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INTERNATIONAL DEVELOPMENT ASSOCIATION PROGRAM DOCUMENT

FOR A PROPOSED CREDIT

IN THE AMOUNT OF EQUIVALENT TO SDR 147.8 MILLION
(USD200 MILLION EQUIVALENT)

TO THE

REPUBLIC OF THE UNION OF MYANMAR

FOR THE

FIRST MACROECONOMIC STABILITY AND FISCAL RESILIENCE
DEVELOPMENT POLICY OPERATION

March 31, 2017

Macroeconomics and Fiscal Management Global Practice
East Asia and the Pacific Region

MYANMAR - GOVERNMENT FISCAL YEAR

April 1 – March, 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of February 28, 2017)

Currency Unit	Exchange rate
USD1	Kyat 1,360
SDR 1	USD 1.35

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ASEAN	Association of South East Asian Nations
BE	Budget Estimate
CAR	Capital Adequacy Ratio
CBM	Central Bank of Myanmar
CPF	Country Partnership Framework
CPI	Consumer Price Index
CSO	Central Statistical Organization
DA	Designated Account
DFAT	Department for Foreign Affairs and Trade, Australia
DPO	Development Policy Operation
EAO	Ethnic Armed Organization
ECL	Environment Conservation Law
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ERC	Economic Recovery Credit
FCV	Fragility, Conflict and Violence
FDI	Foreign Direct Investment
FMR	Financial Management Regulation
FSDP	Financial Sector Development Program
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GOM	Government of Myanmar
GP	Global Practice
GRS	Grievance Redress Service
IDA	International Development Association
IMF	International Monetary Fund
IRD	Internal Revenue Department
LMIC	Lower Middle Income Country
LTO	Large Taxpayers' Office
MDTF	Multi-Donor Trust Fund
MOC	Ministry of Commerce
MOECAF	Ministry of Environmental Conservation and Forestry
MOEE	Ministry of Electricity and Energy
MOGE	Myanmar Oil and Gas Enterprise
MOPF	Ministry of Planning and Finance
MTDS	Medium-Term Debt Strategy
MTFF	Medium-Term Fiscal Framework
MTO	Medium Taxpayers' Office
NCA	National Ceasefire Agreement
NECC	National Economic Coordination Committee
NEP	National Electrification Plan
NFA	Net Foreign Assets
NLD	National League for Democracy
NODP	Norway Oil for Development
NPL	Non-Performing Loan
O/W	Of which
OAG	Office of the Auditor General
OAS	Official Assessment System
P	Projection
PA	Preliminary Actual
PER	Public Expenditure Review
PFM	Public Finance Management
PPG	Public and Publicly Guaranteed
PSIA	Poverty and Social Impact Analysis
QSEM	Qualitative Soc. and Econ. Monitoring of Livelihoods in Myanmar
RE	Revised Estimate
REER	Real Effective Exchange Rate
SAS	Self Assessment System
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SEE	State Economic Enterprise
SFA	State Fund Account
SRDPO	Macroeconomic Stability and Fiscal Resilience DPO
TA	Technical Assistance
UNHCR	United Nations High Commissioner for Refugees
USD	United States Dollar
US	United States
WB	World Bank
WBG	World Bank Group

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SUMMARY OF PROPOSED CREDIT AND PROGRAM

Republic of the Union of Myanmar

FIRST MACROECONOMIC STABILITY AND FISCAL RESILIENCE DEVELOPMENT POLICY OPERATION

Borrower	Republic of the Union of Myanmar		
Implementation Agency	The Ministry of Planning and Finance		
Financing Data	IDA credit Terms: Regular IDA (6-year grace, 38-year maturity) Amount: SDR 147.8 million (USD 200 million equivalent)		
Operation Type	First Development Policy Operation in a programmatic series of three operations.		
Pillars of the Operation And Program Development Objective(s)	Program Development Objective: Sustained macroeconomic stability with enhanced fiscal resilience. Pillar 1: Sustained macroeconomic stability Pillar 2: Enhanced fiscal resilience		
Result Indicators	**Pillar 1: Sustained macroeconomic stability**		
	Prudent public debt management	There is currently no public report on implementation of borrowing targets agreed in the Budget Law	Published MTDS assesses past year's implementation of borrowing plan, and implications for medium-term borrowing
	Demonetization of the fiscal deficit	Share of CBM financing of the budget deficit in 2016/17: < 40%	0%
	State Economic Enterprises' fiscal discipline	SEE overall balance as % of GDP: - 0.5% in 2015/16	> 0.5 %
	Policy-Based Budgeting	Non-gas revenue variance relative to budget: > 15 percent in the past 3 fiscal years	< 10 percent in the past 3 fiscal years
		Capital spending variance relative to budget: >10 percent in the past 3 years	< 10 percent in the past 3 fiscal years
	Pillar 2: Enhanced fiscal resilience		
	Enhanced revenue mobilization	Commercial and income tax to GDP ratio in 2015/16: 5.9 percent	> 7 percent
		Share of tax payers under SAS: 7 percent	> 70 percent
	Prudent gas revenue management	Gas revenue estimates for coming fiscal year published in Citizens' Budget	Publication of medium-term forecasts of gas revenue to the public sector, including underlying assumptions (price, production), and alternative scenarios
	Financial viability of the power sector	Government-owned Electric Power Utilities' operating balance FY2016/17: -357 Billion Kyat	FY2018-2019: (-200 Billion Kyat) FY2020-2021: Positive balance
	Effective Public Finance Management	Timely publication of fiscal reports: Approved budget within one month	Fiscal policy statement, budget proposal, approved budget, quarterly execution reports, within deadlines
		Health budget outturn: < 90% in last 3 years	> 95% in the last three years
		Education budget outturn: < 90% in last 3 years	> 95% in the last three years
Overall risk rating	High		
Climate and disaster risks *(required for IDA countries)*	Are there short and long-term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)? No.		
Operation ID	P152734		

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE REPUBLIC OF THE UNION OF MYANMAR

A. INTRODUCTION AND COUNTRY CONTEXT

1. **Proposed DPO:** The proposed Myanmar Macroeconomic Stability and Fiscal Resilience Development Policy Operation (SRDPO-1) is the first in a series of 3 DPOs. The series supports Myanmar in achieving its objective of sustaining macroeconomic stability with enhanced fiscal resilience. SRDPO-1 is in the amount of USD200 million. SRDPO-2 and SRDPO-3 are expected to proceed in line with the authorities' reform program in roughly one to two-year intervals.

2. **Economic and Political context:** Myanmar is now five years into a fundamental political and economic transformation. Following 50 years of isolation under military rule, the country opened up under a new administration that took office in 2011. By-elections in 2012 brought in opposition parties to a newly established Parliament. Important economic reforms (e.g. exchange rate unification, telecom liberalization, lifting of trade restrictions, fiscal adjustments) supported an annual average GDP growth of 7.8 percent between 2011 and 2015 within a stable macroeconomic environment.

3. In November, 2015, Myanmar voted in national elections, which delivered a landslide victory for the National League for Democracy. The new administration took office in April 2016 when the economy was still recovering from a flood induced supply shock, which, together with low commodity prices, contributed to widening current account and fiscal deficits. High inflation persisted over the course of H1 2016/17. Investors have continued to bide their time, pending clarity on future economic policies. The government has set out its economic policy priorities, tried to maintain fiscal and monetary discipline, and continued structural reforms. Political and economic progress have prompted lifting of all remaining US sanctions on trade, investment and financial flows linked to Myanmar.

4. **Conflict situation:**[1] At the same time, Myanmar continues to face armed conflict between the state and a range of ethnic armed organizations (EAOs). Many of these conflicts are rooted in demands by ethnic organizations for greater autonomy. Over the decades these were exacerbated by grievances over human rights violations, as well as by the exploitation of natural resources, land expropriation, and other issues. Bilateral ceasefires beginning in the 1990s led to some decreases in conflict, which were often short lived. In 2012, the government launched a national peace initiative that led to ceasefires, including with the Karen National Union, ending the world's longest running civil conflict. In October 2015, a national ceasefire agreement was signed with 8 of the country's major EAOs.

5. The new administration has continued the peace initiative begun in 2012, with a conference in August 2016 bringing together a broad range of EAOs. Follow up talks have aimed to include those organizations that had not yet signed, and to advance the peace process from ceasefires into a national dialogue to resolve underlying grievances. Aimed at ending over 60 years of conflict with more than a dozen armed groups across the country, this is a long-term process with inevitable setbacks. Most notable among these has been the collapse of a 17-year ceasefire with the Kachin Independence Organization (KIO) in June 2011, and increased violence in Kachin and Shan States. This has led to large-scale internal displacement and has also led a number of EAOs in the country's northeast to remain outside the ongoing peace process. Intensified violence in Kachin, Shan and Rakhine States in late 2016 underlines the difficulties ahead.

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[1] For details, please see among others: ICG, "Myanmar's Peace Process: Getting to a Political Dialogue," (Oct 2016)

6. In addition to the ongoing ethnic conflicts, Myanmar has long grappled with religious tensions, including in Rakhine State. Communal violence in 2012 led to widespread displacement.[2] Tensions reignited in October 2016 in northern Rakhine State.[3] The Office of the State Counsellor in collaboration with the Kofi Annan Foundation has established an Advisory Commission, as a neutral body to propose measure for improving the welfare of all people in Rakhine State. The Commission recently released an interim report, which has been endorsed for follow up by the Office of the State Counsellor.

7. **Poverty situation:** Economic growth has led to improvements in living conditions between 2009/10 and 2015/16, though poverty levels remain high. Household surveys indicate average expenditure growth of 3.5 percent, a 39 percent decline in poverty rates, higher ownership of various durable goods, and a substantial increase in household dietary diversity. The improvements in living conditions during this period were greatest in urban areas and among richer households, resulting in a small but noticeable increase in inequality. The potential for poverty reduction in Myanmar remains very high. Poverty in Myanmar is disproportionately found in rural areas, and is highly associated with household demographics, and income generating activity.

8. **Rationale for DPO:** As a rapidly opening economy, Myanmar faces new challenges to sustaining macroeconomic stability. Policy and institutional capacity to deal with macroeconomic pressures have faced intensified challenges, which in turn impact on public service delivery and broader stability. To help address these challenges, the SRDPO could play a critical role in building a modern State, which requires a mix of institution building as well as policy reforms. In addition, concessional budgetary financing could support long-term public investments and help build fiscal buffers. Lessons from other fragile and conflict-affected countries have shown how critical policy-based lending can be in strengthening policies and institutions for stability and growth over the medium to long-term.[4] The proposed policy actions could help sustain confidence in economic policies, which is important for private investment, and help protect much needed fiscal space for public service delivery and poverty reduction.

B. MACROECONOMIC POLICY FRAMEWORK

RECENT ECONOMIC DEVELOPMENTS

9. **Real sector developments:** Myanmar has experienced a strong economic take off since opening up in 2011, with real GDP growth averaging 7.8 percent per year between 2012-2013 and 2015-2016. Economic reforms have helped accelerate trade and investment flows particularly into the services sector, which on average has contributed to around half of GDP growth in the past 4 years. The rapid expansion in communications services, following liberalization, has led to productivity gains and expansion into new services (e.g. mobile banking, e-commerce). A growing international presence, tourism, and trade have accelerated the supply of transportation, logistics and hospitality services. Financial services have also grown rapidly albeit from a low base.

10. Industrial production has also expanded rapidly. Myanmar experienced a construction boom due to increased demand for residential, commercial and industrial buildings. Gas output also picked up thanks to 2 new fields (Shwe and Zawtika) coming on stream in 2013. The gas sector accounts for around 7 percent of GDP, but close to 40 percent of merchandize exports, and 15-20 percent of general government receipts, thereby having an important bearing on macroeconomic developments.

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[2] UNHCR, September 2016

[3] http://www.ohchr.org/Documents/Countries/MM/FlashReport3Feb2017.pdf

[4] WB/IEG, "WBG Assistance to Low Income Fragile and Conflict Affected States" (2013)

11. Although over 50 percent of industrial output comes from manufacturing, around two thirds of this is from a relatively narrow and low value addition food processing sector, which is vulnerable to developments in agriculture. Agriculture remains sluggish due to longstanding productivity constraints, exacerbated by climate shocks. Combined, these developments have contributed to major structural shifts in the economy, with the share of agriculture in GDP declining from 37 percent in 2011/12 to 29 percent in 2015/16.

12. Changes on the production side were driven by large pent up demand. Private consumption, equivalent to around half of GDP, was high and relatively stable between 2012/13 and 2014/15. Public consumption also accelerated, albeit from a lower base, growing at an average of 20 percent per year in real terms over the past 5 years in part due government efforts to expand public services. Reforms have helped to boost private investments, which have averaged between 20 and 30 percent of GDP since 2011, and grown at an average of 15 percent per year in real terms. Public investment (5-7 percent of GDP), on the other hand, is low relative to needs and suffers from allocative and productive inefficiencies.

