Pathways, and Key Intervention Areas for Poverty Reduction and Shared Prosperity



60. To accelerate progress towards the twin goals through the above main pathways, some pre-requisites need to be in place. These pre-requisites serve to lay the critical foundations for growth, inclusiveness, and sustainability. The pre-requisites 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. They also define the technical capacity of the public sector to unleash the country's potential and sustain progress. Progress in the pre-requisites affects the speed (efficiency), effectiveness, and sustainability of the main pathways identified above in lifting the poor out of poverty.

3. Rationale for interventions

1. Pre-requisites for inclusive and sustainable growth

61. Facilitating the political transition, enhancing social inclusion, maintaining macroeconomic stability, and strengthening public sector capacity and governance will be critical pre-requisites for the fight against poverty. Action in these areas is needed in the short term but they also require continued attention. Without addressing the constraints identified in these areas, it will be difficult to make and sustain progress in creating job opportunities, increasing returns, promoting universal access, and empowering people to

take full advantage of these opportunities.

(a). Facilitating the political transition

62. Uncertainty around the key elements of the political transition poses a major challenge to efforts for creating jobs, increasing returns, and increasing access to services. In particular, internal and external actors are unable to take long-term decisions on their investments and livelihoods. Key to facilitating the political transition will be attaining lasting peace and moving out of fragility and consolidating trust and legitimacy between the state and its people.

(i). Attaining lasting peace and moving out of fragility

63. Comparative research across countries affected by conflict has demonstrated the negative impact of conflict on economic growth and poverty. Historically, 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.²³ Poverty reduction rates in countries affected by violence are on average one percentage point per year lower than those of peaceful countries, dramatically altering the trajectory of a country's development course.

64. In Myanmar, 60 years of conflict have created areas facing extreme poverty. Poverty is most heavily concentrated in conflict-affected areas: poverty rates in Chin State stand at 71 percent and, in Rakhine at 78 percent, compared to 37.5 percent nationally,²⁴ and populations in these areas have some of the lowest human development indicators in Myanmar, with 58 percent of children under five stunted (UNICEF MICS 2010). Moreover, the long legacy of conflict in these areas not only increases absolute poverty, but also makes it more difficult to address other issues, including displacement, land, and opium cultivation (Myanmar remained the second largest opium poppy grower in the world after Afghanistan in 2013 and its production is almost exclusively concentrated in conflict-affected areas in Shan and Kachin State) (UNODC Opium Survey 2013) – all of which complicate the context for development interventions. A fragile peace process negatively affects Myanmar's investment climate and also negatively impacts on the Government's ability to deliver critical basic services particularly in the border areas.

65. 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

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2011 WDR

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World Bank staff estimates from 2009-2010 IHLC survey.

to accommodate some of the long-standing grievances voiced by ethnic armed groups. Following the signing or renewal of a series of ceasefires (including with the Karen National Union, bringing to an end Myanmar – and the world’s – longest-running armed conflict), a series of leadership meetings between the Government and the groups starting in late 2013 have made progress and built trust. This process has included the Kachin Independence Organization (KIO), even though conflict continues between Government and KIO forces. The renewed conflicts in early 2014, with armed clashes in both Kachin and parts of northern Shan State that displaced over 5,000 people, underlined the continued fragility of this process and the importance of a successful resolution to establish peace and security across the country.

- 66. 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 religious 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.
- 67. Establishing peace and security across Myanmar will involve finding a sustainable solution to the issue of the Muslim minority that identifies as Rohingya in Rakhine State.** As mentioned in the previous section, this Muslim minority is not recognized as an ethnic group by the Government, but rather seen as illegal migrants from neighboring Bangladesh. Following outbreaks of violence directed against this minority in the summer of 2012 that killed 89 people and displaced over 140,000, the Government established temporary camps where most of the displaced continue to live today.²⁵ 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, including in the country’s second largest city Mandalay in 2014.²⁶
- 68. General elections are scheduled for end 2015.** As is common in many countries, there is a potential for a polarization of politics (and a politicization of development decisions) ahead of the elections, and a period of uncertainty will likely follow the elections as a new government takes office and establishes its policy priorities. Complicating this situation are ongoing campaigns to change the constitution, including around the eligibility for high office of the opposition leader. Beyond uncertainty, this situation could create domes-

tic political tensions and instability, and depending on its resolution impact investment and aid flows to the country.

(ii). Consolidating trust and legitimacy between the state and its people

- 69. A long history of poor governance and corruption eroded the trust of individuals and firms in the State preventing them from responding positively to opportunities or participating fully in Government-led development initiatives and programs.** Before the transition, the governance environment was very poor, with people rarely playing by the rules. In particular, the system was characterized by high corruption, cronyism, social discrimination, and poor public services. Therefore, although the Government is taking steps to create a conducive environment for doing business, there is a perception, based on past experience, that public procurement has not been fair and the private sector has not been able to compete on a level playing field with public sector or public linked entities. Similarly, unresolved issues about ethnic autonomy as well as a flawed election process have undermined the state’s legitimacy amongst certain groups of people and geographical areas. In turn, this has hampered the Government’s efforts to operate and deliver services in such areas.
- 70. The constitutional reform and upcoming elections, offer huge opportunities for gaining people’s trust and achieving state legitimacy.** Under democratic governance, it has become necessary for the Government to become more transparent and accountable to its citizens, which is critical to building trust. Government now has an opportunity to be more transparent in various areas of political and economic governance, including procurement, as has been demonstrated in the award of mobile phone licenses, a tender process that won widespread praise for its transparency and integrity. Similarly, the on-going constitutional reform and upcoming elections offer an opportunity for Government to ensure that the concerns of ethnic minorities are addressed, including through further decentralization.
- 71. A key challenge and risk to consolidating trust and state legitimacy lies in the weak capacity of the police and judiciary, and likelihood of vested interests frustrating reforms.** There have been concerns about the capacity of the police and judiciary to ensure that the rule of law is enforced and upheld. As a legacy of the past, there is still skepticism about the ability of the police and the judiciary to act with independence, such as when it comes to punishing corrupt practices. Further, those who have benefited from the system in the past, both within Government and outside, may not be happy with reforms that open up the space to competition, equity, transparency, and accountability, and may therefore try to frustrate reform efforts.

25 Report of the Special Rapporteur on the Situation of Human Rights in Myanmar, UNOHCHR, August 2012 and September 2014.

26 International Crisis Group, Myanmar Crisis Watch, April 2014.< <http://www.crisisgroup.org/en/publication-type/crisiswatch/crisiswatch-database.aspx?CountryIDs=%7b7E12FB4D-6C23-449D-AF08-550AD5FD-2F2E%7d#results>>

(b). Enhancing social inclusion

- 72. There are patterns of social exclusion in Myanmar which pose obstacles to groups seeking to lift themselves out of poverty, gain equitable access to services and share in prosperity.** Certain social groups face barriers, by virtue of their identity or location, to participating fully in society and sharing in prosperity. The main drivers are religion, ethnicity and citizenship, gender, geography, and conflict. There has been long-standing discrimination and marginalization of non-Buddhists, dating back to colonial times but which has most recently been directed particularly at Muslims, but also historically at Christians and other groups. For example, in Rakhine State, people belonging to the Muslim minority that self-identifies as Rohingya are stateless, poor, and face systematic discrimination, including restrictions on family size, marriage, birth registration, and movement. This severely constrains livelihood opportunities and access to markets and basic services, and prevents integration. Elsewhere, anti-Muslim sentiment has grown since the reforms began, and since 2012 has spilled over into violence outside Rakhine State, specifically Meiktila. Burmese people of Chinese or Indian descent are not recognized as an official ethnic group. An NRC, which is a ‘citizenship scrutiny card, is needed to access higher education, register a business, buy land, stand for office, move past checkpoints, migrate internally, and to get jobs outside the informal sector.
- 73. The challenge of dealing with social exclusion came to the fore in Rakhine during Myanmar’s census carried out in April 2014.** The majority Buddhist Rakhine residents were concerned about the intent of the census to allow enumeration and self-identification by the Muslim minority residents that identify themselves as Rohingya and led a boycott of the census that led to mass demonstrations. In the face of demonstrations and threats of violence against government officials and international aid workers, enumeration in the area with mostly Muslim minority residents was halted. Elsewhere, the census, which was the country’s first since 1983, was considered successful.
- 74. Women’s participation in decision making and access to resources has been limited.** The proportion of women in national parliament is only at 6 percent in 2013, starkly lower than the low income countries average of 19 percent. A recent study found that ideas about leadership are set in the home, where men are commonly considered the household head. These ideas are then reinforced in public and religious life, where men dominate positions of power.²⁷ In addition, customary laws of some ethnic populations have discriminated women from land ownership and property inheritance.²⁸

75. The on-going reforms provide an opportunity for the Government to promote social inclusion in development. This is because it offers a platform for evidence-based policy making and bottom-up approach to development. Therefore, there is now an opportunity for the government to ‘do development better’ by ensuring that future development programs and policies are more consultative; include social assessment and social accountability measures; and benefit a wide cross-section of society, particularly in ethnic minority areas. The World Bank’s Social Impact Monitoring (SIM) and Qualitative Social and Economic Monitoring (QSEM) qualitative social research programs have documented the strength of social capital and collective action at village level, at least within homogenous groups.

(c). Maintaining macroeconomic stability

- 76. Ensuring macroeconomic stability is important because it offers a more predictable environment in which businesses can plan and operate.** Most fundamentally, there is solid empirical evidence that economic uncertainty reduces private investment. Excessive fluctuations in prices, interest rates, exchange rates, wages and output can all cause harm. Macroeconomic stability requires effective monetary management. It is therefore important to establish early adequate capacity in monetary and fiscal institutions. This, by itself, is not enough in fragile states. Conflict can be source of price instability when governments find they can finance conflict related spending and other activities only through excessive money creation.²⁹ In the 1990s and 2000s, inflation rates were quite high in Myanmar, as a result of heavy monetary financing of the large budget deficits that resulted from pursuing development concurrently with the prosecution of multiple conflicts.
- 77. Although macroeconomic performance has generally been strong in Myanmar, there is weak institutional capacity for macroeconomic management.** Fiscal policy has largely been the main macroeconomic stabilization tool, but with the CBM playing the role of treasury and no department in the MOF dedicated to fiscal strategy and policy. The CBM relies heavily on direct monetary policy instruments, mainly in the form of reserve requirements and prudential limits on the structure of commercial bank balance sheets. Interest rates have been administratively set for all instruments and maturities, and, until recently, rarely changed. There is no formal interbank market and pervasive controls on banks impede the monetary transmission mechanism. In the past, a fixed, multiple, and restrictive exchange rate policy has had damaging effects on the economy while deficit monetization has fueled inflationary pressures.
- 78. Myanmar’s macroeconomic situation has improved significantly in recent years (See Table 4).**

²⁷ Action Aid, Care, Oxfam (2011)

²⁸ Committee on the Elimination of Discrimination against Women (CEDAW) Report (2007).

Growth accelerated in recent years (see paragraph 8). Inflation declined significantly from 22.5 percent in 2008/09 to 5.7 percent in 2013/14, due mainly to improved fiscal discipline by the new Government, which has committed to keeping the fiscal deficit below 5 percent of GDP. In addition, there has been a significant policy shift in the financing of the fiscal deficit from reliance on the printing of money towards greater use of treasury bonds. Management of the exchange rate has also improved significantly following the floatation of the exchange rate on April 1st, 2012. As a result, the official and parallel market exchange rates have now converged (See Table 4). Similarly, with support from the international community, the country has managed to clear all external debt arrears. As a result, total external debt has declined significantly from 37.7 percent of GDP in 2008/09 to 24.6 percent in 2012/13. The last three joint World Bank – IMF debt sustainability analyses have concluded that Myanmar is at low risk of debt distress.

- 79. The medium-term economic outlook is favorable but faces significant downside risks, particular weak institutional capacity for macroeconomic management and the possibility of a slow down or steps back in the transition.** Under the baseline scenario (see Table 4), growth is expected to increase slightly further, averaging 8.4 percent over the next few years. The key underlying assumptions are continued strong performance in the productive sectors, including construction and manufacturing in special export zones, and robust performance in the service sectors. The nominal and real effective exchange rates have been depreciating and are projected to continue doing so in the medium term.³⁰ Inflation is forecast to reach 6.6 percent in 2014/15, fueled by electricity price increases and demand pressures, but should moderate in following years. The external current account deficit is projected to be around 4.9 percent of GDP, but is expected to be more than offset by rising FDI-related inflows while the fiscal deficit is projected to rise to 4.5 percent of GDP in 2014/15 mainly due to significant increases in transfers to state and regional governments and an increase in civil servants salaries. In spite of a general positive outlook, the economy faces significant downside risks. Basic macroeconomic management tools are still being built and the authorities' capacity to develop and implement policies and absorb technical assistance is already stretched. Given Myanmar's dependence on gas, strong capacity will be needed to deal with the challenging reforms that can foster inclusive growth, including growth of the non-resource sectors which will be needed to diversify the economy. The CBM's international reserves would be insufficient to resist short-term exchange rate pressures, should antic-

ipated foreign exchange inflows not materialize soon. Risks also arise from rapid growth of the financial sector, particularly given the lack of reliable data on the quality of bank's balance sheets, and still nascent supervisory capacity. Finally, as mentioned earlier, a stalling of the political transition would have a significant negative impact on the medium-term macroeconomic prospects.

(d). Strengthening public sector capacity and governance

- 80. 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.** Each of the identified intervention areas will require careful identification and design of more specific policies, programs, and projects to remove the key constraints as well as effective and efficient implementation and coordination. This is where the technical capacity of the public sector becomes critical. In addition, it will require strong institutions of governance to ensure that services are delivered in a transparent and efficient manner.