Fig 1: Real GDP (% change and contribution)

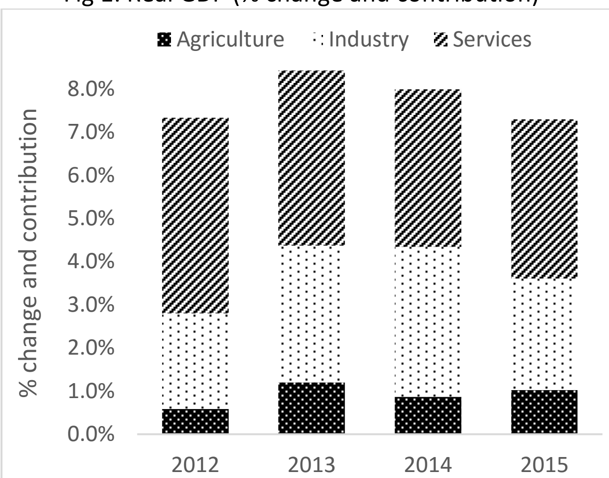
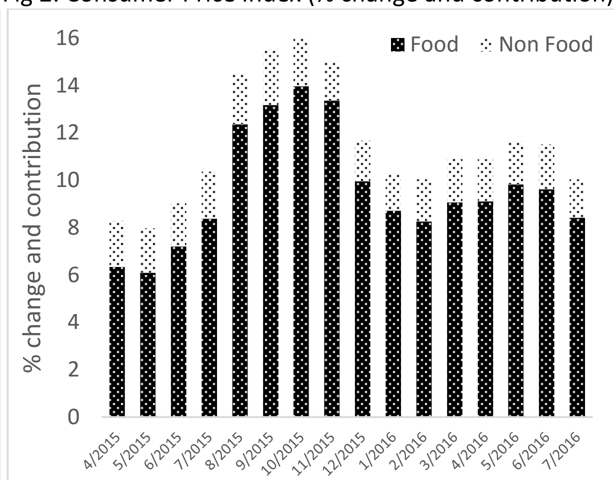


Fig 2: Consumer Price Index (% change and contribution)



Sources: MOPF, CSO, WB Staff Estimates

13. Although growth has remained strong, it has begun to moderate more recently from 8 percent in 2014/15 to 7.3 percent in 2015/16, and is expected to slow further to 6.5 percent in 2016/17. Cyclone Komen in July 2015 negatively impacted agriculture, which affected food processing. There has also been a general slowdown in private investments across all sectors. The industrial sector in 2016/17 has slowed down across the manufacturing, construction and gas sectors. Therefore, despite positive trends on both the level and composition of growth, recent developments highlight ongoing vulnerabilities, including in higher employment sectors such as agriculture, manufacturing, and construction.

14. Despite slowing growth, inflationary pressures have remained high and persistent. Whilst inflation fell from its year-on-year peak of 16 percent in October 2015, prices continued to rise at 10 percent (YOY) in July 2016, and over 7 percent in January 2017. Food prices, which account for 68 percent of the CPI basket, is the major driver of inflation. Rice prices have remained elevated due to seasonal factors and ongoing domestic supply constraints. At the same time, however, there is a narrowing gap between food and non-food inflation, pointing to a more broad-based rise in prices seen in demand-led inflation. Continued growth in money stock, mostly from the public sector but increasingly also from the private sector, are contributing to underlying demand and inflation dynamics.

15. **External sector developments:** Myanmar has experienced widening current account deficits averaging 4 percent of GDP between 2012/13 and 2014/15, and rising to an estimated 4.8 percent in 2015/16. These were largely influenced by developments in merchandise trade. Merchandise exports

picked up in 2013/14, in part thanks to the gas sector, which accounts for around 40 percent of total goods exports, and also some diversification in agriculture and light manufacturing. At the same time, imports linked to foreign investment demand grew more quickly up to 2014/15. Foreign investment flows therefore helped finance the current account deficit, and contributed to Net Foreign Assets at the Central Bank. Services (tourism, transport, and fees) and transfers (official and private donations) posted surpluses in more recent years, which to some extent also helped contain external pressures.

16. In the last year and a half, however, falling exports and slowing foreign investment inflows have enhanced external vulnerabilities. Gas exports contracted since the second quarter of 2015/16, together with official exports of mineral products. Although industrial goods exports, including garments, have picked up, they only account for 10-15 percent of merchandize exports. Imports have also slowed, in line with investment demand, though not as quickly as exports. This has left a large current account deficit in 2015/16 together with falling foreign exchange reserves, which in October 2016 were estimated at around 2.3 months of imports (IMF Article IV, 2016). There are no immediate concerns over external sustainability as much of the current account deficit is financed out of non-debt creating flows. Nevertheless, fiscal and monetary policy discipline in the near term and reforms to boost the tradable sector over the medium to long-term will be essential to mitigate risks of external vulnerability.

17. **Monetary, financial sector, and exchange rate policies and developments:** Although annual growth in overall money stock (M2) has moderated since it peaked at 48 percent in 2012/13, it nonetheless remained high in 2015/16 at 23 percent. Public sector financing needs have historically been a big driver of reserve money growth and M2. Since 2012/13 there has been a slight rebalancing between private and public sector demand. This was in part thanks to growth in revenue that helped reduce Central Bank financing of the budget deficit, but also increased foreign capital inflows. To help manage the rapid increase in liquidity, the CBM has adopted a monetary policy framework that targets reserve money growth, implemented through recently instituted government securities' auctions, deposit auctions, and foreign exchange auctions. This effectively liberalized interest rates for wholesale money market transactions, but retail level interest rates remain administered by CBM.

Fig 3: Merchandise trade and balance (USDm)

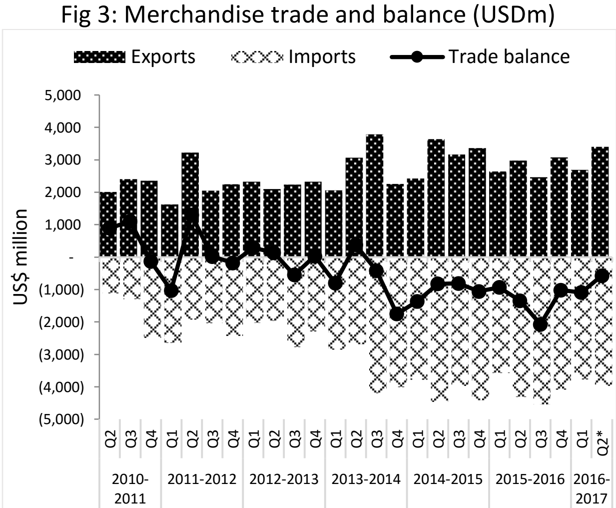
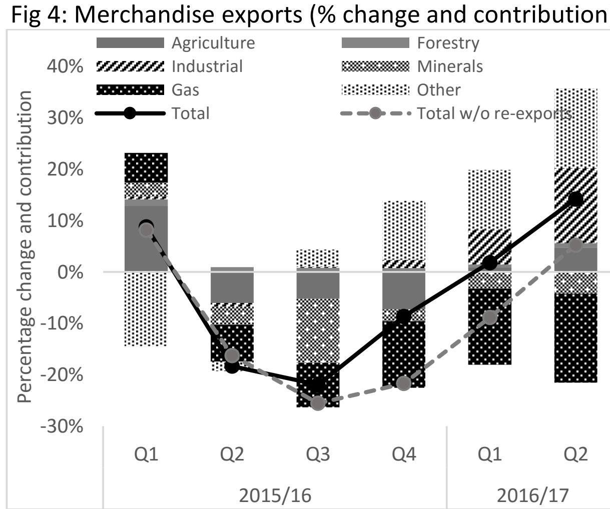


Fig 4: Merchandise exports (% change and contribution)



Sources: MOC, WB Staff Estimates

18. Credit to the private sector has also been an important driver of M2 growth in recent years, growing at an average of 30 percent per year in recent years. The financial system in Myanmar is small (19 percent credit/GDP in 2015/16) and financial inclusion very low. Yet, there are emerging signs of sector concentration of credit and associated risks, including in construction and real estate. An additional sign of risk are indications that credit is concentrated mostly in a few big borrowers with collateral.

19. Banking sector soundness indicators do not accurately reflect systemic risks. The capital adequacy ratio (CAR) in June 2016 was around 19 percent. However, paid up capital, CAR and risk weighted assets are all based on the 1990 Financial Institutions Law standards, which are now dated. Similarly, reported Non-Performing Loans (NPLs) also follow the asset classification and loan loss provisioning requirements under the 1990 FI law, which are dated and not consistent with international practice. The CBM reports that the NPL ratio has more than doubled over the last one year, rising from 1.6 percent to 3.6 percent.

20. To address these, the CBM with support from the World Bank and the IMF is looking to issue micro-prudential regulations based on international standards covering critical areas such as Large Exposures, Asset Classification and Provisioning, and Capital Adequacy. Implementation of these regulations could be essential for better monitoring and managing of potential systemic risks.

Fig 4: Money Stock (% change and contribution)

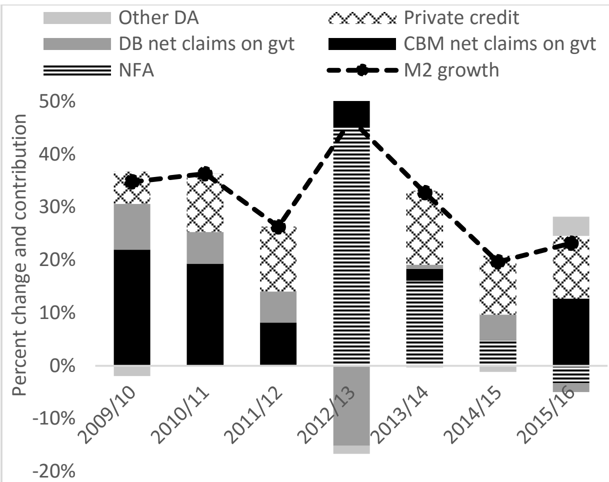
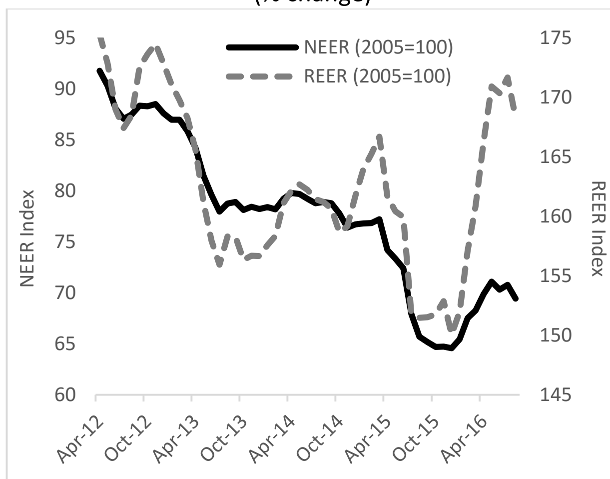


Fig 5: Nominal and Real Effective Exchange Rates (% change)



Sources: CBM, CEIC, WB Staff Estimates

21. Myanmar adopted a managed float exchange rate regime in April 2012. Important reforms, including daily foreign exchange auctions and an interbank foreign exchange market, have helped to substantially close the gap between the official and parallel exchange rates. The widening current account deficit, compounded by a general strengthening of the US dollar, has put downward pressure on the Kyat since mid-2015. This prompted administrative controls on access to US dollars in May 2015, which led to a widening gap between the official and parallel rates. The CBM subsequently allowed the exchange rate to depreciate by 15-20 percent. The Kyat did regain some strength in the first half of 2016, which combined with a rapid rise in inflation led to a 15 percent appreciation in its Real Effective Exchange Rate.

22. The Central Bank of Myanmar has maintained exchange rate flexibility in the face of renewed pressure on the Kyat in late 2016. The average monthly reference rate fell by around 9 percent against the US dollar between August and December. The reference rate has been adjusting to the market rate, albeit with a slight lag as the Central Bank has tried to smooth adjustments, which in turn has led to temporary divergence between the official and parallel rates. Maintaining exchange rate flexibility is key to external competitiveness, maintaining external buffers, and investor sentiments.

23. **Fiscal policies and developments:** There have been significant fiscal adjustments over the past 4 years, following decades of underspending on the back of a very narrow revenue base. General government receipts doubled from 6 to 12 percent of GDP between 2009/10 and 2015/16, and expenditures rose from 7 to 15 percent of GDP over the same period. This included a rebalancing in expenditure towards social sectors, from less than a 10 percent share to over 25 percent between 2009/10 and 2015/16. Fiscal outcomes have on the whole been positive: public sector deficits were kept below 3 percent of GDP between 2012 and 2014; revenue collections improved thanks to policy and

administration reforms, in addition to one off payments and a boost to Kyat denominated gas receipts following exchange rate unification in 2013; and efforts have been made to develop government securities' markets and move away from monetization of the budget deficit.

24. Since 2015/16 however the government has faced significant fiscal pressures, linked to some of the external shocks discussed above. Gas receipts, which account for 15-20 percent of general government revenue, declined between 2014/15 and 2015/16. The weakening of the Kyat on the other hand increased operational costs in the power sector, requiring additional subsidies. These pressures were exacerbated by growing losses of other SEEs outside of the power sector and an increase in the public sector wage bill. The public sector deficit expanded from an estimated 1.1 percent of GDP in 2014/15 to 3.2 percent in 2015/16, which in turn contributed to a sharp rise in monetization (42 percent increase in CBM's Net Claims on Government). To deal with these challenges, the government has tried to cut expenditure, whilst trying to protect priority spending on education, health, and agriculture.

MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

25. **Assumptions for baseline projections:** The medium-term outlook for Myanmar is based on some key assumptions, but is also subject to important risks (see below). The first is continued implementation of prudent fiscal and monetary policies, including those supported under the DPO. These are expected to help manage inflation and exchange rate pressures. The second is acceleration of structural reforms (e.g. energy, financial inclusion, business regulations, skills) to enhance productivity and competitiveness in the economy. These are important to remove binding constraints to private investments and growth. The third is strengthened communication, predictability and stability of the government's macroeconomic and structural policy reform agenda. These are important for the credibility of reforms, and for building trust and confidence between the public and private sectors to jointly fill major infrastructure gaps.

26. **Medium-term growth prospects and challenges:** Real GDP growth is projected to average up to 7.1 percent per year over the medium term (2017/18 – 2019/20). Medium-term growth is expected to be driven by a gradual rebound in private investment, particularly in infrastructure services. These include power, transportation, information technology, communications and logistics. The power sector is poised for substantial growth –access to energy is one of the biggest constraints to private sector development, and a major public investment priority. The government is looking at options to partner with the private sector to deliver on large investments needed to substantially accelerate electrification. There are also major investments in the pipeline in the transportation sector, including for port facilities, to help accommodate the rapid rise in both external and internal trade.

27. The supply of banking services is also expected to increase, particularly the range of products available to corporate and retail sectors. Corporate banking activities of recently licensed foreign banks are expected to rise with FDI flows. But retail banking is also expected to expand rapidly through mobile banking services. Experience from other countries suggests that mobile banking services could grow exponentially, particularly given the very low levels of financial inclusion at the moment in Myanmar. This can have important growth impacts through greater efficiency in financial transactions, including between urban and rural areas, and increased investment in small and medium-enterprises.

28. Improvements in transport, energy and finance, as well as water supply and irrigation are key for the productivity and expansion of the agriculture and industrial sectors. There has been a significant accumulation of foreign investment commitments, particularly in non-commodity sectors including agri-business, light manufacturing, hospitality, and transport and communications. Implementation of these investment projects is expected to pick up subject to continued macroeconomic stability, progress on structural reforms and expansion of critical services.

29. **Inflation projections:** Inflationary pressures are expected to ease relative to 2015/16, averaging 8.9 percent over the course of 2016/17. This is linked to recovery from last year's agriculture supply shock and the general slowdown in aggregate demand. There are, however, downsides particularly from the projected rise in international commodity prices. Oil prices are expected to recover to USD55 per barrel in 2017,[5] after going below USD30 per barrel in mid-January 2016. Non-energy commodity prices are expected to rise 2 percent in 2017 after a 3 percent drop the previous year.[6] Inflationary pressure could be exacerbated with exchange rate pass through, particularly through its effects on imported fuel, processed foods, and construction materials.

30. **External accounts:** The current account deficit is likely to remain large over the medium-term due to a combination of slowing gas exports, slowing demand in China, and large investment-related import needs. However, strong FDI flows mean that overall balance of payments are projected to moderate in 2016/17 and then positive after that. Myanmar's export performance will remain largely affected by the gas sector, which will see declining production until new fields come on stream, and also the agriculture sector, which accounts for roughly a quarter of merchandise exports. There is discussion of using more gas for domestic consumption rather than exports, and possible options to import gas to cover any shortfall for the domestic energy sector, which would further widen the trade deficit.

31. Myanmar has strong links with China through FDI, trade, and tourism, though any impact is likely to come mainly from the trade channel if demand for natural resources, including gems, decline. The impact of the Chinese slowdown on dampening commodity prices more generally would also affect the value of Myanmar's mineral exports in particular.

32. **Medium-term fiscal and monetary policies:** The government intends to pursue medium-term fiscal consolidation that helps balance fiscal prudence with large public investment needs. Myanmar's draft 2017/18 Union Budget proposal envisages a deterioration in fiscal conditions, with revenue projected to decline leading to a rise in the budget deficit. The draft budget prioritizes energy, which should receive a major boost, and continues to prioritize health and education, have seen the most rapid increase in allocations over the past 5 years. Notwithstanding the outcome of Parliamentary discussions, the expansionary budget is driven in part by a pick-up in external financing for development projects, conservative revenue estimates, and declining receipts from SEEs, some of which are reportedly being reformed.

33. On the revenue side, tax policy and administration reforms, including those supported under the SRDPO, are expected to help offset the negative impacts of low gas prices, falling gas production, and declining SEE payments. Revenues are expected to decline as a share of GDP in 2016/17 because of telecom licensing payments in 2015/16. However, increased income and commercial tax collections, which account for around two thirds of general government revenue, are expected to contribute to fiscal stability over the medium-term.

34. On the expenditure side, reallocations across and within sectors away from lower priority to higher priority areas are expected to help accelerate the delivery of much needed public services. One concern is the decline in public investments as a share of GDP given massive infrastructure needs. Though here also it is expected that there will be reallocations from lower to higher priority areas, including energy and other economic services such as agriculture and transportation. Ongoing World Bank analysis also points to the need for consolidating investment projects so that fewer and larger projects can strategically support high priority areas, with concurrent strengthening of public investment management capacity.

[5] WBG, "Commodity Markets Outlook" (October 2016)
[6] Ibid.

35. Maintaining fiscal discipline is expected to help ease pressures on monetary policy. The government is expanding government financing operations, and increasingly accessing concessional finance, to gradually eliminate monetization of the budget deficit. This includes the expansion of market-based financing instruments, such Treasury Bill and Treasury Bond operations, which are supported under the SRDPO. There will however also be increased liquidity from foreign capital inflows and growing deposits in the commercial banking sector. This will require scaled up Central Bank deposit auctions to help tighten liquidity conditions, and avoid inflationary pressures from monetary expansion.

Table 1: Key macroeconomic indicators[1]

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Output and prices							
Real GDP (% change)	8.4	8.0	7.3	6.5	6.9	7.2	7.3
CPI (% change, Period average)	5.7	5.9	11.4	8.9	6.3	5.7	5.5
Public sector (% of GDP)							
Revenue	20.2	22.3	19.9	16.8	16.7	16.3	16.8
Union Government	10.2	12.4	12.4	9.6	9.6	9.5	10.2
Expenditure	21.7	23.4	23.2	21.3	20.5	19.6	19.9
Union Government	13.1	14.6	15.1	13.9	13.5	13.1	13.4
Balance	-1.5	-1.1	-3.2	-4.5	-3.8	-3.3	-3.1
Public debt	34.2	29.5	33.8	33.8	33.8	34.3	34.7
Money and credit (% change)							
Reserve money	16.0	5.0	20.0	13.4	9.7	9.4	10.5
Net claims on Government	6.6	13.5	31.5	24.5	12.8	10.0	6.0
Broad money	32.7	19.6	23.2	20.8	16.5	18.6	18.0
Private sector credit	52.5	36.5	34.0	21.0	19.0	25.0	24.0
Balance of payments (% of GDP)							
Current account balance	-4.9	-3.3	-4.8	-6.7	-6.8	-6.7	-6.6
Trade balance	-5.1	-6.3	-8.6	-10.2	-10.4	-10.4	-10.2
Financial account	7.4	7.1	6.6	6.5	7.8	8.1	8.3
FDI (net)	4.4	7.1	6.6	5.9	6.4	6.7	6.9
Overall balance	2.0	1.8	-0.7	-0.3	1.0	1.3	1.8
Memo item							
Nominal GDP (Billion Kyat)	58,012	65,262	72,780	84,745	98,007	113,013	129,792

Sources: MOPF, CSO, CBM, IMF BOP Statistics, WB Staff estimates

1/ Differences between estimates presented in this table and IMF estimates (Annex C) for 2015/16 may be due to timing of data release. Projected figures differ partly due to different forecasts, including for GDP growth

36. **Debt Sustainability Analysis:** The latest IMF-WB DSA assesses Myanmar to remain at low risk of external debt distress. The nominal value of Public and Publicly Guaranteed (PPG) external debt in 2015/16 was estimated at 15.9 percent of GDP, and that of total public debt at 34.1 percent of GDP. PPG external debt indicators are projected to remain below their indicative thresholds. Total public debt also remains below respective thresholds, though stress tests lead to breaches in the event of an extreme shock, fiscal slippages and a severe natural disaster. Maintaining low risk of debt will likely require gradual consolidation of the fiscal position while continuing to strengthen economic resilience.[7]

[7] IMF, Staff Report for 2016 Article IV Consultation – Debt Sustainability Analysis

37. **Adequacy of macroeconomic policy framework:** The macroeconomic policy framework is adequate to proceed with a DPO. External shocks have widened macroeconomic imbalances in the past 18 months. Policy responses have been consistent with trying to sustain macroeconomic stability:

a. Fiscal adjustments: Medium-Term Fiscal Framework prepared for 2017/18 Budget process; tax administration reforms (e.g. rollout of Medium Taxpayers' Office starting in 2016/17); expenditure adjustments (2017/18 Budget approved by Parliament in March 2017); and further limits on the monetization of the deficit (borrowing strategy submitted to Parliament in March 2017);
b. Enhanced monetary policy capacity: enhanced capacity for liquidity forecasting to enable reserve money targeting as part of ongoing technical assistance; increased deposit auctions to tighten liquidity throughout 2016/17.
c. Modernizing financial sector regulations: Financial Institutions Law (January 2016) adopted to update financial sector regulation and supervision; key micro-prudential regulations prioritized for more accurate and reliable reporting on financial sector soundness.
d. Exchange rate flexibility: after initial attempts to impose administrative controls in mid-2015 on access to foreign exchange, the government has allowed depreciation from Kyat 1,080/USD to closer to Kyat1,360/USD recently. Exchange rate flexibility is key for building up external buffers.

38. **Macroeconomic risks:** There are several macroeconomic risks including: (i) persistently low commodity prices exacerbating fiscal and current account pressures; (ii) continued reliance on CBM financing of the deficit, adding to inflationary pressures; (iii) lack of banking sector supervision capacity and continued high credit growth exacerbating systemic risks to the financial sector; (iv) lack of policy communication, clarity and predictability further delaying private investments; (v) slowdown in China and global trade affecting Myanmar's ability to take advantage of export markets and recent removal of US sanctions; (vi) exchange rate pressures, including from potential hike in US Federal Reserve policy rate.

39. A combination of these factors enhance the risks of volatility in economic growth and therefore variance around the medium-term baseline projections, which could be high. Whilst some of the risks come from structural issues (e.g. narrow production base, relative dependence on commodity production), these can be exacerbated by weaknesses in the policy framework. Policy and institutional reforms, including those supported under the SRDPO, which could help promote economic productivity and competitiveness in the economy, could help mitigate the risks of growth volatility.

IMF RELATIONS

40. Myanmar is on the standard 12-month Article IV consultation cycle. The last Article IV consultation took place in October 2016. The IMF and the World Bank maintain very strong collaboration on macroeconomic and structural policy issues, including regular exchange of data and information. The design of the SRDPO benefited from early consultation with the IMF. There has been particularly close coordination on policy actions related to price stability, financial sector stability, enhanced revenue mobilization, and Public Finance Management. The IMF provides extensive Technical Assistance in all these policy areas. Myanmar is one of the largest recipients of IMF TA. There is very close coordination and exchange with existing Bank programs, particularly on: macroeconomic analysis; financial sector supervision; revenue reform; PFM; and statistics.