³⁰ The real depreciation in Myanmar is in contrast to the normal pattern observed in other fast growing countries in East Asia where the real exchange rate has been appreciating. While further study might be needed, this difference in outcome could be explained by the limited capacity of the economy to absorb foreign investment, the unattractive real interest rate which discourages hot money inflows and limited gains in productivity.

Table 4: Myanmar: Selected Economic and Financial Indicators, FY09-17**Table 4: Myanmar: Selected Economic and Financial Indicators, FY09-17**

	2008/09 ¹ Actual	2009/10 Actual	2010/11 Actual	2011/12 Actual	2012/13 Est.	2013/14 Est.	2014/15 Proj.	2015/16 Proj.	2016/17 Proj.
Output									
Real GDP	3.6	5.1	5.3	5.9	7.3	8.3	8.5	8.5	8.2
Nominal GDP (in billions of kyats)	28,778	32,351	39,847	43,368	47,851	54,756	63,323	73,042	84,267
Prices									
Consumer prices (period average)	22.5	8.2	8.2	2.8	2.8	5.7	6.6	6.3	6.6
Consumer prices (end of period)	9.2	7.1	8.9	-1.1	4.7	6.3	5.9	6.7	6.5
Terms of trade (in percent change)	5.4	1.3	-0.2	1.9	-2.0	-0.5	-0.9	0.1	-0.5
Public sector operations 2/									
Total revenue (including grants)	13.0	11.7	11.4	12.0	23.3	24.8	24.2	24.0	23.7
Total expenditure	15.5	16.9	16.9	16.6	25.2	26.5	28.7	28.6	28.5
Overall balance	-2.4	-5.2	-5.4	-4.6	-3.4	-1.6	-4.5	-4.6	-4.8
Domestic public debt	16.8	20.0	21.1	22.7	22.8	22.9	23.5	23.6	23.4
Money and credit									
Broad money	23.4	34.8	36.3	26.3	46.6	33.8	32.3	26.4	20.1
Domestic credit	24.0	34.8	34.4	25.1	5.1	30.4	32.5	25.3	21.6
Private sector	16.1	36.8	65.4	60.1	50.5	66.5	44.7	31.8	22.6
Balance of payments									
(In millions of U.S. dollars, unless otherwise indicated)									
Trade balance	302	72	645	-215	-2,135	-2,686	-2,514	-3,264	...
Exports	7,241	7,139	8,829	10,222	10,329	12,197	14,925	16,599	...
Of which: Gas	2,849	2,927	2,523	3,503	3,666	4,206	5,805	6,037	...
Imports	-6,938	-7,067	-8,184	-10,437	-12,464	-14,882	-17,440	-19,863	...
Current account balance (excluding grants)	-1,038	-985	-752	-1,181	-2,444	-2,786	-3,148	-3,198	...
Current account balance (as percent of GDP)	-3.3	-2.8	-1.5	-2.1	-4.4	-4.9	-5.1	-4.8	...
Overall balance	153	544	-443	-9.25	2,164	1,332	1,852	2,277	...
Exchange rates									
(End of period)									
Official exchange rate (kyat per U.S. dollar) 3/	5.8	5.7	5.4	5.6	880	964
Parallel rate (kyat per U.S. dollar)	992	1,004	861	822	878	965
External debt									
Total external debt (including arrears)	11.8	12.4	14.4	15.3	13.7	10.9	11.9	13.4	14.9
(In percent of GDP)	37.7	35.3	29.0	27.3	24.6	19.2	18.2	18.2	18.2
External debt arrears	8.8	9.3	9.9	4.8	0.0	0.0	0.0	0.0	0.0
Gross official reserves									
In millions of U.S. dollars	1,800	2,809	3,951	4,026	4,782	5,482	6,270	8,547	10,067
In months of total imports	3.1	4.1	4.0	3.5	3.5	3.4	3.5	4.2	4.3
GDP in billions of U.S. dollars									
GNI in billions of U.S. dollars (Atlas Method)	31.4	35.2	49.6	56.2	55.8	56.8	65.3	73.6	82.2
GNI per capita in U.S. dollars (Atlas Method)4/	---	---	---	49.6	57.4	59.8	62.3	68.6	78.1
990	1,140	1,170	1,210	1,210	1,210	1,210	1,320	1,430	1,430

Source: Myanmar authorities, IMF Staff estimates and projections, and World Bank Staff calculations, Economist Intelligence Unit

1/ Fiscal year (April–March).

2/ Consolidated public sector; includes the Union government and state economic enterprises. The big jump in revenues, exports, and imports between 2011/12 and 2012/13 was due to revaluation following the adoption of a managed float on April 1, 2012, that resulted in significant exchange rate depreciation

3/ The authorities adopted a managed float on April 1, 2012

4/ Calculations of GNI/capita were done using the World Bank Group's Atlas Methodology that requires the following kinds of data: GNI in current prices, GNI in constant prices or the GNI deflator, the SDR deflator as a proxy for world inflation, the nominal exchange rate, and population. Population figures are based on estimates provided from the UN population division and are largely consistent with the Government's preliminary population figure from the recent census. Population figures, and hence GNI per capita numbers will be revised once the final census results have been released.

- (i). *Improving public sector capacity for policy making, coordination, and service delivery*

81. Broadly, the Myanmar civil service suffers from a deficiency of critical skills. To a large extent, this is a result of decades of under-investment in education and brain drain. However, this has been compounded by the fact that existing public sector training programs have been deficient in equipping civil servants with the critical skills needed to effectively and efficiently design, implement, coordinate, monitor, and evaluate Government policies and programs. As a result, there is deficiency within Government of certain specialist skills in the areas of policy analysis, planning, and formulation, procurement, monitoring, and evaluation. In addition, current organizational structures do not provide for these specialized functions in most ministries. Finally, as a legacy of the past, there is lack of initiative, critical thinking, and orientation to conduct policy analysis, provide policy advice and implement policy amongst technocrats, both, at central Government level, as well as within line ministries and agencies; and government has a pronounced “silo” character, whereby ministries and agencies do not coordinate well with each other.

82. The country’s legacy of excessive bureaucracy and its opening up have further stretched the already weak capacity of the public sector, with a high risk of staff attrition. In particular, the workload of regulations and management that each policy and new law entail further stretch the already limited expertise and technical capacity of the bureaucracy. In addition, in spite of the recent increases in the salaries of civil servants, pay and compensation of civil servants in Myanmar remain very low. As a result, the increase in foreign direct investment in response to the country’s reform drive poses a significant risk to the competitiveness of the public sector and hence, its capacity to retain civil servants with skills that are on high demand.

83. The establishment of Delivery Units (DUs) is aimed at improving the effectiveness of the public sector to deliver some tangible results in the context of reforms. Established in August 2013, the DUs are essentially sub-committees of Cabinet level committees with the overall objective to implement “quick wins” in service delivery. However, it is not clear how the DUs fit within a broader public sector reform framework that is aimed at dealing with the underlying capacity constraints.

84. A key priority will therefore be to strengthen the capacity of Government agencies to come up with appropriate sector strategies that are consistent with Government policy priorities and well-coordinated with other sectors; and to improve the Center of Government’s efficiency in coordination and delivery of services. In this way, binding constraints which derive from government systems can be addressed. The development of the necessary specialized skills will take time. In addition, a systematic approach

requires that a careful diagnostic be undertaken to identify the binding capacity constraints within each of the identified intervention areas and at the Center. However, progress can be made in the near term in ensuring that different sectors come up with sector strategies that indicate sector priorities, no matter how basic the strategies may be. Through the sector working groups that have been established, these sector strategies will also provide a forum for coordination of efforts by Government, development partners, and the private sector. In addition, the efficiency of Government in making decisions, coordination, and delivering of services can be significantly improved, including by leveraging on ICT through the introduction of e-governance.

85. Sectoral approaches to capacity building have been effective in addressing some of the capacity constraints. Some ministries are formulating and implementing reform programs that among other issues, seek to address specific capacity constraints. In particular, progress has been made in PFM, pensions, health, education, energy, safety nets, and telecommunications, just to mention a few. Therefore this offers another avenue that needs to be explored in dealing with some of the capacity weaknesses in the public sector.

86. Improving the quality of data by strengthening statistical systems will be critical to promoting evidence-based policy making. Even if the authorizing environment and culture becomes more conducive, the capacity of the Government to formulate appropriate policies and strategies will be hampered by the poor quality of data and knowledge gaps. A key opportunity lies from the fact that improving the quality of statistics is one of the four policy priorities identified by the new Government. In addition, development partners have committed to supporting the Government in the preparation of a National Strategy for the Development of Statistics (NSDS) that will ensure a more systematic approach to the strengthening of statistical systems as well as funding elements of the strategy once it is finalized.³¹

87. Finally, fostering transparency will be key to reducing interference of politicians in decisions and processes that are technical in nature. Encouraging technocrats to play a more prominent role in designing processes and making decisions that are technical in nature may not be effective unless the system makes it difficult for politicians to interfere. In this context, designing systems and processes that are transparent will be critical.

31 The NSDS sets out the strategic goals of the statistical system over the medium term, usually, 5 years (but could be longer) by assessing the current situation, identifying needs and gaps and developing action plans and budgets.

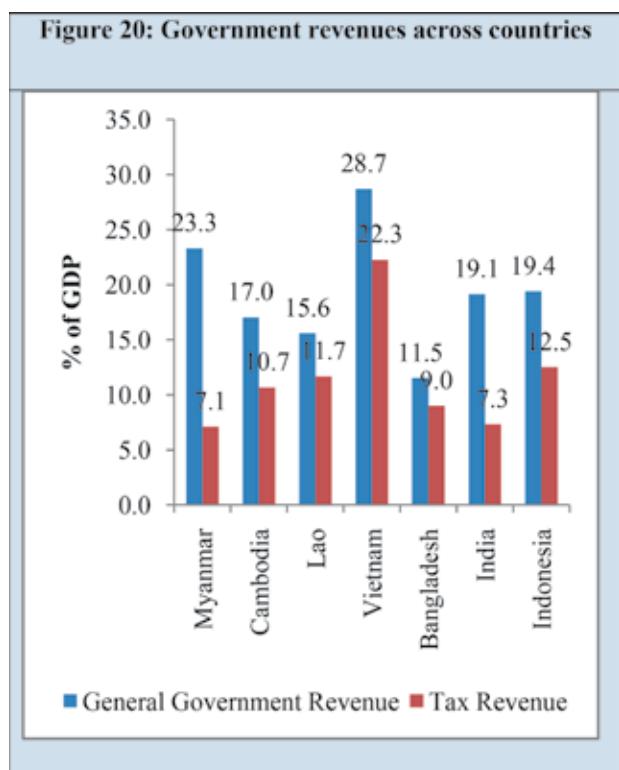
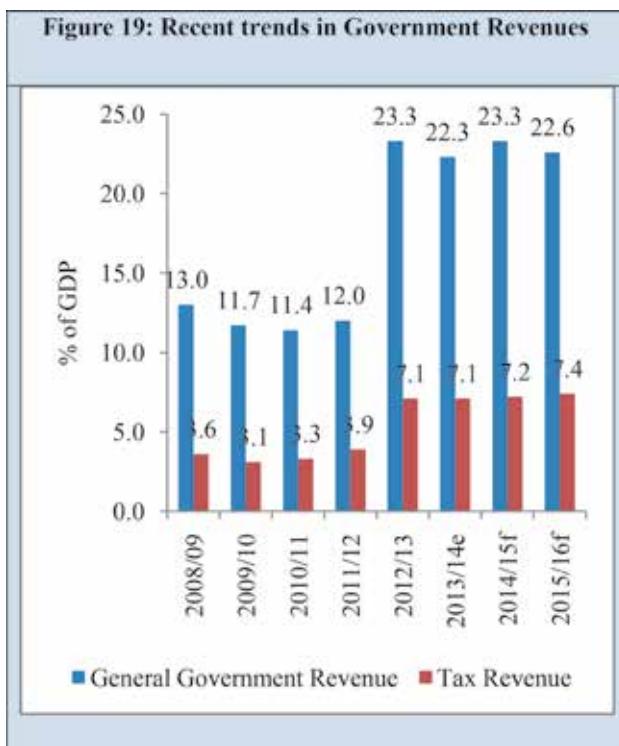
- ii). Strengthening governance institutions and reducing corruption*
- 88. Improving the governance environment will be a critical pre-requisite to unlocking Myanmar's potential to grow and reduce poverty.** In order to have a good foundation for growth and inclusiveness, investors and the general population need to have confidence in the public sector's capacity to protect stable property rights, enforce the rule of law, effectively implement anti-corruption policies, promote participation, and achieve government accountability.
- 89. Progress has been made in improving participatory development through decentralization.** Apart from strengthening the role of parliament in the burgeoning democracy, efforts have been made to devolve political, administrative, and fiscal powers to sub-national governments. Since 2011, the Government has emphasized "people-centered development," by creating consultative bodies or elected positions at state/regional, township, district, and village levels (Nixon & Joelen, 2014). In rural development, the government has begun to address significant investment needs by providing grants to village tracts and shifting decision-making (and prioritization) authority to communities themselves as part of the people-centered approach to development. In addition, there has been an increase in the amount of resources transferred to states and regions (World Bank PER, forthcoming).
- 90. In spite of progress made in the devolution of authority to regional and local governments, weaknesses remain.** First, the functional responsibilities that have been devolved to states and regions so far are too limited for meaningful decentralized governance (World Bank PER, forthcoming). In particular, unlike in most decentralized systems, basic education and health remain under the purview of the central government. In addition, the lack of clarity on the division of responsibilities in some of the areas represents a tremendous risk to improving access to required services. Also, while progress has been made to ensure equity in determining inter-governmental fiscal transfers, there remains a lack of clarity on the parameters considered in determining the specific amounts transferred to each individual state or region. In this regard, there is a particular concern that states and regions from which natural resource revenues are derived do not yet receive shares that reflect their respective contributions and burdens.
- 91. Corruption in Myanmar is perceived and reported to be high.** A major feature of corruption in Myanmar has been a phenomenon known as "cronyism" where a few people with connections to the military government benefitted from business contracts and public appointments. In 2012, Myanmar ranked 172 out of 175 countries on the Corruption Perceptions Index. In 2013, its rank improved to 157 out of 177 countries. The improvement may reflect in part some anti-corruption

measures by the Government. In January 2013, an Anti-Corruption Committee was formed followed by the enactment of an Anti-Corruption Law in August 2013. In addition, in 2013, the authorities awarded licenses to two foreign mobile companies through an open tender process that was widely hailed as very transparent by international standards. Going forward, improved transparency in the management of the extractive industries will be critical given their role as a major source of public revenues. Having attained EITI candidate status, it will be important for the Government to meet its obligations under the initiative of producing the first audit report within the next 18 months.