Table 2: Myanmar Fiscal Operations (% of GDP) [1, 2, 3]

	2013/14 PA	2014/15 PA	2015/16 PA	2016/17 BE	2017/18 P	2018/19 P	2019/20 P
	Consolidated Public Sector						
Revenue	**20.2**	**22.3**	**19.9**	**16.8**	**16.7**	**16.3**	**16.8**
Expenditure	**21.7**	**23.4**	**23.2**	**21.3**	**20.5**	**19.6**	**19.9**
Recurrent	14.0	16.4	17.0	16.1	15.5	15.0	15.1
Capital	7.6	6.9	6.2	5.2	4.9	4.7	4.8
Balance[4]	**-1.5**	**-1.1**	**-3.2**	**-4.5**	**-3.8**	**-3.3**	**-3.1**
Net Financing	1.5	1.1	3.2	4.5	3.8	3.3	3.1
Domestic	1.3	1.2	3.0	3.9	2.3	1.7	1.2
External	0.5	0.3	0.6	1.1	1.5	1.7	1.9
Other	-0.3	-0.4	-0.4	-0.5	0.0	0.0	0.0
	SEE Operations						
Revenue	**13.0**	**12.6**	**10.1**	**9.1**	**8.9**	**8.6**	**8.2**
Net of transfers to UG	10.0	9.8	7.6	7.3	7.1	6.8	6.6
Expenditure	**11.6**	**11.5**	**10.6**	**9.3**	**8.8**	**8.3**	**8.1**
Recurrent	9.6	9.9	9.3	8.1	7.7	7.2	7.1
Net of transfers to UG	6.6	7.2	6.7	6.3	5.9	5.5	5.5
Capital	2.0	1.5	1.3	1.2	1.1	1.0	1.0
SEE Balance	**1.4**	**1.1**	**-0.5**	**-0.2**	**0.1**	**0.3**	**0.1**
	Union Government						
Revenue	**10.2**	**12.4**	**12.4**	**9.6**	**9.6**	**9.5**	**10.2**
Tax	7.7	10.0	8.7	7.7	7.9	7.9	8.7
o/w Income	3.1	3.4	3.2	3.2	3.3	3.6	4.1
o/w Commercial	2.9	2.8	2.9	2.6	2.7	3.0	3.4
Non-Tax	2.4	2.2	3.4	1.4	1.3	1.2	1.2
Grants	0.1	0.3	0.3	0.4	0.4	0.4	0.4
Expenditure	**13.1**	**14.6**	**15.1**	**13.9**	**13.5**	**13.1**	**13.4**
Recurrent	7.4	9.3	10.3	9.8	9.7	9.5	9.6
Wages[5]	1.5	1.7	2.2	2.0	1.9	2.0	2.1
Transfers	1.0	2.6	2.7	2.4	2.2	2.0	1.9
Interest	1.1	1.1	1.0	1.1	1.3	1.4	1.4
Other	3.8	3.8	4.4	4.3	4.2	4.1	4.1
Capital	5.7	5.4	4.9	4.0	3.8	3.7	3.8
Union Government Balance	**-2.9**	**-2.2**	**-2.8**	**-4.3**	**-3.9**	**-3.7**	**-3.2**
Recurrent Balance	2.8	3.2	2.1	-0.3	-0.1	0.0	0.7
Primary Balance	-1.8	-1.1	-1.8	-3.2	-2.6	-2.3	-1.8
Memo item							
Nominal GDP (Billion Kyat)	58,012	65,262	72,780	84,745	98,007	113,013	129,792

Sources: MOPF, WB Staff estimates

1/ Differences between estimates presented in this table and IMF estimates (Annex C) for 2015/16 may be due to timing of data release. Projected figures differ partly due to different forecasts, including for GDP growth. The recently approved 2017/18 Union Budget envisages a large increase in the deficit (paragraph 32). The figures in Table 2 however are WB Staff estimates of expected fiscal outturns for 2017/18.

2/ BE = Budget estimates; P = Projections

3/ Union Government is the equivalent of General Government. SEE operations are equivalent to public sector financial and non-financial corporations. The consolidated public sector aggregates Union Government and SEE operations (netting out SEE payments to the Union Government).

4/ Fiscal balances are calculated on the basis of net financing (GFS standards)

5/ Excludes military wages, which are captured in “Other” recurrent expenditure.

C. THE GOVERNMENT'S PROGRAM

41. The government released its economic policy priorities at the end of July 2016, building on the NLD's election manifesto shared in October 2015. The policy priorities are set around 4 high level objectives, and 12 specific policy areas. The overarching objectives include: (i) national reconciliation and unity around a federal and democratic system of government; (ii) equitable development across States and Regions; (iii) creation of economic opportunities for the youth of the nation; (iv) sustainable and inclusive growth through innovation and people-centered development.

42. To achieve these objectives, the government has set out 12 specific areas of focus, including: (i) revenue mobilization through a strong and transparent PFM system; (ii) promotion of enterprise through support to Small and Medium sized Enterprises, reform of State Enterprises, and privatization; (iii) human resource capacity, including through support for vocational training; (iv) basic infrastructure services (electricity, roads, ports) and e-Government; (v) job creation for Myanmar residents and returnees; (vi) promotion of both the agriculture and the industrial sectors, to promote inclusive growth, including through the development of export industries; (vii) make the business regulatory environment more efficient, promote markets, and increase foreign investments; (viii) promote financial stability and financial inclusion for all; (ix) support sustainable urbanization, expansion of One Stop Shops across States and Regions, and protection of national heritage; (x) development of a fair and transparent tax system, and protection of property rights; (xi) adoption of rules and regulations for protection of intellectual property rights; and (xii) promote regional trade integration in ASEAN.

43. The government has established mechanisms to help coordinate economic policy reforms. An Economic Committee (EC) chaired by the State Counsellor reviews all economic policy proposals ahead of submission to the Cabinet. The EC is supported by a National Economic Coordination Committee (NECC), which reviews and proposes policy reforms and priorities, making recommendations to relevant authorities in government, including the EC. The NECC is chaired by the Minister of Planning and Finance, and includes among others the Minister of Commerce, Deputy Governors from the Central Bank of Myanmar, and the Chairman of the Economic and Financial Development Committee of the Parliament. The EC is also supported by a Development Assistance Coordination Unit (DACU), chaired by the State Counsellor, which reviews Overseas Development Assistance proposals, including the SRDPO, before they are submitted to the EC to ensure alignment with national development objectives.

44. The government has taken concrete actions since taking office to implement its economic policy priorities, including those covered under the SRDPO. These include but are not limited to: (i) the launch of the first treasury bond auctions in September 2016, in line with the government's Debt Management Reform Plan, and the development of a borrowing strategy that limits Central Bank financing of the budget deficit; (ii) preparation of a Medium-Term Fiscal Framework to set medium-term budget estimates within a sustainable fiscal framework as part of the 2017/18 budget preparation process; (iii) increased fiscal transparency with first time publication of detailed budget proposals in parallel to submission of these proposals to the Parliament; (iv) revision to PFM regulations, including launch of processes for PFM and Procurement Legislation, as part of an updated Public Finance Management Strategy; (v) implementation of the self-assessment system in the Medium-Tax Payer Office as part of the government's tax modernization strategy; (vi) merger of the Ministry of Energy and the Ministry of Electric Power to better coordinate energy sector policy, and with World Bank support, progress on energy pricing reform.

D. THE PROPOSED OPERATION

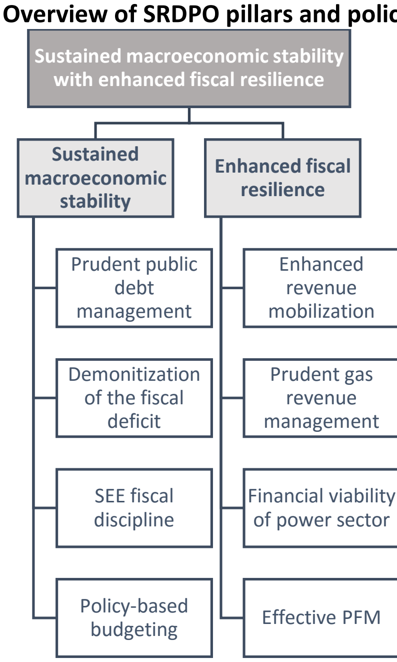
LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

45. The SRDPO would support policy and institutional actions under the Government's economic policy priorities, which are critical to modernizing economic management and building an effective State. These include priority actions to sustain macroeconomic stability, which is a precondition to sustainable and inclusive growth. It also includes measures to enhance fiscal resilience, which is critical to creating and sustaining fiscal space for public service delivery and poverty reduction.

46. The two pillars of the SRDPO operation are interrelated, as are the actions within them. Within pillar 1, improved public debt management is expected to diversify fiscal deficit financing and gradually eliminate dependence on Central Bank monetization. Actions to promote the fiscal discipline and oversight of SEEs should help reduce overall public sector financing needs. Policy-based budgeting reforms should help balance fiscal prudence with the need to promote long-term public investment. Within pillar 2, enhanced revenue mobilization and prudent gas revenue management should help generate additional fiscal space and protect critical spending from future economic shocks. These will be complemented with efforts to generate further savings through reduced subsidy to the power sector. The final set of actions aim to promote more effective and efficient use of the additional fiscal space through PFM reforms.

47. Experience from other fragile and conflict affected countries illustrate the role that DPOs can play in strengthening the long-term foundations for stability and economic development. The SRDPO does not seek to directly tackle the drivers of conflict in Myanmar but could be important to conflict resolution by helping to create the necessary conditions for inclusive growth. This includes closer dialogue on the budget, which in recent years has been aligning gradually to Myanmar's development needs, with increased spending on priority economic and social services. Progress on economic reforms and the peace process can be mutually reinforcing. Having one without the other could at best maintain the status quo and at worse aggravate the situation. The World Bank supports the peace process directly through various other channels, including as a founding member of the Peace Support Group.

Fig 6: Overview of SRDPO pillars and policy areas



PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

Pillar 1: Sustained macroeconomic stability

1.1 Prudent public debt management

48. **Rationale:** Ongoing fiscal pressures and greater financing options have increased the urgency for strengthening public debt management for fiscal sustainability and macroeconomic stability. Public debt levels declined from 77 percent of GDP in 2007 to 34 percent in 2015 thanks to arrears clearance and debt rescheduling. Until recently, however, there was no consolidated legal framework for public debt management. The Constitution (2008) empowers the Pyidaungsu Hluttaw (Parliament) to decide on state borrowing submitted by the President. However, the role of the Ministry of Planning and Finance (MOPF) was not clear, and line ministries have historically been able to borrow directly from and service debt to external creditors. This fragmented public debt management and enhanced fiscal risks.

49. **Reforms:** The DPO would support the government's Debt Management Reform Plan (2013) to enhance its capacity to proactively manage existing debt and future borrowing in a sustainable manner. Government-wide debt management functions were recently consolidated into a newly established Treasury Department (2014). External debt data is being transferred to a Commonwealth Secretariat Debt Recording and Management System with support from the ADB for reliable and comprehensive reporting.

50. Government security auctions have been launched and external concessional borrowing resumed. This has helped diversify financing sources, which are more in line with longer-term public investment needs. A debt strategy was produced for the first time and submitted to Parliament in 2016. Direct borrowing by line ministries and SEEs have ceased. Enshrining into law centralized borrowing and guarantees within the MOPF could facilitate better fiscal management and debt control. To set the framework for the modernization of public debt management, the government prepared a new Public Debt Management Law, supported by the ADB and the World Bank, which was approved by Parliament in early 2016.

51. **Prior action:** *GOM has centralized public debt management functions in the MOPF, precluding any public sector body, including ministries and state-owned economic enterprises from independently contracting debt, as evidenced through the adoption of the Public Debt Management Law (Pyidaungsu Hluttaw Law No. 2/2016)*. This action is expected to set the legal framework for public debt management, including adoption of a rolling debt strategy (SRDPO-2) and publication of debt information (SRDPO-3).

52. **Future actions:**

SRDPO-2: *GOM has published on the MOPF website a rolling medium-term debt strategy with costs and risks of financing choices on the public debt portfolio*	**SRDPO-3:** *GOM has published on the MOPF website an annual public debt bulletin on the levels and breakdown of domestic and external debt*

53. **Results:**

Baseline	Target 2020/21
There is currently no public report on implementation of borrowing targets agreed in the Budget Law	Published MTDS assesses past year's implementation of borrowing plan, and implications for medium-term borrowing

1.2 Demonetization of the fiscal deficit

54. **Rationale**: Public sector financing through CBM purchase of short-term treasury bills (monetization of the budget deficit) has historically been a big driver of monetary expansion, macroeconomic imbalances, and inflationary pressures. Monetization had been on a declining trend since 2010, thanks in part to improvements in domestic revenue mobilization, which helped contain fiscal imbalances. Fiscal pressures in 2015/16 however led to a sharp rise in monetization, which contributed to underlying demand, adding to inflationary pressures from a food supply shock. This has prompted renewed urgency to curb borrowing from CBM.

55. **Reforms:** The DPO proposes to support the government's efforts to gradually phase out monetization of the budget deficit. In this regard, the government has recently adopted limits on CBM lending (40 percent of gross financing needs for 2016/17). It has also started paying more market-orientated interest on CBM financing starting in 2016/17 (around 7-8 percent), moving away from the longstanding flat rate of 4 percent. This provides a disincentive for monetization and is also consistent with development of the domestic debt market.

56. Efforts are underway to develop the domestic debt market, which could over time help reduce dependence on monetization. The government has expanded Treasury-Bill auctions since early 2016/17, including through the introduction of longer tenure bills (6 and 12-month bills). In addition to this, the government also launched Treasury Bond auctions in September 2016. Treasury-Bonds could gradually help to rebalance the domestic debt portfolio towards longer-term liabilities. The government has also prepared a borrowing strategy to help make the most of access to external concessional finance.

57. **Prior action:** *GOM has: (a) instructed that the CBM charges market interest rates*[8] *on CBM financing of the Union budget deficit from fiscal year 2016/17 onwards, as evidenced through the letter from the Union Cabinet to CBM dated July 7, 2016; (b) submitted a debt strategy to Parliament that sets out the government's borrowing plan for the 2017/18 fiscal year and limits CBM financing of the 2017/18 budget deficit to 30 percent of deficit financing requirement, as evidenced through the copy of the strategy, the Union Minister of Planning and Finance's speech to the Parliament uploaded on the MOPF's website, and the letter from the Treasury Department of MOPF to the Association, dated March 23, 2017; and (c) launched treasury-bond auctions, as evidenced through the treasury bonds offering memorandum and the auction results uploaded on the CBM website.* This action is expected to reduce incentives to borrow from CBM, legally limit such borrowing, and expand market-based instruments for deficit financing.

58. **Future actions:**

SRDPO-2: *GOM has: (a) limited in its medium-term debt strategy CBM financing of the budget deficit for fiscal year 2019/20 to less than 20 percent of deficit financing requirement; and (b) established a CBM monetary policy committee to formulate, coordinate and communicate monetary policy.*	**SRDPO-3:** *GOM has eliminated from its medium-term debt strategy CBM financing of the budget deficit outside of selected exceptional circumstances set out in regulations.*

59. **Results:**

Baseline	Target 2020/21
Share of CBM financing of the budget deficit in 2016/17: < 40%	0%

[8] The average interest rate as determined in bi-monthly Treasury Bill auctions.

1.3 State Economic Enterprises' fiscal discipline

60. **Rationale:** State Economic Enterprises (SEEs) have made net positive contributions to the Union Budget in recent years though risks have emerged. Positive contributions have been driven by the gas sector, accounting for around 50 percent of total SEE tax and non-tax payments. This has masked losses across at least 11 SEEs. In addition, the reintegration of 12 SEEs into ministries as administrative departments eliminates their income tax and contribution payments to the Union Budget. SEEs' operational balances are deteriorating (and Union Budget subsidies increasing) due to the gas sector outlook, low productivity commercial SEEs, and growing demands on the Electric Power Enterprise. At the same time, SEEs are able to retain 55 percent of their net profits in their "Own Accounts" to cover selected recurrent costs, in addition to financing out of the Union Budget. Remaining balances are rolled over to the next year.

61. **Reforms:** The DPO proposes to support policies that enable proactive management of the fiscal burden from SEEs, including strengthened capacity to monitor their financial and operational performance. In light of growing fiscal pressures from SEEs, the government adopted a policy that requires those SEEs that are profitable and have sufficient balances in their Own Accounts (defined as balances in excess of recurrent expenditure needs) to gradually cover a growing share of their recurrent costs out of those Own Accounts. This reform helps to reduce the burden on Union Budget financing of SEEs.

62. The MOPF has a relatively complete and consistent set of financial and operational performance information for SEEs. The classification of SEE accounts is broadly consistent with general government receipts and expenditure, which enables presentation of consolidated public sector accounts. The ongoing PER is supporting government efforts to better analyze the available information. In addition, under the new Public Debt Law, guarantees and loans can only be issued by the MOPF and must also be approved by parliament, which is an important step forward in centralizing the decision-making on borrowing.

63. **Prior action:** *GOM has: (a) required state-owned economic enterprises with sufficient own account balances to cover all their recurrent expenditures out of their own accounts in fiscal year 2017/18, as evidenced through a section on the state-owned economic enterprises' revenues and expenditures in the draft Union budget law submitted to Parliament and uploaded on the MOPF website, and the letter issued by the Union Minister of Finance and Planning to all Union Government agencies dated November 22, 2016; and (b) consolidated the audits of own accounts of all state-owned economic enterprises for fiscal year 2015/16 to determine carry over, as evidenced through the summary statement of audit results submitted by the Union Minister of Planning and Finance to the Economic Committee under the Union Cabinet dated February 7, 2017*. This action would enhance SEE transparency and help reduce the fiscal burden on the Union Budget.

64. **Future actions:**

SRDPO-2: *GOM has: (a) approved a policy on state-owned economic enterprises' own accounts to enhance transparency and clarify rules on the transfer of their net profits to the Union budget; and (b) adopted a policy to distinguish commercial and public benefit entities.*	**SRDPO-3:** *GOM has started annual publication of state-owned economic enterprises' operational and financial performance information.*

65. **Results:**

Baseline	Target 2020/21
SEE overall balance as % of GDP: - 0.5% in 2015/16	> 0.5%

1.4 Policy-Based Budgeting

66. **Rationale:** Myanmar has in the past implemented incremental budgets with little to no policy foundation. The revenue base was very narrow (6.3 percent of GDP in 2009, which increased to 11 percent in 2015) and general government spending was far below public service needs (7.2 percent of GDP in 2009, which increased to 16 percent in 2015). This meant underspending in priority areas including education (0.7 percent of GDP in 2011 compared to 3.3 percent average in LMICs), health (0.3 percent of GDP in 2011 compared to 3 percent average in LMICs), and productive capital investments more generally. These resulted in low access to and outcomes on socio-economic services.

67. **Reforms:** Myanmar has since 2011 gradually transitioned towards policy-based budgeting. This started with a major realignment of spending, away from general public services and towards education, which saw a near doubling in its share of budget to over 15 percent in 2015, and health, which saw a tripling in its share of the budget to over 8 percent the same year. This was achieved while maintaining aggregate fiscal discipline, with deficits below 4 percent of GDP over the same period.

68. This was followed by the introduction of a Medium Term Fiscal Framework (MTFF) in 2014, which integrates expenditure, revenue and debt forecasts within a single analytical framework. It is updated regularly by a cross departmental team and is used to inform revenue targets, issuance of top-down expenditure ceilings to line ministries, and intergovernmental fiscal transfers. It also enables to estimate the budget deficit according to international standards/net financing needs. The next major reform on policy-based budgeting is to improve the allocation and implementation of public investments. A lack of project prioritization and appraisal contributes to allocative inefficiencies, as discussed in an upcoming Public Expenditure Review. The government has reinitiated appraisal requirements since 2016/17 and is developing updated guidelines, which would be supported by SRDPO.

69. **Prior action:** *GOM has: (a) submitted to Parliament the consolidated Union budget for fiscal year 2017/18 based on GOM's rolling medium-term fiscal framework with medium-term revenue projections, expenditure estimates and deficit targets, as evidenced through the draft Union budget law and Union Minister of Planning and Finance's speech to Parliament uploaded on the MOPF website; and (b) publicly released prior to Parliamentary approval the 2017/18 executive budget proposal submitted to Parliament and the 2017/18 Union budget summary book, as evidenced through the publication of these documents on the MOPF website.* This action will help enhance transparency, coverage and comprehensiveness of the government's medium-term fiscal policy priorities and objectives.

70. **Future actions:**

SRDPO-2: *GOM has adopted new capital project prioritization and appraisal guidelines for all new large capital projects.*	**SRDPO-3:** *GOM has adopted a medium term public investment plan linked to GOM's medium-term fiscal framework, which enables multi-year commitments for capital projects.*

71. **Results:**

Baseline	Target
Non-gas revenue variance relative to budget: > 15 percent in the past 3 fiscal years	< 10 percent in the past 3 fiscal years
Capital spending variance relative to budget: >10 percent in the past 3 years	< 10 percent in the past 3 fiscal years

Pillar 2: Enhanced fiscal resilience

2.1 Enhanced revenue mobilization

72. **Rationale:** Increasing domestic revenue through a more transparent and efficient taxation system is critical for economic resilience. The tax to GDP ratio in 2015/16 was only 8.6 percent. Given large expenditure needs on the one hand, and limited financing options on the other, tax collections will be central to fiscal adjustment and stability in Myanmar. The government has embarked on a medium term tax reform program that aims to simplify tax policy and improve tax administration. This includes transitioning from an opaque, discretionary, practice-based tax system with unclear rules and regulations, to a more transparent, predictable, and rules based one with a clearer tax code and procedures.

73. **Reforms:** Recent *tax policy reforms* include the introduction of a Special Goods Tax Law (Excise Tax) from April 1, 2016 and rationalization of tax rates for Commercial Taxes. Over the course of the last two years the authorities have expanded coverage of income taxes to enterprises run by the military, as well as to civil servants, which have helped expand the tax base. The government has also started a process of rationalizing tax incentives. Concurrently, since 2013 the government has been undertaking wide ranging *tax administration reforms,* including: organizational restructuring of the Internal Revenue Department (IRD) from a tax-type organization to a function based organization; establishment of a Large Taxpayer's Office (2014); and a move from an Official Assessment System (OAS) to a Self-Assessment System (SAS) for LTO (2014) and the first Medium-Tax Payers' Office (MTO, 2016). The SAS is a fundamental transformation in tax administration. Under the OAS, the IRD issued tax assessments and the final tax liability was negotiated with taxpayers, increasing vulnerability to corruption. With the OAS, taxpayers submit their returns, and tax audits are conducted based on a risk based framework.

74. Notwithstanding these reforms, challenges remain. On *tax policy*: the income tax code is fragmented and unclear allowing for discretionary interpretation and application by tax collectors; Tax incentive granting authority is provided outside the tax code with no published statement on tax expenditures; and the withholding tax regulation is not integrated into the income tax law. On *tax administration*: the SAS system has only started out for large taxpayers; medium and small taxpayers still face all the problems associated with the OAS. And importantly, functional responsibilities of tax administration and associated rights and responsibilities of taxpayers are not yet codified.

75. **Prior action: *GOM has:*** *GOM has: (a) achieved compliance rates of at least 90 percent for income tax filing under the self-assessment system for fiscal year 2015/16, as evidenced through the report submitted by the Large Taxpayers' Office to the Internal Revenue Department Headquarter dated October 11, 2016; (b) adopted the Special Goods Tax Law, as evidenced through the copy of Pyidaungsu Hluttaw Law No. 11/2016; and (c) reorganized the internal structure of the Headquarter and Self -Assessment Offices of the Internal Revenue Department from a tax instrument-based structure into a function-based one, as evidenced through the letter, dated January 27, 2016, from the Internal Revenue Department to the Union Minister of Planning and Finance.* These actions should help to expand the tax base and promote the transparency, fairness and simplicity of the tax system.

76. **Future actions:**

SRDPO-2: *GOM has: (a) submitted to Parliament a revised Income Tax code, including policy on tax incentives; and (b) rolled out the income tax self-assessment system to MTO in Mandalay and Yangon.*	**SRDPO-3:** *GOM has: (a) implemented the revised Income Tax code; and (b) completed the roll-out of the income tax self-assessment system across 3 MTOs, including adoption of a compliance risk management strategy.*

77. **Results:**

Baseline	Target 2020/21
Commercial and income tax to GDP ratio in 2015/16: 5.9 percent	> 7 percent
Share of tax payers under SAS: 7 percent	> 70 percent

2.2 Prudent gas revenue management

78. **Rationale:** Managing potential gas revenue volatility could be critical for fiscal prudence and public investments in Myanmar. Gas revenue is conservatively estimated at an average of 2 percent of GDP per year, or between 15 and 20 percent of Union Government revenues. Data from the last three fiscal years suggest a consistent overestimation of gas receipts in the Union Budget. Tax payments and contributions from state participation in the gas sector through MOGE was on average overestimated by around 30 percent in the Union Budget. Resulting cuts to expenditure were offset by significant underestimation in non-gas receipts. As non-gas revenue projections improve, however, greater transparency and improved estimates of gas revenue could be critical to better plan for and protect high priority public investments. At the moment, despite the importance of gas receipts for the Union Budget, the MOPF does not proactively manage these beyond tax collections.

79. **Reforms:** Myanmar in 2014 became a candidate country for the Extractive Industries Transparency Initiative. The first EITI report was published in January, 2016, a major milestone in enhancing transparency in the oil and gas sector. The government is also working with the Norway Oil for Development Program (NODP) and the IMF to help strengthen its overall oil and gas revenue management framework. This could include review of existing Petroleum sector legislation, training on petroleum tax audits, advice on fiscal rules, budget transparency, and possibly a Natural Resource Fund.

80. There is no prior action in this area for SRDPO-1, however, it is proposed that the government publishes information on the oil and gas sector in its 2017-2018 budget proposals to Parliament. The MOPF could build on this to strengthen capacity for managing the macroeconomic impact of oil and gas revenue volatility. This would include by SRDPO-2 the inclusion of gas revenue forecasts in the MTFF statement, and by SRDPO-3 a stabilization mechanism that enables smoothing of expenditure over the resource cycle. Embarking on this now could be critical in preparation for new fields coming on stream.

81. **Future actions:**

DPO-2: *GOM has: (a) instructed the regular provision of gas revenue forecasts from the Ministry of Electricity and Energy to the MOPF; and (b) included forecast of public sector gas revenues in the annual medium-term fiscal framework statement to Parliament, including underlying assumptions and high, baseline and low case scenarios.*	**DPO-3:** *GOM has adopted a stabilization mechanism with fiscal benchmarks that protect critical government expenditure from gas revenue volatility.*

82. **Results:**

Baseline	Target 2020/21
Gas revenue estimates for coming fiscal year published in Citizens' Budget	Publication of medium-term forecasts of gas revenue to the public sector, including underlying assumptions (price, production), and alternative scenarios

2.3 Financial viability of the power sector

83. **Rationale:** Two-thirds of Myanmar's population is not connected to the national electricity grid, and 84 percent of rural households lack access to electricity. This situation could drastically change with Myanmar's ambitious target to achieve universal access to electricity by 2030. The estimated investment required is on the order of 2 billion US dollars annually, a substantial increase from less than 1 billion annually in recent years. Both public and private financing will be required, hence it is crucial for Myanmar's power sector entities to have a sound financial status to attract the required financing.

84. The financial viability of power sector has been on a steady decline over the last couple of years. For example, the cost recovery of average electricity tariff dropped from about 95% in 2014 to less than 70% in 2015. The loss of financial viability is the single largest risk for improving access to electricity and reliability of power supply in the country. Also, the increasing financial losses in the power sector, which reached 500 Billion Kyat in 2015 (i.e. about 0.5% of GDP) represent a quasi-fiscal deficit and pose a major macroeconomic risk. These risks can be mitigated through power sector reforms which are urgently needed to improve sector performance, achieve stated electrification objectives and mitigate fiscal pressures.