- 92. An apparent lack of capacity of the judiciary to uphold the rule of law, including the protection of property rights, is widely perceived as a major weakness in Myanmar's governance environment.** The degree of merit-based appointment within the judicial system is unclear, as there is no independent process for appointing even lower court judges. Given the history of military rule, there remains a strong perception within civil society that judges are susceptible to corruption and bribery. Moreover, judges have seldom given any explanation or written justification for decisions, leading to the perception that they were largely carrying out instructions from the executive rather than applying and enforcing the rule of law.

(iii). Mobilizing public financial resources and improving the quality of expenditure

- 93. Sustaining improvements made so far on improved access to information and freedom of the media will be critical to improved governance.** The historical dominance of the military has meant that genuine participation, voice or representation in the broader national government were limited, and attempts to voice dissent were suppressed harshly. Now, as part of the reform process, newspapers and journals are freely publishing information, which was previously not possible. Similarly, previously exiled media organizations have also been able to establish operations within the country. According to Reporters Without Borders, "thanks to the Burmese spring's unprecedented reforms [on press freedom], it has reached its best-ever position" of 151 out of 179 countries on the Press Freedom Index in 2013. Government transparency with information has increased considerably, although a key limitation is the unreliability of some data, particularly from surveys. Building on these improvements will be critical to improved governance, including the fight against corruption.



Source: Ministry of Finance, IMF and World Development Indicators, 2014

- 94.** The level of public financial resources remains inadequate to meet the country's critical development spending needs, although there have recently been significant improvements. A narrow tax base and weak compliance have curtailed tax returns, as a result of the extensive use of exemptions, and an outmoded tax administration system. Myanmar's current system of tax administration is characterized by official assessment rather than self-assessment, and is subject

to considerable negotiation of tax liabilities between tax officers and individuals. This also compromises the fairness and equity of the tax system, at a time when Myanmar is eager to encourage both foreign and domestic investment and private sector growth. Following recent improvements in tax and non-tax revenues, Myanmar's revenue efforts are now well within regional levels (See Figures 19 and 20). There has recently been some progress in reforming tax administration, including through the establishment of a Large Taxpayer Office. However, there is still need to accelerate policy reforms to broaden the tax base and simplify the tax structure.

- 95. Significant off-budget revenue flows cause budget fragmentation, elevate fiduciary risks, and raise transparency issues.** According to the Public Expenditure and Financial Accountability (PEFA) assessment, approximately 40 percent of revenues (mostly from the natural resource sector) are managed through Other Accounts at the MEB which are essentially off-budget. Such off-budget financing fragments and undermines strategic resource allocation through the budget, weakens external oversight, and gives rise to concerns about accountability and transparency.
- 96. The Government has not yet significantly exploited the potential for public private partnerships, although efforts are underway.** Over the last twenty years, governments of developing economies have embraced the private sector as a source of efficiency and innovation as well as a partner in mobilizing financing for infrastructure and service provision. In stark contrast, official government policy has promoted the sourcing of public sector needs from SEEs. Given the country's significant development needs, there has been overwhelming private sector interest. However, Myanmar has not significantly exploited this potential but efforts to scale up PPPs are now underway with support from development partners.
- 97. Given Myanmar's large development needs, limited fiscal space, and high dependence on gas sector, the quality of expenditure will be critical to accelerating growth and making it inclusive.** Ensuring quality expenditure is always critical for achieving development objectives but is especially critical in the case of Myanmar given its huge development needs but limited fiscal space. In addition, given the high prominence of the gas sector in the country's economic structure, the quality of expenditure will play pivotal role in ensuring that growth is inclusive. In particular, since the gas sector on its own does not create many jobs, its contribution to inclusive growth will be through the Government's success in utilizing gas revenues in a way that helps to spur growth in labor intensive sectors and improves the delivery of services.

98. In spite of recent improvements, a major weakness in Myanmar's quality of expenditure remains the low level of resources allocated to health and education. Public expenditure on health increased from 0.2 percent of GDP in 2011/12 to 1.5 percent of GDP in 2012/13 while that of education increased from 0.8 percent of GDP to 1.6 during the same period. In spite of these large increases, Myanmar's expenditure on health and education remains low by international standards (see Figures 21 and 22). In addition, while the Government has increased its own financial allocation to the sectors, operational costs for institutions delivering services at the front line remain underfunded. Most of the additional resources have gone towards capital expenditures and salaries.

99. More generally, weaknesses along various stages of the budget cycle undermine the quality of expenditure in Myanmar, and hence, reduce prospects for achieving the Government's poverty reduction policy objectives. First, the budget preparation framework and process are not appropriately designed to ensure that resources are allocated to policy priorities. At present, most of the Budget Department's manpower is absorbed in performing cumbersome routine tasks of budget compilation and reporting. A Fiscal Policy and Strategy Division in the Budget Department has just been established and is yet to become operational. Therefore, key budgetary decisions have been made without being informed by rigorous analytical foundations. Proposed budgets submitted by line ministries to MOF and thereafter to Parliament are simply a collection of line items without narratives and therefore not easy to analyze the budget-policy linkages. Second, when it comes to implementation, a key weakness of the expenditure framework is the lack of centrally defined standards in areas such as payroll management and procurement. Currently, these functions are highly delegated to ministries and spending units at different levels within them. This situation has allowed line agencies to develop rules and regulations in isolation of central guidance. As a result, spending agencies have not been subjected to minimum standards and controls to ensure value for money in spending. This has created loopholes that have been exploited by some functionaries. In addition, the official requirement to purchase from state-owned suppliers and producers has limited the public sector's ability to benefit from private sector efficiencies and innovations. Finally, a key weakness in Myanmar's public expenditure framework has been lack of focus on results and outcomes. For example, within education, there is no national assessment of learning outcomes at the lower levels of basic education. Therefore, no one knows if increased expenditure to education is achieving the desired results.

Figure 21: Health expenditure shares

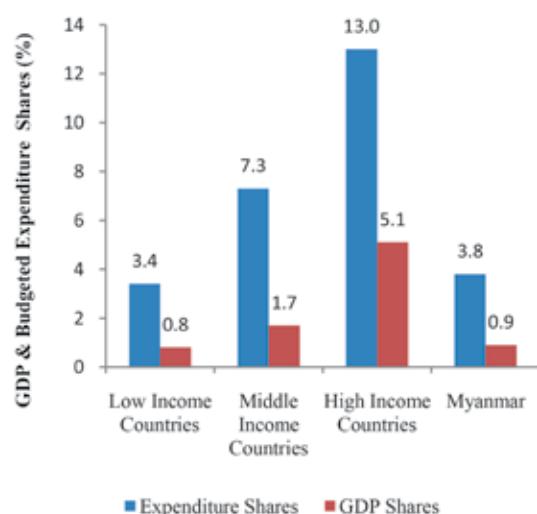
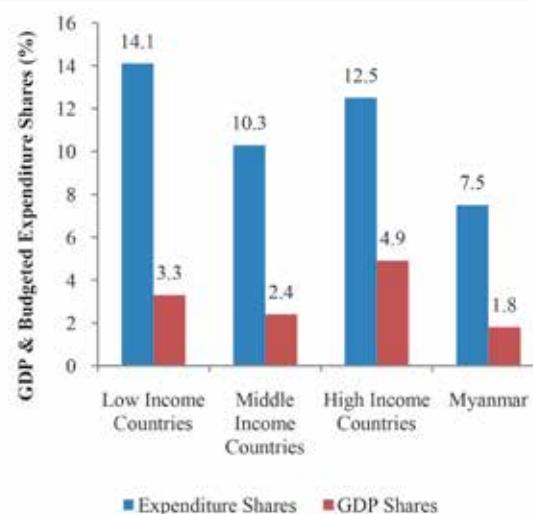


Figure 22: Education expenditure shares



Source: World Bank, Public Expenditure Review (forthcoming)

100. Since the reforms started, opportunities abound but there are risks too. There is high level political and technical buy-in to modernize the PFM backbone to support service delivery. The Parliament, Office of the President, and key economic ministries, are keen to modernize and reform the system to improve service delivery, foster greater transparency, and link policies to fiscal outlays. The entering into the market of two mobile phone companies will significantly improve telecommunication services and hence provide a platform for a more automated and interconnected PFM system. At the same time, increasing pressure from executive and scrutiny from legislative branch could result in rushed and uncoordinated reform efforts, to the detriment of a mature system. Similarly, vested interests that have benefited from a weak PFM system could frustrate reform efforts. In natural resource management, a key opportunity is the strong political will to greater transparency in the sector demonstrated by

the Government's commitment and progress made on EITI manifested in the recent attainment of candidate status. Finally, the fiscal decentralization drive offers an opportunity for improving the quality of expenditure through better alignment of resource allocations to local circumstances and development needs as well as increased and more direct mechanisms of accountability.

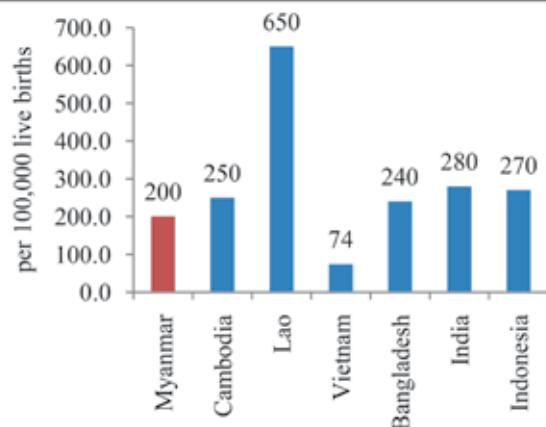
2. Promoting universal access to basic services and empowerment for inclusive growth, particularly in rural areas

101. As most poor people in Myanmar live in rural areas and have limited access to critical services, promoting universal access and extending services to the rural poor and other disadvantaged groups, will have a high impact. Access to rural infrastructure (rural electrification, roads, telephone services) will empower the rural poor by facilitating access to basic social services, and by enhancing opportunities for and raising incomes from productive activities. In turn, improved access to basic social services (health, education, water and sanitation) will help deal with the non-income dimension of poverty, and investments in human capital are crucial in preparing people for productive work and empowering them to pursue opportunities in the labor market. In appropriate circumstances, social protection interventions may support the empowerment agenda through facilitating human capital acquisition (e.g., by increasing the demand for and usage of education and health services through conditional cash transfers), providing income smoothing for the poor (e.g. seasonal public works to provide meaningful temporary employment during the lean season), or providing last resort support for those without work ability (e.g. disabled elderly) where resources permit.

(a) Ensuring universal access to social services

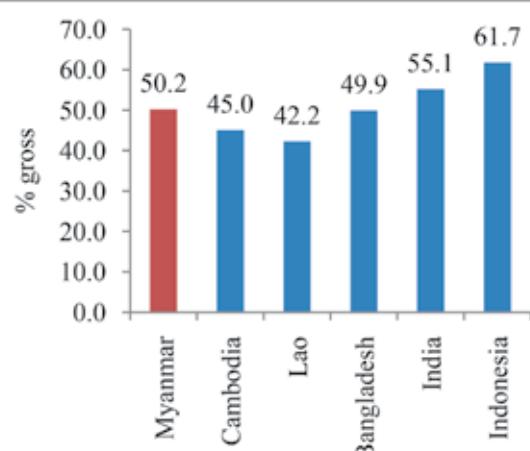
102. The health status of the people of Myanmar is low and does not compare favorably with other countries in the region. Among ASEAN countries, Myanmar has the lowest life expectancy at birth, and second-highest in terms of infant and under five mortality rates, prevalence of underweight, prevalence of HIV and incidence of tuberculosis. Maternal and child mortality and malnutrition remain serious problems for Myanmar, although there have been significant improvements in the past two decades, with maternal mortality now lower than in most countries in the region (Figure 23).

Figure 23: Maternal mortality rate, per 100,000 live births



Source: Asian Development Bank, 2014

Figure 24: Secondary school gross enrollment rate, percentage



Source: World Development Indicators, 2014

103. Decades of low public spending means that households have to shoulder a large part of the costs, with significant disparities in geographical coverage and minimal quality of services delivered.

Myanmar has one of the lowest Government expenditures on health globally. In 2011-2012 the health sector accounted for only 1.3 percent of total government expenditure (about US\$ 2 per person per year). As a result of these low levels of spending, out-of-pocket (OOP) payments are exceptionally high, accounting for almost 80 percent of total health spending, one of the highest in the world. In addition, many areas of the country are poorly served by health services, with difficult terrain, geographical remoteness, conflict and cultural diversity hindering the delivery of essential services. Even where services are available, systemic challenges seriously undermine the quality of the services delivered.

104. Increasing access to basic quality health would have a high impact on poverty reduction and some key actions can be scaled up relatively quickly. Basic health has strong complementarities and linkages with basic education, sanitation, and agriculture productivity. Further, the opportunity cost of ill health in a household is very high in terms of lost opportunities. Therefore, in light of the high deficiency gap compared to other countries, action on improving access to health would have a high impact on poverty reduction. In addition, the impact on poverty reduction can be realized relatively quickly, with key additional areas of action relatively easier to implement - they mainly entail increasing budgetary allocation to health and scaling up existing programs such as provision of free essential drugs at primary health care facilities and township hospitals, and provision of free health care services for children under 5, pregnant mothers, and free hospital admission on the first day for patients needing emergency surgery.

105. In basic education, although enrollment rates in Myanmar are respectable (Figure 24) by international comparison, completion rates indicate a significant problem and quality has been poor. Only about 11 percent of a cohort graduates from high school, around 30 percent of the students reach to the end of high school and about 25 percent of a cohort leaves basic education after primary school.

106. Private costs associated with attending education represent an important reason why poor households have been excluded in Myanmar. Although the economic burden faced by parents does not seem excessive compared to neighboring countries, there is evidence that the high costs to households (both direct and loss of child's labor) is a barrier for households in which children are not in school. When these households are asked why their children are not in schools, over half (55.5 percent) of the main reasons identified for never attending school related to economic and cost factors (World Bank, Forthcoming). Since both the direct and indirect costs of education increase as a child progresses through the education system, cost related factors are particularly an issue at the lower and upper-secondary levels.

107. Action on increasing access to education and vocational training would have a high impact on poverty reduction although its impact will not be realized in the short-term. Although the deficiency gap in terms of overall access to education does not appear wide nationally compared to health, quality basic education has strong complementarities and linkages with a number of other areas particularly health, water and sanitation, ICT, financial services, all of which are critical for empowering people to take full advantage of income earning opportunities. Ensuring that students have foundational skills such as functional literacy as basic numeracy is especially critical for empowering people to benefit from opportunities for wage and self-employment, and

allow them to benefit from additional training, including vocational training. However, the impact on poverty reduction of improving access to quality basic education is not likely to be seen in the short-term since education has a relatively longer gestation period. But this may also be the reason why action needs to start now so that the impact can be seen sooner rather than later.

108. The picture on access to water and sanitation is mixed and is hampered by the fact that data on service coverage and functionality are unreliable. The government has not published an annual statistical review since 1997-8³², while the last water sector review was in 1993³³. Latest Joint Monitoring Program (JMP) data suggest a broadly positive state of affairs, with levels of access to improved water supply and sanitation that are high and compare well to regional averages for both rural and urban areas. However, the data also shows significant disparities in access to safe water in selected parts of the country, indicating large areas in which the population depends on surface water, such as open ponds and shallow wells, for drinking water. Furthermore, township data indicate that diarrhea is still a major killer of children under the age of five which suggests that sanitation is still a problem in the country.

109. Interventions for increasing access to water and sanitation would have a high impact on poverty reduction but the focus in the short-term would need to be on getting a handle of the data situation. Given that water and sanitation are basic needs, improving access can therefore be expected to have a high and direct impact on poverty reduction. In addition, there are strong complementarities with health – better access to water and sanitation is critical to the prevention of many diseases. However, in the absence of credible data, initial work would need to focus on filling data gaps on the size of the deficiency gap.

(b). Expanding rural infrastructure networks

110. Expanding critical rural infrastructure will be key to reducing poverty since it will integrate the rural with the peri-urban and urban economy and empower the rural poor to access social services and participate in income earning opportunities. Like with social services, access to critical rural infrastructure such as ICT, electricity, and roads has been significantly low in rural areas. Greater emphasis on expanding coverage to rural areas can have a significant impact in reducing poverty.

32 Meehan, P. (2010) *The WASH Sector in Myanmar: Addressing the Challenge of Building Sustainable WASH Services*. WaterAid.

33 Cowater International in association with Thant Syn Co. Ltd., and General Administration Department, Urban Water Supply Division, United Nations Development Programme and The World Bank (1993) *Water Supply and Sanitation Sector Review, Myanmar*. UNDP, MYA/86/012

111. While there is low access to ICT broadly in the country, most rural areas do not have access even to the most basic of ICT - telephone services. Telecommunications related infrastructure has been biased towards the urban areas in Myanmar, even though 75–80 percent of the population lives in the rural areas. Rural and remote areas continue to have poor coverage which has limited the usage of mobile, fixed line or internet when travelling to the rural areas.

112. The advent of wireless technology is an opportunity for increasing telecommunication access to people who live in the rural areas. Wireless technology can cover a wide range of areas without the use of physical cables, and its equipment is relatively easy to install (ADB, 2014). Fixed lines are expensive to install and deployment requires more time. Nonetheless, although wireless technology is relatively cheaper, access of sparsely populated and remote areas remain an issue as these are not commercially viable activities.

113. Expanding the rural telephone network can reduce poverty substantially, by empowering the rural poor to benefit from opportunities for productive economic activities and service delivery. Through improved telephone access, the poor will be able to have access to information that would be useful in making production and trading decisions, but also in facilitating access to microfinance and critical services such as health. Experience from other countries has shown that the benefits of using mobile phone technology in health care systems in developing countries are diverse, and include improved reporting in health information systems, telemedicine providing care to populations otherwise deprived, and texting to improve adherence to treatment therapy.

114. Similarly, rural electrification is critical to enhancing the inclusiveness of growth through empowerment. Reliable access to electricity will be key to the creation of a conducive business environment for small and micro-enterprises in rural areas. In addition, electricity is critical to improving the delivery of other services such as health, education, security, and finance. Lack of electricity in an area can act as a disincentive for qualified staff in health and education to locate in rural areas. Similarly, lack of electricity makes it difficult for rural hospitals and clinics to preserve drugs through refrigeration.

115. At the same time, the proportion of people without access to electricity in Myanmar is significantly higher in the rural areas than in urban areas. While the electrification rate in urban areas is about 75 percent (e.g. Yangon and Mandalay), the rural areas have an extremely low electrification rate of only 16 percent. In fact, most of rural communities in border areas have no access to the grid-based electricity at all, and some regions and states with a high share of rural population (e.g. Ayeyarwaddy and Magway Regions

and Rakhine State) have access to grid-based electricity below 10 percent, which is on par with only few very poor countries in Africa. Therefore, low level of rural electrification is a key constraint to inclusiveness of growth in Myanmar.

116. Also, although Myanmar has made significant progress in developing rural roads, most parts of the country remain difficult to reach. In 1988, there were 7,850 kilometers of rural roads. Significant improvements have been made since. Under the rural development program the road network reached 57,700 kilometers in 2010. Rural bridges also increased to 10,997 kilometers from 3,663 kilometers in 1988. Nonetheless, half of the rural roads in Myanmar remain impassable during the monsoon season. Therefore, greater attention needs to be paid to improving the condition of rural roads.

(c). *Increasing access to safety nets and reducing vulnerability*

117. Given the high levels of vulnerability for households to fall into poverty, increasing access to safety nets and reducing vulnerability can also contribute to reducing poverty. This is particularly important in the rural areas where most households rely on agriculture for their livelihoods, which is in turn susceptible to weather related shocks. Without any form of safety net, natural disasters such as floods or draughts can easily plunge many people into poverty or deeper poverty.

118. At present, Myanmar's formal social protection system does not adequately address the needs of its population. The only SP sector review to date suggests that over 95 percent of the population has no access to predictable social protection, relying instead on informal and community-based coping mechanisms and ad hoc assistance from donor-financed programs. The Government SP spending is almost entirely focused on social security provisions that benefit a small and relatively privileged section of the population. In 2012-13, the expenditure on civil service pensions and social security provisions amounted to about 0.5 percent of GDP and constituted 2.3 percent of the national budget. However, these old age pensions and health insurance provide inadequate protection due to low pension levels (a function of low civil service wages) and weak delivery mechanisms. In addition, these programs cover only the small group of formal sector workers, leaving households vulnerable to health, weather-related and other shocks. Myanmar also in effect does not have a publicly financed safety net program; government spending on safety nets was less than 0.01 percent of GDP in 2012-13. This is well below the 1-2 percent of GDP being spent on safety nets in much of East and South Asia, and even in poorer Sub-Saharan African countries (World Bank 2014). At present, the biggest financers of SP provision in Myanmar are development partners engaged predominantly in emergency and humanitarian relief with parallel, non-government delivery mechanisms.

119. Opportunities exist for expanding safety net programs that would need to be leveraged. These include the emerging political and fiscal space for redistributive policies, increased desire from Government for a transition from emergency-relief related and donor-funded programs towards a sustainable government-led social protection system and increased focus on delivering benefits and services effectively to the poor. Myanmar also has a latecomer's advantage to benefit from international experience in developing building blocks for a robust SP system, including new technology-based solutions. There is compelling evidence that SP programs have contributed to reducing poverty and inequality in both low and middle income countries, and countries such as Ethiopia, India, Bangladesh, Pakistan, Rwanda, Nepal, and Ghana, have invested in SP programs at various scales, depending on the specific needs and fiscal sustainability.³⁴ Countries at an early stage of development with emerging natural resource wealth are also investing in SP systems (as in the case of many African countries such as Mozambique). In many cases, SP programs in both LICs and MICs leverage human capital acquisition and livelihoods, and IMF analysis has demonstrated both benign growth effects and positive distributional impacts of such policies.

120. Apart from expanding safety nets, reducing vulnerability to poverty will require focusing on effective disaster risk management. It is the poor and vulnerable – women, children, the elderly, marginalized groups, and those recovering from conflict – who often are most exposed to hazards, with their homes in fragile and often low-lying environment are most affected, and their lives feel the greatest pressure when droughts increase the food prices. Myanmar is exposed to multiple natural hazards which include cyclone, storm surge, floods, landslide, earthquake, Tsunami, drought, and forest fire. The rainfall-induced flooding is a recurring phenomenon across the country while some parts of the country are exposed to landslide and drought risks. As per the data from 1998 to 2007, fires constituted about 71 percent of reported disaster events, followed by floods (10 percent), storms (11 percent) and others (8 percent) including earthquakes, tsunami and landslides.³⁵ Cyclone Nargis (2008) was the worst natural disaster in the living memory of Myanmar, with over 130,000 people killed, and millions affected by losses of homes and livelihoods. The Post-Nargis Social Impact Monitoring indicates that women were more likely than men to be killed by Nargis – research in 40 townships shows that at least 396 women and 338 men died. The study found that women typically had more limited access to information with regard to early disaster warning³⁶.

121. At the same time, climate change also represents a major challenge for Myanmar. The country is already experiencing increased climate variability (notably with regard to rainfall), is significantly exposed to extreme events (notably destructive cyclones), and is expected to experience increased temperatures, heavier rains but also longer dry spells with fast growing impact in the coming decades. Myanmar has experienced devastating cyclones Mala, Nargis and Giri in 2006, 2008 and 2010 respectively, claiming thousands of lives. Cyclone Nargis was the worst, claiming 130,000 lives. Ten percent of the country is projected to be further affected by a sea-level rise of between one and five meters. The country therefore ranks among the world's top countries most at risk from the combined effects of climate change.

122. Currently, Myanmar faces many challenges to effective management of the environment and mitigation of climate change impacts. At present, the country's legislation covering natural resources does not define the licensing process, the role of government authorities, or the fiscal system for extractives revenues. Environmental disturbances by mining industry are increasing but have not yet been accompanied by substantive regulatory responses. In addition, there is limited information on the management of the extractive sector. The country has no freedom of information law and there is no requirement to prepare or implement environmental and social impact assessments (ESIA). The legal formulation and implementation of the ESIA rules and regulations, relevant pollution control rules and regulation for solid and hazardous waste management have been just recently launched for development in line with best international practices.

3. Promoting openness and sustainable private sector led growth for more jobs

123. In order to sustainably reduce poverty for the transitional and traditional poor in Myanmar, there is need to create jobs outside agriculture and to increase returns to agriculture. Given that the gas sector is not labor intensive while the agricultural sector will not be able to create enough jobs to absorb all the transitional poor while returns in the sector are low for the traditional poor, efforts need to be focused on promoting greater private sector investment in the non-gas sectors and increased productivity in agriculture. Sectors outside the agriculture and gas sectors with potential for creating jobs in Myanmar include manufacturing, mining, tourism, ICT, the financial sector, and construction.

124. Myanmar can start tapping opportunities in the context of regional and global production/value chain networks. Sophisticated production and distributional networks in East Asia have been developed through fragmentation of production activities across borders (Kudo, 2009). In particular, multinational corporations divide their manufacturing processes into sep-

³⁴ See for example Fiszbein et al 2011, Subbarao et al 2013, Velarde and Fernández 2011, Andrews et al 2013, World Bank 2013b, Himanshu and Sen (2013).

³⁵ Government of Myanmar (2009), page 1

³⁶ Finding from QSEM II presented corresponds with World Bank led research findings from the EAP region on the impact of natural disas-

erate production blocks and locate them across borders so that they can exploit the non-integrated elements of location advantages such as wage differences. Due to sanctions, poor policies, infrastructure and connectivity, Myanmar has been the missing link in the region.

125. Jobs created through growth in non-agriculture sectors will be especially critical in tackling urban poverty, particularly through the creation of Small and Medium Enterprises (SMEs) alongside large firms. As shown from the poverty profile, urban poverty in Myanmar is much higher than originally reported. Therefore, creating employment opportunities in and around towns and cities will be critical to ending urban poverty. Evidence from India shows that urban growth (particularly in small towns to which rural areas tend to be more closely linked) have been a critical driver in reducing rural poverty as well. As policy initiatives are put in place to stimulate investments by large foreign and domestic firms, it will be important to create a conducive environment for the urban poor to set up their own businesses, in the form of SMEs. Policy initiatives will need to recognize potential synergies between large firms and SMEs that can be critical to driving growth and creating jobs – SMEs can be major players in the supply chain of the larger firms as suppliers, consumers, or intermediaries.

126. 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, complemented by facilitation of access to domestic, regional, and international markets. In particular, the country needs to remove the remaining policy and institutional impediments that are still hampering entry by new domestic and foreign private sector investors into the economic space, and expansion of operations by existing investors. In addition, there is also need to remove policy and institutional barriers to domestic, regional, and international market access. Some of the required policy and institutional changes may take time to be carried out or may be politically sensitive but many can be implemented in the short to medium term.