85. **Reforms:** In order for Myanmar's power sector entities to regain a sound financial status, it is necessary to increase revenue from electricity services to cover capital, operating and maintenance cost. In parallel, cost savings can be attained from increasing efficiency in power generation and power grid operations. To increase revenue, a multi-year new electricity tariff structure that supports power supply expansion and minimizes fiscal burden through better targeted subsidies is urgently required. During 2016 under the IDA-funded Electric Power Project, MOEE had prepared a Financial Viability Plan for the electric power sector to address financial challenges in the coming years. The proposed DPO takes this a step further by helping to agree time-bound actions based on the FVP that MOEE is taking and planning to take. For instance, MOEE will be designing new electricity tariff/subsidies structure and propose for Government approval and implementation during the course of the DPO. Moreover, establishing the Electricity Regulatory Commission (ERC), as envisaged under the 2014 Electricity Law, would go a long way in creating institutional basis for power market reform including development of new tariff system.

86. **Prior action:** *The Ministry of Electricity and Energy has furnished a financial viability plan for the electric power sector to completely eliminate over 5 years, the gap in operating revenue and expenditure of government-owned electric power utilities in Myanmar, as evidenced through the letter, dated March 13, 2017 from the Ministry of Electricity and Energy to the Association, appending the plan.* This action will help ensure a dedicated effort to introduce and execute a multi-year new electricity tariff structure, paving the way toward a full cost recovery of electricity supply.

87. **Future actions:**

DPO-2: *GOM has adopted a pricing policy toward full operating cost recovery over 4 years, with appropriate provision for targeted and fiscally affordable support for vulnerable consumers.*	**DPO-3:** *GOM has implemented the earlier adopted pricing policy to achieve full operating cost recovery of the economic cost of gas and electricity supply.*

88. **Results:**

Baseline	Target 2020/21
Government-owned Electric Power Utilities' operating balance FY2016/17: - 357 Billion Kyat	FY2018-2019: (- 200 Billion Kyat) FY2020-2021: Positive balance

2.4 Effective Public Finance Management

89. **Rationale:** The government is looking to accelerate and improve quality of spending on public services. Myanmar's Financial Management Regulation (FMR) emphasize input controls and limit flexibility of front-line service providers. The FMR document is an important means of ensuring public financial accountability and, in the absence of an organic Budget Law, is the single most important guiding document for efficient and effective use of public resources. Complementary to this are reforms relating to public procurement, which historically has been decentralized, and not guided by consistent policy. Different rules and procedures are applied across ministries, which seem to place an emphasis on integrity (control of corruption) and quality, with little attention to economy, efficiency, consistency or value for money.

90. **Reforms:** The proposed DPO will support amendments to the Myanmar Financial Management Regulation that impedes front line service delivery, and strengthened regulations governing public procurement. It is anticipated that the MOPF will issue instructions that authorize departments to set financial management arrangements for facility grant programs and standardize procurement policies and practices.

91. This is expected to give line ministries the necessary authorizing framework to clarify arrangements with the MOPF and Office of Auditor General (OAG) on how funds can be allocated, used and reported on. It is expected that the FMR will also allow in some instances for funds to be carried over from one financial year to the next. In order to relax controls on purchasing low-value items, regulations will be issued for a monetary threshold under which items lasting more than one year can be procured using recurrent budget resources. Rules regarding travel allowances are also expected to be updated so that staff, who are required to travel for their jobs (e.g. mid-wives), can be reimbursed

92. Prior action:[9] *GOM has: (a) pre-approved an updated Myanmar Financial Management Regulation that simplifies financial management procedures to facilitate more efficient public service delivery, as evidenced through the copy of the said regulation and the letter from MOPF to the Association, dated March 30, 2017; (b) reestablished the Public Procurement Rules and Regulation Supervision Committee to lead procurement reform, as evidenced through order notification No. 138/2016 from MOPF dated August 31, 2016; and (c) pre-approved updated Procurement Directives to harmonize procurement practices among spending agencies, as evidenced through the copy of the said directives and the letter from MOPF to the Association, dated March 30, 2017.*

93. **Future actions:**

SRDPO-2: *GOM has presented to Parliament: (a) Procurement Law in line with good practice which would apply across the public sector nationwide; (b) an organic*	**SRDPO-3:** *GOM has published on the MOPF website the fiscal policy statement, executives budget proposal, approved*

[9] The Myanmar Financial Management Regulation and the Procurement Directives have been pre-approved by MOPF and the Economic Committee under the Cabinet, and is subject to final approval by the Cabinet.

Public Finance Law which provides functional responsibilities for fiscal management across the public sector.	*budget, revised estimates and annual budget execution reports.*

94. **Results:**

Baseline	Target 2020/21
Timely publication of fiscal reports: Approved budget within one month.	Fiscal policy statement, budget proposal, approved budget, quarterly execution reports, audited reports within deadlines
Health budget outturn: < 90% in last 3 years	> 95% in the last three years
Education budget outturn: < 90% in last 3 years	> 95% in the last three years

Table 3: Status of prior actions and analytical underpinnings

Prior action	Analysis
1.1 GOM has centralized public debt management functions in the MOPF, precluding any public sector body, including ministries and state-owned economic enterprises from independently contracting debt, as evidenced through the adoption of the Public Debt Management Law (Pyidaungsu Hluttaw Law No. 2/2016).	Public Debt Management Reform Plan (2013); PER-1 (2015); PER-2 (ongoing)
1.2 GOM has: (a) instructed that the Central Bank of Myanmar charges market interest rates[10] on CBM financing of the Union Budget deficit from fiscal year 2016/17 onwards, as evidenced through the letter from the Union Cabinet to CBM dated July 7, 2016; (b) submitted a debt strategy to Parliament that sets out the government's borrowing plan for the 2017/18 fiscal year and limits CBM financing of the 2017/18 budget deficit to 30 percent of deficit financing requirement, as evidenced through the copy of the strategy, the Union Minister of Planning and Finance's speech to the Parliament uploaded on the MOPF website, and the letter from the Treasury Department of MOPF to the Association, dated March 23, 2017; and (c) launched treasury-bond auctions, as evidenced through the treasury bonds offering memorandum and the auction results uploaded on the CBM website.	PER-1 (2015); PER-2 (ongoing); Myanmar Economic Monitor (2015/16)
1.3 GOM has: (a) required state-owned economic enterprises with sufficient own account balances to cover all their recurrent expenditures out of their own accounts in fiscal year 2017/18, as evidenced through a section on the state-owned economic enterprises' revenues and expenditures in the draft Union budget law submitted to Parliament and uploaded on the MOPF website, and the letter issued by the Union Minister of Finance and Planning to all Union Government agencies dated November 22, 2016; and (b) consolidated the audits of own accounts of all state-owned economic enterprises for fiscal year 2015/16 to determine carry over, as evidenced through the summary statement of audit results submitted by the Union Minister of Planning and Finance to the Economic Committee under the Union Cabinet dated February 7, 2017.	PER-1 (2015); PER-2 (ongoing)
1.4 GOM has: (a) submitted to Parliament the consolidated Union budget for fiscal year 2017/18 based on GOM's rolling medium-term fiscal framework with medium-term revenue projections, expenditure estimates and deficit targets, as evidenced through the draft Union budget law and Union Minister	Public Expenditure and Financial Accountability Review (2013); PER-1; Health sector PFM

[10] The average interest rate as determined in bi-monthly Treasury Bill auctions.

Prior action	Analysis
of Planning and Finance's speech to Parliament uploaded on the MOPF website; and (b) publicly released prior to Parliamentary approval the 2017/18 executive budget proposal submitted to Parliament and the 2017/18 Union budget summary book, as evidenced through the publication of these documents on the MOPF website.	Review (2016)
2.1 GOM has: (a) achieved compliance rates of at least 90 percent for income tax filing under the self-assessment system for fiscal year 2015/16, as evidenced through the report submitted by the Large Taxpayers' Office to the Internal Revenue Department Headquarter dated October 11, 2016; (b) adopted the Special Goods Tax Law, as evidenced through the copy of Pyidaungsu Hluttaw Law No. 11/2016; and (c) reorganized the internal structure of the Headquarter and Self -Assessment Offices of the Internal Revenue Department from a tax instrument-based structure into a function-based one, as evidenced through the letter, dated January 27, 2016, from the Internal Revenue Department to the Union Minister of Planning and Finance.	Tax Administration Reform Report (2013); PER-1 (2015)
2.3 The Ministry of Electricity and Energy has furnished a financial viability plan for the electric power sector to completely eliminate over 5 years, the gap in operating revenue and expenditure of government-owned electric power utilities in Myanmar, as evidenced through the letter, dated March 13, 2017 from the Ministry of Electricity and Energy to the Association, appending the plan.	Power sector financial viability action plan (2016); PSIA for Myanmar electrification (2014); Design of electricity tariffs and subsidies (2016/17)
2.4 GOM has: (a) pre-approved an updated Myanmar Financial Management Regulation that simplifies financial management procedures to facilitate more efficient public service delivery, as evidenced through the copy of the said regulation and the letter from MOPF to the Association, dated March 30, 2017; (b) reestablished the Public Procurement Rules and Regulation Supervision Committee to lead procurement, as evidenced through order notification No. 138/2016 from MOPF dated August 31, 2016; and (c) pre-approved updated Procurement Directives to harmonize procurement practices among spending agencies, as evidenced through the copy of the said directives and the letter from MOPF to the Association, dated March 30, 2017	PER-1 (2015); PER-2 (ongoing).

LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

95. The objectives of the programmatic DPO are consistent with the key priorities laid out in the current CPF FY15-FY17 (Report No. 95183-MM). Based on the pathways identified in the SCD (Report No. 93050-MM) and a set of selectivity criteria,[11] the CPF outlines a World Bank Group (WBG) program in three focus areas –reducing rural poverty; investing in people and effective institutions for people; and supporting a dynamic private sector to create jobs. The proposed DPO, which is part of the CPF, supports the 2nd focus area, though will also have beneficial impacts for the other two areas. Macroeconomic stability and economic resilience are preconditions for delivery of results in all three focus areas, whereas strengthened institutions for public service delivery links directly to focus area 2.

[11] The criteria are: comparative advantage; impact on the twin goals; and risk-reward ratio.

96. The SRDPO builds on an earlier arrears clearance and re-engagement development policy operation that supported Myanmar. The re-engagement DPO, approved in January 2013, supported Myanmar's critical reforms for strengthening macroeconomic stability, improving public financial management and the investment climate. The DPO also facilitated the clearance of Myanmar's arrears to IDA, which was required in order to restore normal relations between Myanmar and the World Bank Group.

97. The SRDPO is closely coordinated with the ongoing IDA projects on PFM, energy, health, and education, and the Financial Sector Development Program (FSDP). In particular, SRDPO pillar 1 engagement complements ongoing Finance and Markets GP TA and the FSDP to promote macro-financial stability. Pillar 2 actions on revenue mobilization and PFM are coordinated closely with the PFM project, and also the health and education projects, which have identified policy constraints to service delivery that the SRDPO proposes to address. Energy sector actions are aligned with the ongoing National Electrification Project, together with other technical assistance provided by the Energy GP. In parallel to the SRDPO, the World Bank and the Government of Myanmar are working on a private sector competitiveness DPO, focused on business regulations and trade facilitation reforms.

CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

98. The Government and the World Bank have consulted on the reforms to be supported by the proposed SRDPO. The government has sought views of various stakeholders through publication of draft Bills on government websites, and workshops to discuss policy proposals. This includes for example consultations on the regulations under the Financial Institutions Law with private banks; discussion on procurement-related reforms with Civil Society and the private sector; and regular exchange of views on PFM reforms in the government-donor PFM Sector Working Group.

99. The World Bank and IMF have continue to cooperate and work closely in Myanmar. Following the Government of Myanmar's successful implementation of the IMF supported Staff Monitored Program (SMP), the IMF has continued to provide policy advice and technical assistance to Myanmar Central Bank, and in the areas of tax policy and administration, public financial management, and statistics. The Bank has worked closely with the EU, which is currently developing a budget support operation, to ensure alignment and harmonization of supported reforms. In addition, the Bank coordinates with other development partners through the former Development Partners' Group (and Working Committee), which was recently reconstituted into the Cooperation Partners' Group.

100. The Bank is also harmonizing and aligning with other Development Partners through the Myanmar Partnership Multi-Donor Trust Fund (MDTF), established as a country-level WBG trust fund. The MDTF is designed jointly with the UK Department for International Development (DFID) the Australian Department of Foreign Affairs and Trade (DFAT), and the Royal Kingdom of Denmark. The MDTF provides a vehicle for Development Partners to work collaboratively to support government development priorities and the WBG program in Myanmar. The MDTF allows for financing and co-financing for projects, analytical work, and joint technical assistance across all entities of the World Bank Group. The MDTF has four windows (social inclusion; institutional strengthening; enhanced implementation support; and private sector development) but provides flexibility to expand to other areas as needed.