127. 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, land, labor, transport connectivity, and ICT. From the 2014 ICA enterprise survey, most of these featured highly as critical constraints amongst firms interviewed (See Figure 25 and 26 below). All are expected to have a high impact on poverty reduction given their strong linkages to the pathways out of poverty. However, there is need for careful consideration in determining the sequencing of actions for dealing with each of the constraints, including how much knowledge already exists on what exactly needs to be done, complexity of the underlying issues and the required reforms to deal with them, and period of time

over which results on poverty reduction can be expected.

Figure 25: Share of firms identifying issue as constraint

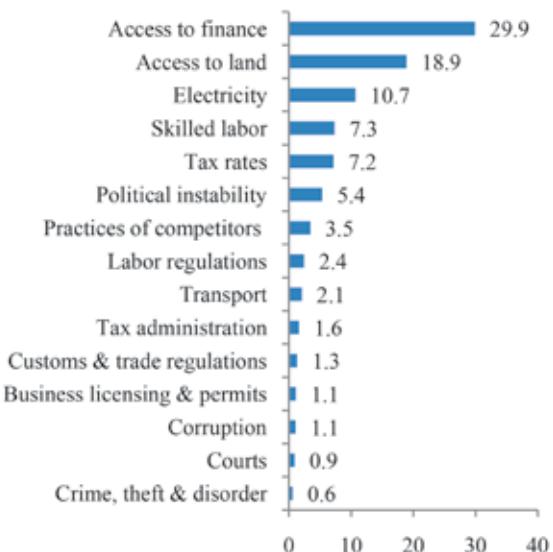
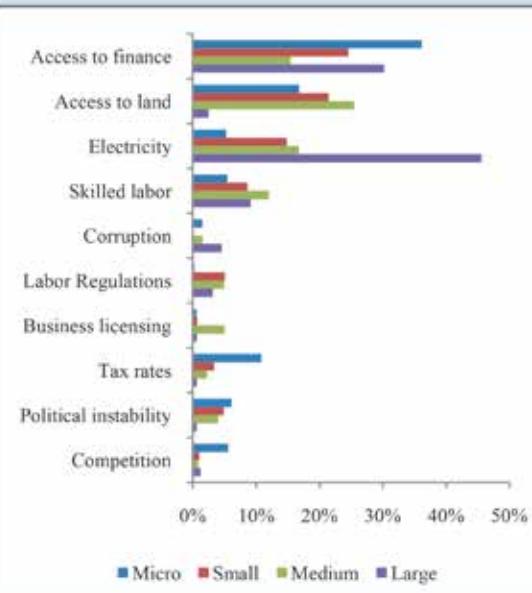


Figure 26: Constraints by size of firms



Source: World Bank, Investment Climate Assessment–Enterprise Survey, 2014

(a). *Opening trade and foreign investment*

128. Due to state dominance and international isolation, Myanmar has not benefited fully from jobs created through greater participation by the domestic private sector and foreign direct investment (FDI). The country has 44 formally defined State Economic Enterprises (SEEs) some of which are operating

in areas that do not justify public sector involvement. In addition, SEEs have an unfair advantage over the private sector because they enjoy significant subsidies from Government. Government mandates requiring purchasing from state producers where possible has severely restricted the scale of public procurement and sharply constrained an important driver of private sector growth. Finally, due to the country's past isolationist policies and international sanctions, Myanmar has not fully benefited from high levels of FDI as other countries in the region. To date, FDI has mainly been concentrated in the extractive industries.

129. Beyond SEEs, military involvement in businesses also casts a heavy cloud on private sector space.

The Ministry of Defense owns two holding companies with vast business interests: The Union of Myanmar Economic Holdings Limited (UMEHL) which was established to focus on light industries, trading, and services, and the Myanmar Economic Corporation (MEC) which was established to focus on heavy industries. Although the military owned companies are not regarded as SEEs, they enjoy certain privileges which make the playing field for the private sector uneven. For example, in the past they were exempted from commercial and profit taxes and have had exclusive access to secure preferential contracts with foreign firms.

130. In order to create more jobs through increased private foreign investment, the Myanmar economy also needs to be more integrated with regional and global markets.

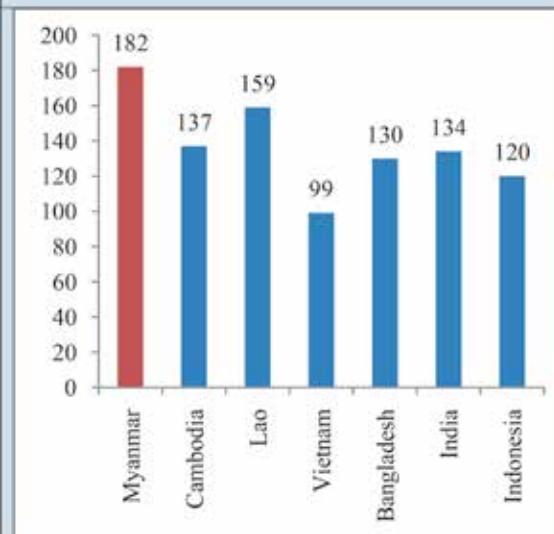
The lifting of trading sanctions by the west and the coming into effect of the ASEAN Economic Community (AEC) in 2015 significantly expands Myanmar's market opportunities abroad which could make trade a major driver of growth and hence, job creation. The range of tariff rates, the average tariff, and average effective rates have been declining since Myanmar became a member of the ASEAN in 1997. However, the country still has many non-tariff measures (NTMs) that significantly hamper integration with regional and global markets although efforts are now underway to streamline them. Similarly, with few exceptions, customs procedures for the processing of import and export declarations are cumbersome. The Customs Department lacks essential equipment and requires a laboratory facility, possibly shared with other government departments, that has the capacity to test and quickly return a multiplicity of import and export samples. In general, Myanmar performs poorly on the Logistics Performance Index (See Figure 25) compared to most countries in the region.

131. Poor transport connectivity is a key constraint to Myanmar's full integration with markets.

Currently, Myanmar's transport infrastructure lags behind most of its peers in the region. For example, according to an ADB report (2014), the total road network as of 2012 was 148, 600 kilometers. However, considering its size (676,577 square kilometers) and population of 51 million, the country's total road length is considered

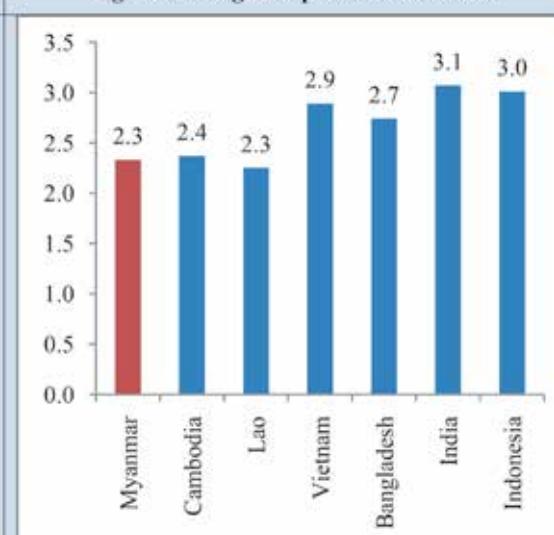
low and in terms of road density (219.8 kilometers per 1,000 square kilometers), it is the second lowest among ASEAN countries. The road network had expanded at a rate of about 8,600 kilometers of new roads per year between 2005-2008. This slowed down to 5,800 kilometers of additional roads per year from 2009 to 2012. Similarly, Myanmar's port infrastructure lags behind its peers. The country's Liner Shipping Connectivity Index³⁷ is at par with Cambodia but lower than other Southeast Asian countries. Railway and river transport networks also are relatively underdeveloped compared to peers in the region.

Figure 27: Doing business ranking



Sources: Doing Business Survey, World Bank, 2014.

Figure 28: Logistics performance index



Sources: World Development Indicators, 2014

(b). Increasing agricultural productivity

132. With the slow creation of non-farm jobs, agriculture will continue to employ many people in Myanmar for years to come and therefore play a critical role in reducing poverty in the country. Increasing agricultural profitability and returns to labor will be central for effective poverty reduction. Higher profitability, due to increasing yields, shifting or diversifying cropping or livestock holding patterns, and more efficient use of inputs (including labor), is a necessary condition to increase farm welfare. There is likely to be some substitution of capital for labor, although incremental farm mechanization will enable increased utilization of spare land in some areas and generate demand for off-farm service provisioning. A more productive agriculture would also encourage job creation through agro-processing and food distribution activities and earn foreign exchange through exports.

133. Poor rice yields are the main reason behind low agricultural productivity in Myanmar. This is because rice is the main agricultural product in Myanmar, covering about 60 percent of the country's total cultivated land area. Rice also accounts for 97 percent of total food grain production by weight and is one of the country's major exports. Although official data seem to suggest that rice yields in Myanmar are comparable to other countries in the region, a closer scrutiny shows a much larger gap (Box 5). The most acute problems behind low rice productivity are at the farm level, mainly inefficient irrigation, lack of access to extension services, and poor production practices.

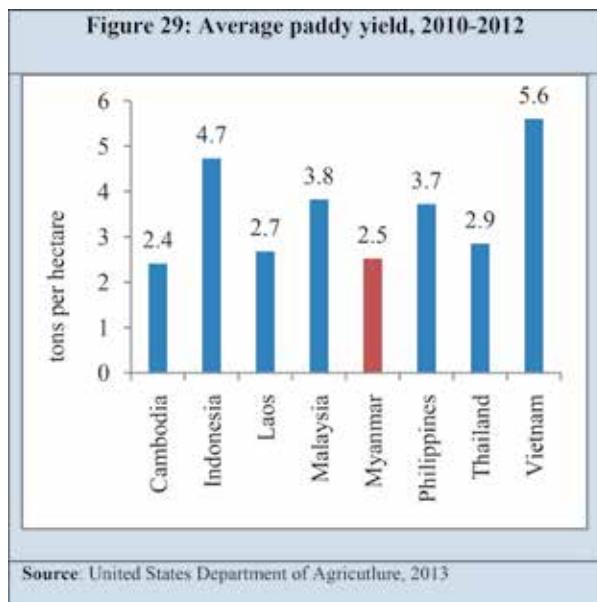
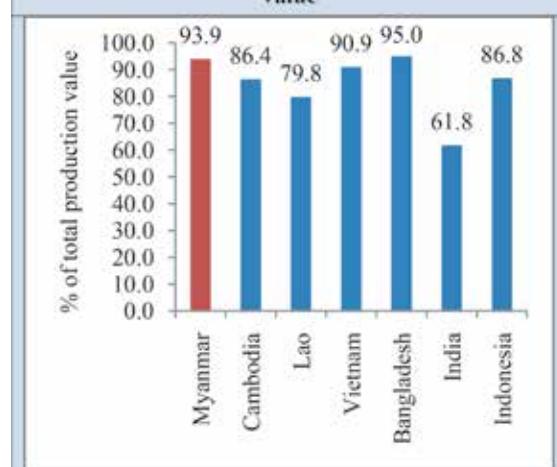


Figure 30: Rice as a share of total cereal production value



Source: Food and Agriculture Organization, 2014

Box 5: Comparing Myanmar's rice yield data with other countries in the region

The official statistics of the Ministry of Agriculture and Irrigation (MOAI) place average paddy yields at 4.0 tons per hectare, yet this results in an estimated level of rice production far in excess of what is considered to be consumed in or traded from Myanmar. The United States Department of Agriculture (USDA) has estimated that average paddy yields were 2.5 tons per hectare over the 2010-2012 period. This would place productivity levels near the bottom for Southeast Asia, above only Cambodia (Figure 26). The recent large sample farm survey conducted by the World Bank and LIFT found the average 2013 wet season yields to be 2.4 tons per hectare in Sagaing, 2.8 tons per hectare in Ayeyarwaddy, and 3.0 tons per hectare in Bago. Those three areas account for the bulk of Myanmar's rice production.

The yield gap of Myanmar is large. Its varietal mix is more comparable with the Central region of Thailand, Indonesia, Philippines, and Vietnam than with Cambodia, Lao PDR, and the Northeast of Thailand. A large proportion of Cambodian, Lao and Thailand's rice production is of high-value jasmine, aromatic and glutinous varieties, which inherently have lower yields than conventional varieties. For example, in the Northeast of Thailand (where nearly all the jasmine is grown, along with glutinous varieties), the average yield of main crop is 2.3 tons per hectare. The more suitable comparator with Myanmar is the wet season crop in Thailand's Central region where conventional varieties dominate. The average yields there were 3.8 tons per hectare over the 2011-2013 period. This would imply a 'yield gap' of some 58 percent for Sagaing, 36 percent for Ayeyarwaddy, and 27 percent in Bago. Paddy yields in some of the better growing areas in Vietnam's Mekong Delta region range between 6 and 7.5 tons per hectare, implying even potentially larger yield gap in Myanmar.

134. At the same time, over-dependence on rice means that Myanmar has been unable to increase overall agricultural productivity through diversification or alternative patterns of specialization. The Government has over the years emphasized food self-sufficiency through rice production, and, for considerable periods, actually directed farmers to grow rice in order to meet fixed production targets. Opportunities to grow other cereals, for food or feed, were generally neglected. As can be seen from Figure 30, Myanmar, rice has accounted for nearly 94 percent of total cereals production value, a much higher proportion than for several comparator countries. Significant growth opportunities also exist for higher value agro-food commodities, as evidenced by the recent emergence of a very substantial regional trade in beans, pulses and horticultural products. Domestic consumption of animal products is expected to increase, sharply, with rising incomes. Myanmar will therefore need to diversify away from rice if the country's agricultural potential is to be fully realized.

135. In addition, an inefficient milling industry produces low quality processed rice. The majority of rice mills in Myanmar employ antiquated technology, resulting in lower technical efficiency, higher levels of product loss, and a low quality milled rice product. It is estimated that less than one-fourth of the mills are 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. Policy uncertainties continue to deter some potential investors.

136. Finally, lack of access to land and tenure security are also a critical constraint to agriculture productivity, and private sector investment more broadly. Myanmar has the highest rate of landlessness in East Asia, estimated at between one-third and forty percent of the rural population. At the same time, most people with land are unsure of long term tenure security due to a history of widespread land grabs. Evidence in other countries has shown that secure land tenure can be critical to increased agriculture investment, and therefore increased incomes. More broadly, lack of access to land and tenure security has also been identified as a critical constraint to businesses. According to the findings of the ICA enterprise survey, this is particularly a problem amongst medium, small, and micro enterprises but not so much amongst large enterprises (Refer to earlier Figure 25 and 26). The ICA further finds that access to land is a key obstacle across all sectors – manufacturing, retail, and services.

137. Some progress has been made recently to improve tenure security but land conflicts persist due to unclear rules for land acquisition and compensation

and weaknesses in the institutional framework for handling disputes. Since the transition began, two land laws have been enacted which aim to improve land property rights. These are the Farm Land Law (2012) and the Vacant, Fallow, and Virgin (VFV) Lands Management Law (2012). Together, the two laws enable farmers to acquire formal land use rights and include provisions that recognize and respect existing use of land by farmers, even if there has previously been no recognition of the use by the Government. However, in spite of these new laws, acquisitions and compensations are still being governed by the 1894 Land Acquisition Act. Lack of clarity in procedures and provisions in this Law has led to arbitrariness in decisions, resulting in conflicts. To compound the situation, there are significant weaknesses in the institutional framework for handling land disputes. Recently, Government has set up a Land Loss Enquiry Commission of Parliament to investigate claims of land confiscation by the military during 2008 and 2011.

138. Given the critical nature of land in investment decisions on and off-farm, improved access to land and improved land tenure security will have a significant impact on job creation and increased returns to investment in Myanmar, and hence, on poverty reduction. There are opportunities for Myanmar to learn from the experiences of other countries in moving forward with land reforms. For example, land consolidation³⁸ and land acquisition processes in Myanmar have so far been practiced as land readjustment procedures of technical nature and not as land right altering processes according to international practices. The experience from other countries shows that such reforms can be successful if they are anchored in proper and enforceable legal frameworks, and are based on inclusive and transparent processes, which include community awareness raising and consultations at various stages of the process.

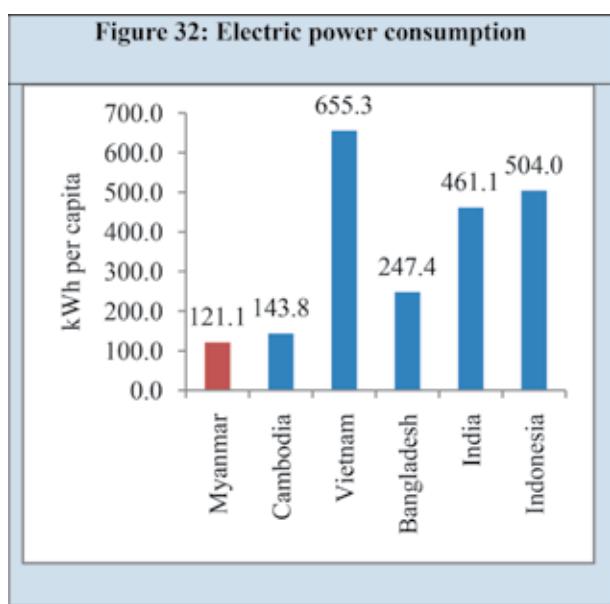
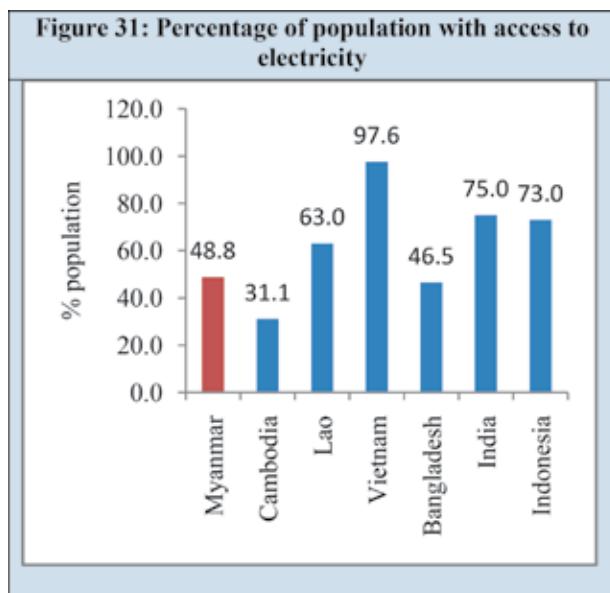
(c). *Improving Myanmar's overall productive efficiency and competitiveness*

139. For Myanmar's products to be competitive internationally, there is need to deal with constraints currently hampering the economy's overall productive efficiency, mainly critical shortages in power, under-developed financial sector, shortages in skilled labor, and low supply of ICT services. Poor policies and long period of isolation have led to critical shortages of these key factors of production, leading to high costs of opening and operating businesses. Unless these constraints are removed, the potential of the country's dual shift to create more jobs through in-

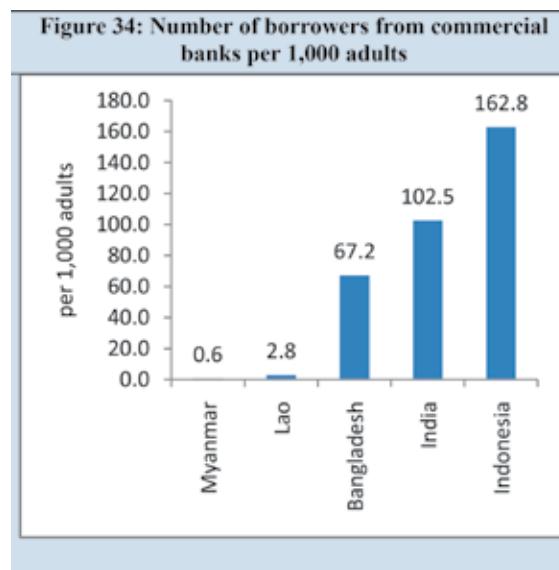
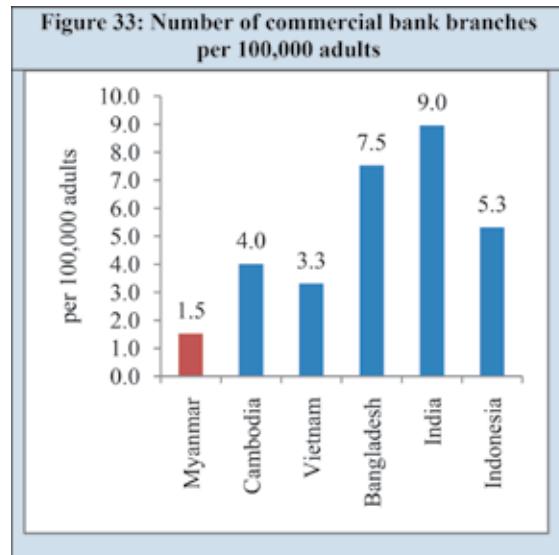
³⁸ Land consolidation has been a process where farmers with adjacent plots have been asked to combine them in order to make the farms amenable to mechanized commercial agriculture. Once combined, the land has usually been operated by large corporations on a concession basis, with the owners of the land supplying labor. Such arrangements have resulted in disputes due to lack of clarity about the terms of the agreement.

creased private sector investment and trade will not be fully maximized.

140. Inadequate power is a particularly critical constraint to existing and potential business activities in Myanmar (See Figures 31 and 32). Due to advances in technology, most production and non-production processes depend heavily on power, whether in the manufacturing or service industries. But as mentioned earlier, Myanmar has one of the lowest rates of electrification in Southeast Asia with connectivity to the public grid at less than 30 percent while overall access to electricity (including private generators) at 48.8 percent.



141. Similarly, the country's financial sector has largely been underdeveloped, with less than 20 percent of the population having access to formal financial services (See Figures 33 and 34). Not surprising, access to finance was mentioned as a major obstacle to doing business in Myanmar by most firms during the ICA Enterprise Survey (Refer to earlier Figures 25 and 26). The banking industry is beset with cumbersome banking requirements and high transactions costs, and lacks depth in the provision of financial services. For example, it is currently not easy to transfer funds into or out of Myanmar. Migrants do not have access to appropriate financial services for them to remit foreign earnings back to their families. Access to loans is hampered by stringent collateral requirements while most banks do not offer credit card services. In addition, interest rates are administratively controlled which limits profitability of banks and hence their ability to extend credit.



Source: World Development Indicators, 2014

Source: World Development Indicators, 2014

142. Low supply of skilled labor is another key constraint mentioned by most investors in Myanmar.

Since the country is emerging from a long period of isolation, there is a significant gap between locally available skills and the skills demanded by employers, particularly foreign companies just coming in. Apart from sector specific technical skills, many people who have graduated from schools within Myanmar also lack basic proficiency in the English language. In addition, most institutions offering vocational and technical education schools were converted into formal universities under military rule. Given the current wide gap, increasing the supply of skilled labor force would therefore have a high impact on poverty reduction.

143. However, more sustainable actions to increase the supply of skilled labor will take time to show results, hence the need for some necessary actions to start being implemented in the short-term. As a stop-gap measure for filling the skills gap, the Foreign Investment Law currently allows companies to hire foreigners, initially up to 75 percent in the first two years, then declining over the years. However, a long term solution lies in the ability of the education system to produce enough numbers of people with the skills required in the market. This will take time to be implemented and to yield results therefore some small but critical actions need to start now. In particular, there is need to determine the nature of the skills in short supply and come up with policies that will ensure that the public and private sectors are able to make and expand investments in areas that will meet employers' long-term skills needs.

Figure 35: Mobile phone subscriptions per 100 people

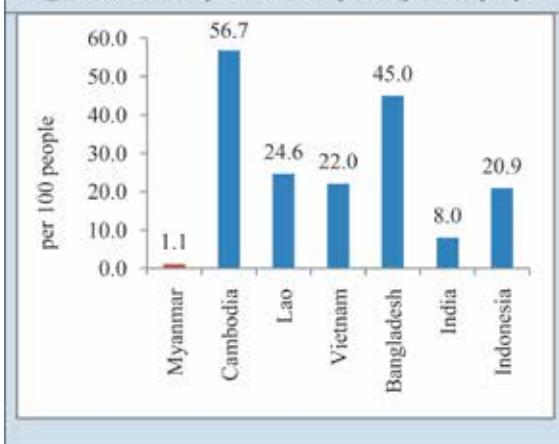
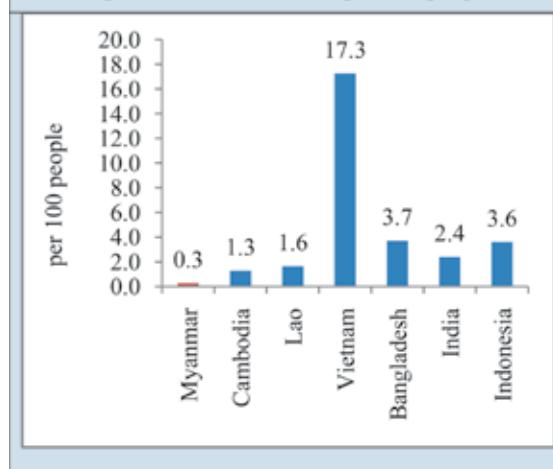


Figure 36: Internet users per 100 people



Source: World Development Indicators, 2014

144. ICT in Myanmar is significantly underdeveloped compared to other countries in the region and in the world, although the situation is now expected to improve rapidly. The most recent internationally comparable data (WDI 2014), subject to the wide margins of error for the underlying data for Myanmar (see Box 3) indicate very low mobile phone and internet penetration rates of 1.1 percent and 0.3 percent, respectively (Figures 35 and 36). However, telecommunication sector reforms are taking place with the liberalization of the market. A new Telecommunications Law was approved in October 2013 and it is largely in line with good practice. Two new operators have been licensed through an internationally recognized transparent process and the incumbent state owned operator will soon select an operating partner. Myanmar will transition from a monopoly market into a multi operator environment. Key secondary legislation was also developed through a public consultation process and other issues are being addressed in the next phase.

145. Improving the supply of ICT services will have a high impact on poverty reduction by creating jobs, enhancing productivity, and improving access to information, markets, and services, hence the need to build on the significant progress already made by Myanmar so far. Given its many applications, ICT has great potential for transforming Myanmar's economy and people's lives. As experienced in more advanced economies, improved ICT can help create jobs through, for example, the emergence of new value chains that provide online work opportunities for unskilled to higher skilled workers from anywhere in the world, as long as they have computers and internet access. In addition, it can help increase returns through use of more efficient ICT-based production and marketing applications and communication. Finally, public service delivery could be improved significantly in terms of quality, timeliness and reach by taking advantage of the expected steep increase of internet and mobile penetration. Given these potential benefits, the

country will now need to build on the progress it has made of opening up the ICT market to competition. In particular, there is need to provide an enabling regulatory and policy environment for the country to start participating in the global online/virtual work opportunity. In addition, mobile and e-Government platforms and services need to be developed in order to improve efficiency and reach in the delivery of services.

(d). Ensuring sustainability through improved and more integrated environmental and natural resource management

146. Myanmar's ability to sustainably reduce poverty will depend on its capacity to properly manage the environment and its vast natural resource endowments. The country relies heavily on natural resources for its productive economic activities that are critical to job creation including agriculture, mining, tourism, transportation, and power generation. Therefore, to ensure sustainability in the reduction of poverty, the country needs to build effective institutions and implement reforms that are integrated into Myanmar's environment and natural resource sector.