E. OTHER DESIGN AND APPRAISAL ISSUES

POVERTY AND SOCIAL IMPACT ASSESSMENT

101. Macroeconomic stability, resilience and public services are essential for businesses and households to make informed economic plans and protect poor households from economic shocks. Poor households, particularly those in urban areas, have limited absorptive capacity to mitigate food price inflation or to manage unanticipated changes to output prices.[12] Poorer households faced with economic difficulties report cutting back on the quantity and quality of food that they consume, and also take actions that reduce their longer term ability to bounce back.[13] Households remain highly susceptible to shocks, particularly to climatic variation that influences production in agriculture, health shocks and to overall price and macroeconomic stability.

102. The prior actions for SRDPO-1 could overall have a beneficial impact on poor or vulnerable people through reduction in price pressures. They are also expected to have a positive impact on the poor over the medium and longer term by improving and extending public services, and providing a more stable macroeconomic environment to enable longer term planning. The reforms supported in SRDPO-1 seek to mitigate risks to economic stability while also expanding fiscal space and improving public service delivery. A summary assessment of potential positive or negative impacts of reforms under each pillar is provided below.

103. Pillar 1 focuses on sustaining macroeconomic stability. The prior actions supported under this pillar could likely have a positive impact on the poor and vulnerable. Food price inflation has been identified in previous analysis as a key source of welfare fluctuation for poor households in Myanmar. Although more recently supply factors relative to demand factors drove food price inflation, SRDPO-1 reforms help to manage underlying demand that leads to a general increase in the level of prices, including food prices.[14] This is expected to help contain broader inflationary pressures that could otherwise crowd out essential consumption for poor households.

104. Pillar 2 actions focus on building buffers to better manage risks and shocks to help protect public spending directed at the poor. The prior actions under pillar two are anticipated to have a positive long-term direct impact on Myanmar's poor and vulnerable. The prior actions supported under this pillar have

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[12] Using polling data from more than 30 thousand households in 38 countries, and allowing for country effects, Easterly and Fisher show that the poor are more likely than the rich to mention inflation as a top national concern. Cross-country data confirm the poor's share of national income, the percentage change in the real minimum wage, and decline in poverty, are negatively correlated with inflation. Easterly and Fisher (2000), World Bank Policy Research Working Paper 2335.

[13] Questions around food adequacy and coping strategies in the face of shocks were asked in the Myanmar Poverty and Living Conditions Survey, conducted in 2015. Evidence from MPLCS and QSEM on coping mechanisms. Approximately a quarter of bottom 40 percent households responded to a shock by reducing food expenditures. Reducing food expenditures in the face of shocks was found to be more prevalent among the urban poor, likely a reflection of their greater reliance on purchased rather than home-produced food. Female headed households tend to be slightly better off than male headed households in Myanmar, on average; they are slightly less likely to report having to reduce food expenditures in the face of shocks.

[14] Among rural and poorer households, just over 20 percent of food consumed is self-produced or received as an in-kind transfer, while among urban households less than 5 percent comes through these channels. Poorer households in urban areas and poorer landless households in rural areas were the most likely to report being negatively impacted by food price inflation in early 2015.

the potential to improve the government's ability to sustain and potentially expand service delivery through increasing the fiscal space available to spend on disadvantaged and vulnerable households.[15] The ongoing effort to widen the tax collection efforts through self-assessment, with its current focus on large taxpayers, is unlikely to impact poorer households or vulnerable groups who will not be covered by this widening of the tax net.[16]

105. The prior actions on strengthening the planning and budgeting processes in government and improving public financial management are anticipated to have a long-term direct positive impact on the poor in this first phase of the proposed operation. They are anticipated to help improve service delivery to poorer households and to ensure an improved prioritization of resources to meet the longer-term needs of poorer households. The current financial rules and regulations, in particular, impede the delivery of key services to rural and remote households and are a significant blockage to the receipt of services among poorer, remote communities. Reforms the rules and regulations around travel allowances and procurement procedures are likely to relieve a public service delivery blockage that particularly affects poor households.

106. Together with the Myanmar National Electrification Plan (NEP), the prior actions on the financial viability of the power sector should help ensure that more households have access to electricity; the electricity service provision is sustainable in terms of cost recovery; and the quality and reliability of electricity can be improved through adequate investment in electricity infrastructure.

107. SRDPO-1 action for the financial viability of the power sector is not expected to result in immediate poverty and social impacts, while the subsequent DPOs on the new electricity tariff structure are expected to have poverty and social impacts. A poverty and social impact analysis (PSIA) was conducted to assess the impact of reforms seeking to significantly enhance energy access through the implementation of the NEP, and to adopt a pricing policy aimed at regaining power sector financial viability. A key finding of the PSIA was that poorer and remote households risk being excluded from the NEP rollout due to high fixed costs of connection and tariffs set at rates that were considered unaffordable. A key recommendation of the PSIA was that poorer households will require subsidies towards both the fixed and variable cost of electricity access.

108. The PSIA findings and recommendations to date are planned to be incorporated into the design of the subsequent DPOs. For example, any policies linked to tariff adjustments will be preceded by the government and the Bank undertaking further analysis to inform tariff structure and designing support for vulnerable households to mitigate anticipated poverty and social impacts. These activities will cover an economic analysis on the budget share of electricity for households in different quintiles, an analysis on different types of support mechanisms for vulnerable households (through energy subsidies or other social assistance); and a stakeholder engagement and communications plan that includes making the PSIA findings available to the public for consultations.

ENVIRONMENTAL ASPECTS

109. Despite its rich natural resources and recent developments in sectors such as agriculture, mining, and tourism, Myanmar lacks having a clear environmental baseline information system and collection of reliable data on water, air and soil quality; an update of natural resources inventories; or reliable systematic hydro-meteorological data collection and analysis. Some environmental information exists but

[15] PER-1 analysis of health and education show preliminary results on how public spending are helping to reduce out of pocket payments for access to health services.

[16] Poor households in Myanmar spend approximately 2000 kyat per person per day or less.

it is old or infrequently collected and not always published for wide public access. The National Environment Conservation Committee (NECC) has been formed under MOECAF in 2013, and includes 23 ministries representatives. The NECC role is for overall coordination and consultation on the country environmental management issues. NECC would benefit from access to reliable information in order to strategically assess and plan for priorities in those sectors with sustainability concerns (e.g., tourism, mining, transport and energy, agriculture and irrigations, water).

110. In 2012, Myanmar passed and enacted the Environment Conservation Law (ECL, no.9/2012). This is the overarching law which sets the principle of environmental conservation in relevance to development projects. The Government has adopted an environmental assessment policy framework including Environmental Impact Assessment (EIA) procedures. These procedures include requirements and processes for access to information and participatory consultations. The Strategic Environmental Assessment tool has been recently introduced in the law.

111. This proposed SRDPO series operation is not likely to have significant negative effects on environment, natural resources, and forestry. Policy actions under SRDPO-1 are expected to have positive impact on environmental aspects. SRDPO-1 actions are focused on bringing gas revenues on-budget, having a policy for SEEs to reduce reliance on budgetary financing, and establishing electricity regulatory body to progressively develop a pricing policy to ensure financial viability of the power sectors. As such these policy actions are envisaged to improve transparency in gas revenues, reduce financial inefficiencies in SEE, and establish institutional mechanisms for coordination around electricity tariff setting.

PFM, DISBURSEMENT AND AUDITING ASPECTS

112. **Public Finance Management:** The overall fiduciary risk is assessed to be high due to weakness in the financial management systems of government. The 2012 Public Expenditure and Financial Accountability assessment highlighted a number of weaknesses around outdated rules and regulations, fragmented procurement rules and regulations which heighten fiduciary risks. The draft ROSC Accounting and Auditing 2016 has also identified a number of areas where significant improvement in public financial reporting is required in order to enhance accountability and transparency. Despite the fact that there are some built-in controls within the government's financial management system, there is still insufficient transparency related to public finances, the financial rules and regulations and systems of internal control are outdated, there is very limited internal audit capacity and little focus on performance or improved service delivery, and the reporting systems do not provide timely information for decision making purposes.

113. Significant steps have been taken to improve budget transparency. Budget discussions in the Union Parliament are televised, and the approved Budget is published. Since this year, the government has started to publish detailed information on budget proposals at the same time as the submission of those proposals to the Union Parliament. This includes for example: the Executive Budget Proposal to the Union Parliament; a Briefing Book on the 2017/18 Executive Budget Proposal; the Union Minister's Budget Speech to Parliament; Financial Commission Recommendations on the Union Budget; SEEs' Commercial Statement for 2017/18; and 2016/17 Budget Execution reports (Q1 and H1).

114. Basic external oversight is provided by the Parliamentary PAC and the OAG, but their effectiveness is impeded by capacity constraints. The OAG audit reports on government's financial accounts are not presently publicly available. The accounting and auditing profession and related institutions are in the early stages of development.

115. To address these deficiencies, the Government is actively implementing a program of reforms under its Public Finance Management modernization program, led by the Ministry of Planning and Finance and supported by development partners including IDA, the IMF, the ADB, Australia, Denmark, Japan, the EU, the UK, and the US. Progress made under the PFM reform program since 2012 has contributed to a reduction of the fiduciary risk, but this still remains high. Major recommendations aimed at improving the public financial management systems, including the efficiency and transparency of use of public resources, are reflected in the PFM modernization program and supported by this proposed DPO program. The challenge will be in effectively implementing the PFM modernization program, and active monitoring of the program initiatives and results by the government will be critical.

116. Strengthening external oversight functions and public financial management systems is a medium-to-long term process that will be monitored under this series. Improving the legislative framework for public procurement is an immediate priority. In this regard, updating and standardizing the current procurement directives so as to consistently apply these across government agencies, developing a fit-for-purpose procurement legislation along with its country-wide application are part of the government's PFM modernization program, with critical actions being monitored under this proposed DPO series.

117. **Deposit Account (DA):** To address the fiduciary risks, the government will open and maintain a Deposit Account at Myanmar Economic Bank in US dollars for the government's use once the IDA Credit is approved by the Board. The DA will form part of the country's official foreign exchange reserves. However, the Recipient's use of the Credit proceeds will be a part of the country's budget resources. Therefore, the Government shall ensure that upon deposit of the Credit into the DA, an equivalent amount in Kyat is accounted for in the government's State Fund Account (SFA) at the Myanmar Economic Bank, in a manner acceptable to IDA.

118. **Disbursement**: A single tranche of SDR 147.8 million (USD200 million equivalent) will be made available upon Credit effectiveness, anticipated in June 2017. The Closing Date for SRDPO-1 is December 31, 2017. The Credit proceeds will be disbursed against maintenance of the satisfactory macroeconomic policy framework, satisfactory implementation of the development policy program and the stipulated release conditions of SRDPO-1. While the Credit proceeds will not be tied to any specific purchases, the proceeds will not be used to finance any ineligible expenditures, as stipulated in the Financing Agreement.

119. **Reporting:** Through the MOPF, the government will report to IDA the amount received into the US dollar DA at the MEB, and the equivalent Kyat amounts transferred from the DA to the SFA to finance budgeted expenditures. The report on the amount(s) transferred will include the date and name/number of the government's bank account into which the Kyat equivalent amounts have been deposited. The report on receipts and disbursements from the Dedicated Account is to be submitted to IDA within 45 days of the disbursement of the Credit proceeds from the DA to the SFA.

120. The Government will ensure that the grant proceeds are used for budgeted public expenditures except for purposes or items on IDA's "negative list" as specified in the Financing Agreement. If the proceeds of the Credit are used for ineligible purposes, as defined in the Financing Agreement, IDA will require the Government, upon notification from IDA, to refund the amount directly to IDA. Amounts refunded to IDA upon such requests shall be cancelled.

121. **Auditing:** Upon request by IDA, the DA and related fund flows to and from this account will be audited by the Office of the Auditor General of the Union in accordance with terms of reference

acceptable to IDA, and the audit report will be provided to IDA within six months after IDA's request for such an audit.

MONITORING, EVALUATION AND ACCOUNTABILITY

122. The Ministry of Planning and Finance will coordinate the overall operation, and provide oversight on progress with the reform program in coordination with the CBM and the MOEE. Monitoring and evaluation of the reform program will be undertaken jointly by the Bank and Government teams. The Government and Bank teams will meet regularly to monitor progress in implementing the reform program supported by this operation. Apart from the policy and institutional reforms to be implemented by the Government, an M&E framework has also been developed. The framework describes expected outcomes at the end of the program, the monitoring indicators and specific end of program targets. A Bank mission will consult regularly with the Government to assess if the program outcomes are being achieved.

123. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org".

F. SUMMARY OF RISKS AND MITIGATION

124. The overall risk of the proposed operation is high and include:

125. **Macroeconomic risks:** Recent economic developments in Myanmar have brought to the fore a number of short-term economic vulnerabilities. A combination of a supply shock and low commodity prices rapidly exacerbated internal and external imbalances. Economic management capacity to deal with these shocks and imbalances have faced challenges, as expected in a newly and rapidly opening economy like Myanmar. The government's policy responses have broadly been consistent with trying to maintain macroeconomic stability, yet the economy remains vulnerable given the commodity price outlook, slowing global growth, and a relatively narrow production base. Delays in policy and institutional reforms may further intensify macroeconomic vulnerabilities. In particular, any policy reversal to deal with short-term shocks could lead to SRDPO actions and development objectives not being met.