147. Hydropower is a major natural resource for Myanmar. Hydropower investments carry a great potential to contribute to poverty reduction and shared prosperity if they are well executed, with benefits accruing to the population at large, but they also carry huge risks if environmental and social considerations are not properly integrated in an optimal hydropower development program. Currently, hydropower accounts for about 75% of electricity production in the country. Many new projects are at different stages of development (58 projects totaling about 45GW, according to ADB and JICA draft master plans for the power sector), only some of which are likely to be developed in the next 5-10 years. To realize the potential benefits of hydropower, Myanmar will depend on substantially strengthened government capacity for sustainable hydropower planning, in order to identify and prioritize the projects with the highest impact for development and poverty reduction. Donors support for institutional development and capacity building (currently led by the Government of Norway) and participation of experienced private sector developers are essential for sustainable development of hydropower in Myanmar.

148. Critical to ensuring environmental sustainability is the integrated management of the Ayeyarwaddy river basin, which is central to Myanmar's capacity to exploit its full growth and development potential. The Ayeyarwaddy river basin has been described as the heart of the nation, accounting for about 60 percent of Myanmar's landmass, and home to some 70 percent of its population. It is a river of global proportions, with an average annual flow of over 400 billion cubic meters, equivalent to roughly 85 percent of the Mekong.³⁹ Many of the opportunities considered

most promising for Myanmar's growth relate directly to water, and particularly the Ayeyarwaddy, such as enhanced production and trade in agricultural products, hydropower generation,⁴⁰ and the expansion of national and regional green transport systems via rivers and ports.

149. A fragmented approach to the management of the river basin has been a major risk to sustainable growth and development in Myanmar, but efforts are now underway to address this problem. Due to institutional weaknesses in the public sector, economic activities in the river basin have proceeded in a fragmented manner and without taking into account their long-term impact on sustainability. To address the broad inter-related risks and opportunities of the Ayeyarwaddy River, as well as to address the fragmentations among the national water resources agencies, a National Water Resources Committee (NWRC) was established by Presidential decree in July 2013. In addition, the World Bank plans to provide financial and technical assistance to the Government of Myanmar that will help rationalize and strengthen public sector institutions for an integrated approach to the management of economic activities and projects in the river basin, particularly large-scale infrastructure investments in agriculture, hydropower, navigation, municipal and industrial water supply and wastewater treatment.

150. More broadly, sound management of natural resources and the broader environment will be important to sustain economic growth and reduce poverty rates in Myanmar. Apart from the Ayeyarwaddy river, Myanmar is also rich in natural gas, has sizeable oil reserves, and significant mineral resources (ADB, 2012a). These have been among Myanmar's growth sectors, registering an annual growth rate of 15.5 percent during 2001-2006 (ADB, 2012b). At the same time, without adequate safeguards, policies and regulations in place and capacity to implement them, these activities can lead to irreversible eco-system degradation, deforestation, and water and air pollution. Poor communities that depend on forests for wood and non-wood forest products and use drinking water from contaminated wells would be affected most by such environmental impacts. A significant proportion of natural resource extraction has taken place in ethnic minority areas and poor sector governance has fueled conflicts between armed groups and the central Government, contributing to long-term poverty and under-development.

River Commission, respectively. Recent literature (Robinson et al. 2007) suggests the Ayeyarwaddy's volume may be even higher, in the range of 420 to 440 billion cubic meters (+/- 48 bcm).

40 In total, Myanmar has an estimated 100,000 MW of total hydropower resources. Of this, the Ayeyarwaddy River alone is believed to account for 38,000 MW of potential installed capacity. The total installed capacity of existing hydropower plants is 2,660 MW.

³⁹ Annual volumes of the Ayeyarwaddy (410 bcm) and the Mekong (475 bcm) are as reported by the Government of Myanmar and the Mekong

151. The development of a nationally agreed Environmental and Social Safeguards framework that is based on best practices will be critical to ensuring that investments in the various intervention areas proceed in a manner that is consistent with long-term environmental sustainability. A key opportunity arises from the fact that there is wide awareness amongst stakeholders in Myanmar, within and outside Government, about the need for environmentally responsible investments. At the same time, there is a risk that planned investments could face significant delays unless there is evidence that they have passed environmental and social impact assessments that are based on a nationally agreed framework. Therefore, a key priority going forward is the preparation of a nationally agreed framework for Environmental and Social Safeguards.

152. Similarly, Myanmar does not have a well-functioning framework for the management of natural resource revenues that ensures long-term sustainability of development. As already mentioned, natural resource revenues are the dominant source of public revenues in Myanmar, and are set to increase with new gas field coming on stream and significant scale up of oil production planned. Experience from other countries shows that these natural resource revenues can be volatile, as demand and prices are subject to global political and economic events. In addition, given that natural resources are finite, there is need to ensure that the management of natural resources also caters for future generations. Unless there is an appropriate framework, volatility in natural resource revenues can lead to unwarranted volatility in expenditure. Similarly, imprudent use of natural resource revenues threatens the sustainability of development beyond the current generation. Currently, Myanmar does not have any framework for managing the volatility of natural resource revenues that promotes the build-up of fiscal buffers through saving in good years that can then be spent prudently over the medium term, or for ensuring savings for future generations.

153. The management of natural resource revenues is also seen to lack in transparency, accountability, and fairness, although progress is being made to enhance transparency of natural resource revenues. There is general been lack of publicly available information about contracting arrangements, payments made by companies, volumes of revenues received, and destination of revenues and extent to which revenues are included in budget. In addition, a large portion of potential revenues is currently not captured—Myanmar is the world's leading producer of jade, sapphires, and rubies. Data on the gems trade is very limited, with poor accounting and reporting of sales and a very large proportion of sales going through unregulated border trade. Finally, many of Myanmar's natural resources are concentrated in the ethnic minority states and regions, home to the world's longest running civil wars, and have fueled generations of conflict. Progress has

recently been made to improve transparency and accountability through the EITI process - Myanmar recently attained EITI candidacy status,⁴¹ but more work remains especially in ensuring that states and regions from which resources are extracted feel that there is fairness in the manner in which natural resource revenues are allocated across the country.

154. Given the growing rate of urbanization and high levels of urban poverty in Myanmar, it will also be important to ensure that urban development proceeds in a sustainable manner. In response to the reforms, most new investments coming into the country are locating in the country's main cities and other urban areas since infrastructure and services are relatively better than in rural areas. Similarly, most people looking for jobs are flocking to towns and cities. Rapid industrialization and urban population growth are therefore putting pressure on the country's cities and its environment. Data on the rate of urbanization are not available although anecdotal evidence suggests that it is high.

155. Promoting sustainable urban development will be a complex and long-term agenda, but some critical first steps could be taken to lay the foundation for the future. In particular, it is important for Myanmar to start investing in proper urban planning and strengthening policies and institutions for sustainable urban development. The goal should be to ensure that cities and other urban areas continue to function at levels of quality of life desired by the community without restricting the options available to the present and future generations and causing adverse impacts inside and outside the urban boundaries. In the medium-term, the development of Special Economic Zones will ensure that industrialization proceeds in a more systematic manner and without putting pressure on cities and towns.

⁴¹ This means that the International Board of the EITI confirmed that Myanmar has, amongst others, successfully put in place a Multi-Stakeholder Group comprising representatives from government, civil society and operators. As an EITI Candidate country, Myanmar is now required to publicly disclose a range of information about its extractive industries in an annual EITI Report. This includes payment and revenue data, production data as well as information about how licenses are allocated, who the license holders are and other contextual information about the extractive industries. Myanmar has 18 months to produce its first EITI Report.



IV. KNOWLEDGE GAPS, IMPLICATIONS, AND PROPOSED ANALYTICAL WORK AGENDA

156. In spite of best efforts, knowledge and data gaps have imposed limitations on some of the analyses in the SCD. Going forward, a number of knowledge gaps have been identified in various areas, together with current plans and future options for filling these gaps (See Table A.1 in the Annex). This list is by no means exhaustive but provides pointers to critical areas where future analytical work may need to focus on.

157. Data constraints have limited the poverty analytics in this SCD. In particular, it has not been possible to assess how poverty has changed in Myanmar since the 2009/10 IHLCA survey was conducted. In addition, there is still no clear understanding of some aspects of poverty and of local context in conflict affected areas. Going forward, the Bank plans to undertake a Myanmar Poverty and Living Conditions Survey (MPLCS) in 2014/15 that will aim to quickly provide up-to-date and credible estimates of poverty, and to inform the design and implementation of the large-scale (18,000 households) national survey that the government is planning to undertake in 2015. It is hoped that the next surveys will be able to cover the border areas that have not been properly represented in previous surveys. This will need to be complemented by targeted studies to understand better the local context of the social, political, and economic issues in the conflict-affected minority areas.

158. Similarly, lack of data has hampered analyses of unemployment and the job market in Myanmar. There are currently no recent and credible unemployment figures, labor income trends, migration patterns within and beyond Myanmar, and returns to education. The last labor force survey was conducted in 1990. The Ministry of Labor recently signed an agreement with the International Labor Organization to conduct a new labor force survey. In addition, there has not been a comprehensive analysis of the labor intensity of various sectors. As a result, it has not been possible to assess in empirical terms the potential contribution of various sectors to job creation. On the demand side, there is also lack of more comprehensive information on the type of skills on demand in the market or by potential entrants to the market would be useful to help in the design of programs aimed at filling the skills gap. The design of such program would need to be informed by an assessment of the effectiveness of existing programs for increasing the supply of skills in the market. Finally, due to the expected role that ICT is likely to play in creating jobs in Myanmar, an in-depth study on ICT and the jobs agenda would be warranted beyond the Ericsson Study on the potential economic impact of mobile communications in Myanmar.

159. In addition, it has not been possible in some cases to fully understand the scale of certain development challenges. Detailed and more robust macroeconomic analysis has not been possible due to the lack of credible national accounts data. Planned support by the ADB to update the SNA will help address this chal-

lenge. Similarly, while it is generally understood that more broadly, there are weaknesses in the capacity of the public sector to design, coordinate, and deliver services, there is need for a more in-depth understanding of the critical capacity constraints within each sector. It would also be useful to understand the impact of politics in decision making within the country's bureaucracy. To fill these gaps, there is need to conduct a comprehensive public-sector assessment.

160. On service delivery, knowledge gaps exist in the area of outcomes and government performance, particularly in hard-to-reach areas; and potential of private sector participation in the provision of public goods. For example, in education, there is currently no national assessment of learning outcomes at the lower levels of basic education. As a result, no one knows how much learning actually occurs at different levels of basic education. Going forward, there is need to conduct an assessment of students' learning outcomes at key stages of the education cycle, starting with Early Grade Reading and Math Assessments. In health, there is lack of robust information at community level, particularly in hard to reach areas. Conducting service delivery satisfaction surveys would also provide invaluable information on Government performance in the delivery of services, particularly in hard to reach areas. Finally, it also not been possible to assess the potential of private sector participation in the provision of public goods. The Bank recently conducted such an assessment in the power sector as part of the PER. Going forward, there is need to extend this type of assessment to other sectors with potential for private sector participation in the provision of services.

161. While the on-going PER has started filling some of the gaps on revenue and expenditure patterns in Myanmar, additional work will be warranted. It has not been possible to conduct a more comprehensive assessment of the level of Government revenues due to limited knowledge on revenue levels from Gems trade and the mining sector. This gap will be filled by a comprehensive analysis of revenues from the mining sector and other extractives currently planned under the EITI support program. Similarly, while the PER shows that SEEs contribute significantly to public sector revenues, a more detailed analysis is warranted in order to understand the different contributions of various SEEs. This will help determine the potential implications on Government revenues, of the various types of SEE reforms being envisaged by the Government, including corporatization and privatization. Finally, the sector level PERs on health, education, and energy should be expended to other sectors as well, particularly agriculture and transportation. This will help determine priorities for public expenditure in these sectors.

162. As mentioned earlier, knowledge gaps have made it difficult to identify priorities at a more granular level or make specific recommendations within sectors or thematic areas. For example, the SCD has

highlighted the importance of increasing productivity, diversification, and value addition. However, yield data is unreliable and there is little information on the status of diversification in the country. Therefore, a comprehensive and in-depth study on agriculture diversification would be useful. A farm production economics study is planned by the World Bank. The study seeks to determine farm production costs in Myanmar which will be used to compare the likely costs and benefits of various policy interventions.

163. A key area where additional analytical work is necessary before undertaking significant additional public action is land reform. First, there is limited knowledge on the relationship between land tenure security and agriculture investment in Myanmar. An in-depth study would therefore be warranted. Second, there is need to understand the full scale of the current land problems including the extent to which complaints on land are related to past injustices or new land laws, the transition, and other policies and institutions. More fundamentally, there is need to understand the binding constraints to secure land tenure in Myanmar. Land governance is about power and the political economy of land. To understand the land-related problems that challenge Myanmar, and to appreciate the challenges facing land-sector reforms, it is therefore necessary to understand land's role in the country's historic political economy and the history of land-related legislation and ownership. Land tenure arrangements involve social relations and social institutions and have complex histories, and are multi-dimensional.⁴² Therefore there is

need for a comprehensive assessment of the political economy of land in Myanmar and an analysis of options for land reform that draws on lessons from the experiences of other countries with various types of land reform.

164. Similarly, without robust information, specific and prioritized recommendations have not been possible in the areas of safety nets, financial sector, and access to microfinance. In the area of safety nets, it will be important to conduct an assessment of government-led safety net pilots (such as stipends and maternal and child health vouchers) as well as selected safety net programs being implemented by development partners. It would also be useful to conduct a feasibility assessment for making benefit payments through financial institutions. In the financial sector, the finalization of the Financial Sector Master Plan currently under preparation with help from the World Bank will be helpful. However, beyond preparation of the plan, a Financial Sector Assessment Program will be warranted in order to gauge the stability of Myanmar's financial sector and assess its potential contribution to growth and development. In microfinance, there is also need for a comprehensive assessment of the industry in order to understand its dynamics including the scale of demand for microfinance from micro enterprises and households.

able to help conduct a thorough assessment of land governance such as the World Bank's *Land Governance Assessment Framework (LGAF)*, the UN's *Voluntary Guidelines on Land Governance*, and the WB-UN global initiative on the *Principles of Responsible Agricultural Investment*

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ANNEX

Table A. 1: List of knowledge and data gaps that need to be filled

No	Area	Knowledge and data gap(s)	Existing plans and future options for filling the gaps
1	Poverty Profile		
	Poverty diagnostics	<ul style="list-style-type: none"> • Comprehensive poverty incidence data in border areas • Data on recent trend in poverty incidence 	<ul style="list-style-type: none"> • WB supported Myanmar Poverty and Living Conditions Survey (MPLCS) is planned for 2014/15 • WB supported third Integrated Household Living Conditions Assessment (IHLCA) survey: 2015/16
2	Pre-requisites for laying a solid foundation for inclusive growth & its sustainability		
	Facilitating the political transition	<ul style="list-style-type: none"> • A better understanding of local context in conflict-affected minority areas • Satisfaction levels of government service delivery 	<ul style="list-style-type: none"> • No known plans • In-depth study on local context in conflict-affected minority areas would be useful • Conduct service delivery satisfaction surveys
	Macroeconomic stability	<ul style="list-style-type: none"> • National accounts data that are consistent with international standards 	<ul style="list-style-type: none"> • ADB is planning to provide TA on updating SNA
	Public sector capacity for policy making, coordination, & efficient delivery of services	<ul style="list-style-type: none"> • Knowledge of binding capacity constraints within each sector • Incentives in the public sector, in particular, systematic knowledge on adequacy of pay and compensation and how competitive it is with comparable jobs in private sector • Exact nature of capacity deficiencies in policy making, coordination, & efficient delivery of services • Impact of policies on decision making • Quality of public expenditure in agriculture & transport – following public expenditure reviews in health, education, and energy • Management of SEE revenues – particularly in extractives sector. 	<ul style="list-style-type: none"> • Possible public sector capacity assessment • Phase two of the PER is planned to among other areas, cover agriculture, transport, and SEEs • WB extractives/EITI team planning study on management of SEE revenues particularly from extractives • Conduct an in-depth assessment of revenues from gems trade and mining sector • Conduct an overall assessment as part of analytic work on Development of a Public Accountability Framework.
			<ul style="list-style-type: none"> • Revenue levels from Gems trade and mining sector more broadly, including where mining is taking place, how many companies, turn over, production, revenues, etc. • Structure of the private sector at national and local levels to

No	Area	Knowledge and data gap(s)	Existing plans and future options for filling the gaps
		<ul style="list-style-type: none"> understand the potential markets for state contracts. Analysis of the formal control and accountability relationships within government and the performance of these systems in key government agencies Levels of corruption and the extent of corruption in decision-making and the implementation in critical service sectors. Structure of national and local private sector - understanding the potential market for state contracts 	
3	Promoting participation, integration, and increased productivity for higher incomes and more jobs through “beyond gas” private sector led growth	<p>General labor force patterns and trends</p> <ul style="list-style-type: none"> There is no comprehensive picture of the labor market to understand employment and labor income trends, migration patterns within and beyond Myanmar, returns to education, drivers of household productivity, constraints to employment in the formal and informal labour market, etc. <p>Sharper focus on creation of jobs</p> <ul style="list-style-type: none"> Limited knowledge on the job intensity of various potential sectors and what interventions would be needed to unleash their potential 	<ul style="list-style-type: none"> ILO will complete LF survey by early 2015, plus additional data sources coming on line which will facilitate a LM diagnostic Beyond agriculture, conduct a comprehensive assessment of job-intensity of selected sectors and identify specific interventions that would help maximize the potential in those sectors
	Private sector participation in the provision of public goods	<ul style="list-style-type: none"> There is lack of knowledge on the extent of underpricing in various sectors 	<ul style="list-style-type: none"> Extend the assessment done in electricity on extent of underpricing to other relevant sectors
	Agriculture	<ul style="list-style-type: none"> Reliable yield data The extent of agriculture diversification in Myanmar and opportunities going forward 	<ul style="list-style-type: none"> WB supported farm production economics study is planned Conduct comprehensive and in-depth study on agriculture diversification
	Land governance	<ul style="list-style-type: none"> Land governance in Myanmar covering among other issues, scale of land related problems including the extent to which complaints on land are related to past injustices or new land laws & the transition and adequacy and effectiveness of current land governance policies and institutions Relationship between land tenure and agriculture investment in Myanmar Critical priorities for land reform 	<ul style="list-style-type: none"> Conduct comprehensive assessment of land governance (including political economy of land administration, etc.) Political economy analysis of Myanmar's land-based sector or landscapes Conduct an environmental and social impact assessment of extractive industries Develop land monitoring systems that use readily

No	Area	Knowledge and data gap(s)	Existing plans and future options for filling the gaps
	Skilled labor	<ul style="list-style-type: none"> Environmental and social impacts of extractive industries Nature of skills demanded by the private sector 	<ul style="list-style-type: none"> available administrative data and satellite imagery Conduct an assessment of the effectiveness of active labor market programs (overview, achievements, limitations) Conduct a skills set survey and STEPS skills household and employer surveys, including the skills needs of prospective FDI entrants
	ICT	<ul style="list-style-type: none"> ICT and the jobs agenda in Myanmar 	<ul style="list-style-type: none"> Conduct an in-depth study on ICT and the jobs agenda in Myanmar Conduct an assessment of the financial sector
	Financial sector modernization and deepening	<ul style="list-style-type: none"> A full assessment of the financial sector, including in-depth analysis of each bank and new financial institutions, such as insurance firms. Assessment of capacities within regulatory bodies to effectively enforce laws and regulations and plans for capacity development. Wider knowledge of the macro-financial linkages, including data availability and quality. 	<ul style="list-style-type: none"> No known plans Conduct comprehensive and in-depth environmental assessments covering the identified areas
	Environmental management	<ul style="list-style-type: none"> Water resources decision support system and river basin planning framework - A geo-referenced knowledge base, hydrological and economic models of the country's key rivers, environmental and social impacts of alternative water development strategies, etc. Groundwater resources survey - volume, location, recharge and quality of groundwater particularly in the Dry Zone Sedimentation and river morphology - understanding the sediment sources and sinks , and whether the rate of sedimentation is stable or increasing (e.g. sediment fluxes) Ecosystems services inventory - a strategic environmental and social assessment should be considered for the Ayeyarwaddy River 	<ul style="list-style-type: none"> Conduct assessment of students' learning outcomes at key stages of the education cycle, starting with Early Grade Reading and Math Assessments
4	Enhancing universal access and empowerment for inclusive growth, particularly in rural areas		
	Education	<ul style="list-style-type: none"> Reliable information on learning outcomes 	<ul style="list-style-type: none"> Conduct assessment of students' learning outcomes at key stages of the education cycle, starting with Early Grade Reading and Math Assessments

No	Area	Knowledge and data gap(s)	Existing plans and future options for filling the gaps
	Health	<ul style="list-style-type: none"> • Robust health information, particularly data at the community level and hard-to-reach areas 	<ul style="list-style-type: none"> • There is a plan to carry out a comprehensive sector data assessment that will help identify data gaps as part of the process of preparing a National Strategy for the Development of Statistics (NSDS)
	Safety nets	<ul style="list-style-type: none"> • Absence of assessments of existing safety nets programs • Limited understanding of managing the transition from DP-led SP delivery to government systems in medium to long term 	<ul style="list-style-type: none"> • Conduct an assessment of government-led safety net pilots (such as stipends and maternal and child health vouchers) as well as selected DP-implemented safety net programs. Conduct a feasibility assessment for making benefit payments through financial institutions • Pilot delivery system development (including targeting) through stipend program; conduct extensive monitoring and evaluation of the stipend program in order to inform design improvements. • Pilot interventions to promote livelihoods and community empowerment
	Access to microfinance	<ul style="list-style-type: none"> • A deeper understanding of the microfinance industry dynamics and a risk-based assessment of the various actors in the microfinance space. • Better gauge of the demand for finance from firms, small enterprises, and households. 	<ul style="list-style-type: none"> • Conduct a comprehensive assessment of the microfinance industry

Table A. 2: Summary of SCD consultation meetings and key focus areas identified by stakeholders

No	Date& Time	Venue	Stakeholder Group	Key focus areas identified by stakeholders as critical for ending poverty & boosting shared prosperity in Myanmar
1	26 th February, 10:00am – 12:00 noon	Yangon	Civil society organizations	Land; Government policies including implementation and enforcement; Revenue mobilization in order to expand services; including through removal of tax holidays; Infrastructure, particularly energy and ICT; Education; Access to markets
2	26 th February, 2:00pm – 4:00pm	Yangon	Academics, researchers, & think tanks	Infrastructure, particularly transport connectivity; Revenue mobilization will be critical for improved service delivery and social protection. There was also a call to remove tax holidays; Governance, including judicial system, regulations (including in health and education), decentralization, institutions, and other government policies; Improved value chains
3	27 th February, 10:00am – 12:00 noon	Yangon	Private sector	Policy, legal, and regulatory framework is critical for improving the investment climate - there is need for clarity, simplicity, transparency, and capacity to enforce; Land, including the high price of land in urban areas; Other government policies, such as in agriculture, export sector e.t.c.; Rural infrastructure, particularly roads, power, telecommunications; Improved banking system; Skills; Value addition
4	27 th February, 2:00pm – 4:00pm	Yangon	Development partners	The need to pay particular attention to vulnerability; Need for structural transformation - improve agriculture while promoting non-agriculture growth; Financing will be critical, especially for social protection and expanded services; Need to pay attention to political factors and Government capacity to deliver services; Land
5	16 th May, 2:00pm – 4:30pm	Nay Pyi Taw	Union Government	Good agricultural practices; microfinance; universal health coverage; social protection system; transport connectivity; SME development; job creation, vocational training and basic education.
6	19 th May, 10:30am – 12:30pm	Pathein	Regional Government	Agriculture – 80 percent of the population are poor farmers, therefore agriculture development is key to poverty alleviation; education, particularly raising standards; health, electricity; transportation; access to clean water; job creation through FDI
7	19th May, 2:00pm –	Pathein	NGOs, CBOs, INGOs, Private Sector, Political	Agriculture – every farmer should own their own land, implementation of the land law needs to be improved, confiscated land should be returned; access to agriculture finance should be improved; health; education and human resource development; creation of job and income generation opportunities through support of SMEs; access to markets and promotion of foreign

No	Date& Time	Venue	Stakeholder Group	Key focus areas identified by stakeholders as critical for ending poverty & boosting shared prosperity in Myanmar
	4:00pm		Parties	investment; transportation, especially rural roads; social security
8	19th May, 10:30am – 12:30pm	Mandalay	Regional Government	Agriculture; education; electricity -it is key to improvement of other social, health, education and business sectors, including SMEs; transportation - lack of transport connectivity is a key to poverty in states such as Kachin, Rakhine and Chin; access to markets; health – upgrade the public health service; access to finance – to finance business activities.
9	19th May, 2:00pm – 4:00pm	Mandalay	NGOs, CBOs, INGOs, Private Sector, Political Parties	There is a need to upgrade basic education, higher education and vocational education; there is a lack of knowledge to apply advanced technology; agriculture; access to markets; health; ordinary people need access to finance to start their businesses; transportation; electricity.
10	21st May, 10:30am – 12:30pm	Taungyi	Regional Government	Agriculture – especially land as many farmers have lost their land, increased access to inputs; also access to agriculture markets, extension services; transport connectivity, to help connect people to education and health; education; access to markets; electricity which would allow for the development of SMEs and to help increase access to the internet; peace; access to finance, particularly low interest loans; health.
11	21st May, 2:00pm – 4:00pm	Taungyi	NGOs, CBOs, INGOs, Private Sector, Political Parties	Education – including vocational training, entrepreneurship training, and business development services; agriculture; access to markets; access to finance; transportation – many do not have access to education and health care; electricity; health; peace
12	22nd May, 10:30am – 12:30pm	Hpa An	Regional Government	Agriculture particularly mechanization to deal with labor shortage ,jobs to prevent outward migration, education, health care.
13	22nd May, 2:00pm – 4:00pm	Hpa An	NGOs, CBOs, INGOs, Private Sector, Political Parties	Agriculture including rice, livestock and fisheries - provide technical know-how in the agriculture, livestock and fisheries sector; electricity to promote small and medium enterprises, to set up food processing factories, industrial zones – to create job opportunities ; access to market - to connect to global market; education; job creation; transportation - with better means of transport, it means better access for everything - education, health, access to market, etc., especially for people who live in remote areas
14	23rd May,	Yangon (on	NGOs, CBOs,	Education – especially quality and vocational training; agriculture – there should be an end to

No	Date& Time	Venue	Stakeholder Group	Key focus areas identified by stakeholders as critical for ending poverty & boosting shared prosperity in Myanmar
	2:00pm – 4:00pm	Urban Poverty)	INGOs, Private Sector, Political Parties	land confiscation, there is need to improve agriculture technology, need to improve access to agriculture markets, improve access to agriculture finance; health, especially nutrition; access to finance –lack of formal sources of finance for the poor; transport connectivity; electricity; job creation through private sector development.
15	4 th June, 2:00pm – 4:30pm	Nay Pyi Taw	Union Parliament	Agriculture, including fisheries development; electricity; transport connectivity especially in rural areas; education; health; job creation through SMEs; land



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