126. To mitigate these risks, the World Bank will continue intensive monitoring of macroeconomic developments, coordinating closely with the IMF and others. Through this, it will maintain close macroeconomic policy dialogue, in addition to the regular supervision of the SRDPO. This should help identify early any risks to policy actions not being met and subsequent corrective measures.

127. **Implementation and coordination risks**: The SRDPO could play a very important role in further encouraging policy coordination and dialogue between MOPF, CBM and MOEE. The DPO nonetheless is a relatively new operation that requires extensive collaboration, exchange of information, and engagement

in cross-departmental policy dialogue. Government departments also do not see a direct benefit from all the policy engagement, unlike targeted projects, which may affect incentives to engage. This poses a direct risk to completing SRDPO actions and development objectives.

128. To mitigate these risks, the World Bank will work closely with the leadership of the Ministry of Planning and Finance as focal point for the SRDPO on monitoring closely the progress on the program, identify early any risks of slippages, and identify corrective measures. The World Bank will brief the National Economic Coordination Committee and the Development Assistance Coordination Unit as needed on progress with the SRDPO to help clarify any issues at the highest levels of inter-ministerial coordination on economic policy. The World Bank will also complement policy dialogue with Technical Assistance as needed to assist counterparts with policy actions.

129. **Budget allocation and implementation risks:** Budget allocations have seen major shifts in the past 4-5 years towards development priorities especially health, education and agriculture, and more recently energy, with concurrently declining shares for areas such as general public services and defense. At the same time, there are concerns that the fungible nature of budget support resources may create fiscal space for non-developmental spending with no additional resources for critical social and economic services. Plus poor design and implementation of the budget could endanger fiscal sustainability, which in turn poses risks for both the prior actions and the development objective of the SRDPO.

130. To help mitigate these risks, the World Bank has a large of engagement on macro-fiscal and Public Finance Management, which is a top priority area on the government's economic policy agenda. This includes ongoing technical assistance in developing the government's Medium-Term Fiscal Framework, which not only helps set fiscal aggregates but also review the strategic allocation of budget resources. This is complemented by more detailed budget analysis, including Public Expenditure Reviews, which is conducted in close collaboration with government counterparts. The DPO offers an added channel for policy dialogue on the budget, which in recent years has been aligning gradually to Myanmar's development needs. There is a negative list of expenses that cannot be funded from the DPO, including military. Whilst budget resources are fungible, recent trends in expenditure reallocations do not suggest that budget support would create more fiscal space for defense spending.

131. **Political risks**: Myanmar successfully held national, democratic elections in November 2015, which saw a landslide victory for the National League for Democracy. The subsequent transition in government has also been marked by a smooth transfer of power. But a number of political risks remain. It is expected that the pace of implementation of the economic and social reform program could be negatively affected by the scale of the ambitious reform agenda outlined by the government in the face of limited government capacity, including risks of fragmentation and lack of coordination in policy making and implementation. While the proposed SRDPO is consistent with the economic platform of the NLD, progress may be stalled by stakeholders that may perceive a negative impact of the reforms. There is also a risk of some political proposals, such as recent discussions around the Foreigners' Law, which would add administrative burden for foreign workers in Myanmar, could have negative impact on foreign investments.

132. The DPO focuses on a narrow set of critical policy actions. To help ensure policy continuity, the World Bank will continue to consult with a wide variety of senior stakeholders, both decision makers in Government and the opposition, to ensure that the proposed SRDPO policy actions have wide support. This consultation is part of the team's ongoing and regular engagement with Parliamentary Committees, Government Departments, Civil Society Organizations, the private sector and others around analytical

work that helps to inform SRDPO prior actions (including the Policy Notes for the incoming administration, the Myanmar Economic Monitor, Public Expenditure Reviews).

133. **Conflict risks:** Myanmar has experienced six decades of civil war, and only began to emerge from five decades of military rule in 2016. The current peace process represents the best chance for peace in a generation, but it is fragile and complex, involving negotiations with over a dozen different armed groups which collectively control significant parts of territory, natural resources, and armed forces throughout the country. In 2012 a series of bilateral ceasefire agreements were signed that brought an end to over 50 years of armed conflict in many of Myanmar's ethnic areas, followed by the signing of a national ceasefire agreement (NCA) in October 2015, and the beginning of a national political dialogue at the "21st century Panglong" conference in August 2016. However, not all ethnic armed organizations signed the NCA, and fighting continues in parts of Kachin State and northern Shan State which has contributed to the estimated 450,000 total IDPs in the country.[17] Whilst conflicts are localized and therefore may not directly impact program, they may nonetheless derail important reforms.

134. The World Bank will continue to support and monitor the peace process and adjust the program as needed. Risk and fragility assessments were completed upstream for the Systematic Country Diagnostic and the Country Partnership Framework. These were supplemented by ongoing monitoring through regular risk reports prepared by outside expert, monthly management meetings with experienced Myanmar analysts and annual country team workshops to review the evolution of the country context and ensure the portfolio is fit for purpose. The SRDPO could itself play an important role in strengthening economic management functions, which over the long-term could make an important contribution to stability and development in Myanmar. It will keep taking on board lessons from DPO engagements in other Fragile and Conflict affected situations.

135. **Situation in Rakhine State:** In addition to the ongoing ethnic conflicts, Myanmar has long grappled with religious tensions, including in Rakhine State where communal violence in 2012 directed against the state's Muslim minorities left at least 80 persons dead and some 145,000 people displaced, of whom 120,000 remain in IDP camps.[18] In October 2016, an attack by Muslim militants against a border guard post on the Myanmar-Bangladesh border led to a security response in northern Rakhine that caused over 70,000 primarily Muslim residents of the state to flee to neighboring Bangladesh amid reports (including as documented by the United Nations) of significant human rights abuses by government security forces.[19]

136. To address the situation in Rakhine State, the Office of the State Counsellor in collaboration with the Kofi Annan Foundation has established an Advisory Commission, as a neutral body to propose measure for improving the welfare of all people in Rakhine State. The Commission recently released an interim report, which calls for "unimpeded access for humanitarian actors and journalists to the affected areas in Northern Rakhine and for independent and impartial investigation of the allegations of crimes committed on and since 9 October 2016."[20] It proposes a series of recommendations aimed at "the protection of rights, freedom of movement, enhanced economic and social development and the edification of Rakhine's cultural heritage."

137. The World Bank has initiated an active dialogue with the Rakhine State authorities on the Bank's nationwide investment lending operations, including the Community Driven Development Project, and

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[17] UNHCR, September 2016
[18] UNHCR, September 2016
[19] http://www.ohchr.org/Documents/Countries/MM/FlashReport3Feb2017.pdf
[20] Advisory Commission on Rakhine State (http://www.rakhinecommission.org/)

how these could be used to promote development and stability in the State. It is also engaging on a study to look at the potential sources of economic growth, enabling policies, and their impact on development. This regular dialogue and engagement should enable the team to monitor closely any potential risks for the SRDPO reforms and development objectives.

Risk Categories	**Rating (High, Substantial , Moderate or Low)**
1. Political and governance	High
2. Macroeconomic	High
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Substantial
5. Institutional capacity for implementation and sustainability	High
6. Fiduciary	High
7. Environment and social	Low
8. Stakeholders	Moderate
9. Other	
Overall	**High**

ANNEX A: POLICY MATRIX

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	**Target 2020/21**
Pillar 1: SUSTAINED MACROECONOMIC STABILITY					
Prudent public debt management	*GOM has centralized public debt management functions in the MOPF, precluding any public sector body, including ministries and state-owned economic enterprises from independently contracting debt, as evidenced through the adoption of the Public Debt Management Law (Pyidaungsu Hluttaw Law No. 2/2016)*	*GOM has published on the MOPF website a rolling medium-term debt strategy with costs and risks of financing choices on the public debt portfolio.*	*GOM has published on the MOPF website an annual public debt bulletin on the levels and breakdown of domestic and external debt.*	There is currently no public report on implementation of borrowing targets agreed in the Budget Law.	Published MTDS assesses past year's implementation of borrowing plan, and implications for medium-term borrowing.
Demonetization of the fiscal deficit	*GOM has: (a) instructed that the Central Bank of Myanmar charges market interest rates[21] on CBM financing of the Union Budget deficit from fiscal year 2016/17 onwards, as evidenced through the letter from the Union Cabinet to CBM dated July 7, 2016; (b) submitted a debt strategy to Parliament that sets out the*	*GOM has: (a) limited in its medium-term debt strategy CBM financing of the budget deficit for fiscal year 2019/20 to less than 20 percent of deficit financing requirement; and (b) established a CBM monetary policy committee to formulate, coordinate*	*GOM has eliminated from its medium-term debt strategy CBM financing of the budget deficit outside of selected exceptional circumstances set out in regulations.*	Share of CBM financing of the budget deficit in 2016/17: < 40%	0%

[21] The average interest rate as determined in bi-monthly Treasury Bill auctions.

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	Target 2020/21
	government's borrowing plan for the 2017/18 fiscal year and limits CBM financing of the 2017/18 budget deficit to 30 percent of deficit financing requirement, as evidenced through the copy of the strategy, the Union Minister of Planning and Finance's speech to the Parliament uploaded on the MoPF's website, and the letter from the Treasury Department of MOPF to the Association, dated March 23, 2017; and (c) launched treasury-bond auctions, as evidenced through the treasury bonds offering memorandum and the auction results uploaded on the CBM website.	*and communicate monetary policy.*			
State Economic Enterprises' fiscal discipline	*GOM has: (a) required state-owned economic enterprises with sufficient own account balances to cover all their recurrent expenditures out of their own accounts in fiscal year 2017/18, as evidenced through a section on the*	*GOM has: (a) approved a policy on state-owned economic enterprises' own accounts to enhance transparency and clarify rules on the transfer of their net profits to the Union budget; and (b) adopted a*	*GOM has started annual publication of state-owned economic enterprises' operational and financial performance information.*	SEE overall balance as % of GDP: - 0.5% in 2015/16	> 0.5 %

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	Target 2020/21
	state-owned economic enterprises' revenues and expenditures in the draft Union budget law submitted to Parliament and uploaded on the MOPF website, and the letter issued by the Union Minister of Finance and Planning to all Union Government agencies dated November 22, 2016; and (b) consolidated the audits of own accounts of all state-owned economic enterprises for fiscal year 2015/16 to determine carry over, as evidenced through the summary statement of audit results submitted by the Union Minister of Planning and Finance to the Economic Committee under the Union Cabinet dated February 7, 2017	*policy to distinguish commercial and public benefit entities.*			
Policy-Based Budgeting	*GOM has: (a) submitted to Parliament the consolidated Union budget for fiscal year 2017/18 based on GOM's rolling medium-term fiscal*	*GOM has adopted new capital project prioritization and appraisal guidelines for*	*GOM has adopted a medium term public investment plan linked to GOM's medium-term fiscal framework, which*	Non-gas revenue variance relative to budget: > 15 percent in the	< 10 percent in the past 3 fiscal years.

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	**Target 2020/21**
	framework with medium-term revenue projections, expenditure estimates and deficit targets, as evidenced through the draft Union budget law and the Union Minister of Planning and Finance's speech to Parliament uploaded on the MOPF website; and (b) publicly released prior to Parliamentary approval the 2017/18 executive budget proposal submitted to Parliament and the 2017/18 Union budget summary book, as evidenced through the publication of these documents on the MOPF website	*all new large capital projects.*	*enables multi-year commitments for capital projects.*	past 3 fiscal years.	
				Capital spending variance relative to budget: >10 percent in theP past 3 years.	< 10 percent in the past 3 fiscal years.
Pillar 2: ENHANCED FISCAL RESILIENCE					
Enhanced revenue mobilization	*GOM has: (a) achieved compliance rates of at least 90 percent for income tax filing under the self-assessment system for fiscal*	*GOM has: (a) submitted to Parliament a revised income tax code, including policy on tax incentives, and (b) rolled out the income*	*GOM has: (a) implemented the revised income tax code; and (b) completed the roll-out of the self-assessment*	Commercial and income tax to GDP ratio in 2015/16: 5.9 percent	> 7 percent

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	Target 2020/21
	year 2015/16, as evidenced through the report submitted by the Large Taxpayers' Office to the Internal Revenue Department Headquarter dated October 11, 2016; (b) adopted the Special Goods Tax Law, as evidenced through the copy of Pyidaungsu Hluttaw Law No. 11/2016; and (c) reorganized the internal structure of the Headquarter and Self - Assessment Offices of the Internal Revenue Department from a tax instrument-based structure into a function-based one, as evidenced through the letter, dated January 27, 2016, from the Internal Revenue Department to the Union Minister of Planning and Finance	*tax self-assessment system to one Medium Taxpayers' Office (MTO) in Mandalay and Yangon.*	*system across all 3 MTOs, including adoption of a compliance risk management strategy.*	Share of tax payers under SAS: 7 percent	> 70 percent
Prudent gas revenue management		*GOM has: (a) instructed the regular provision of gas revenue forecasts from the Ministry of Electricity and Energy to the MOPF; and (b) included forecast of*	*GOM has adopted a stabilization mechanism with fiscal benchmarks that protect critical government expenditure*	Gas revenue estimates for coming fiscal year published in Citizens' Budget.	Publication of medium-term forecasts of gas revenue to the public sector, including

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	**Target 2020/21**
		public sector gas revenues in the annual medium-term fiscal framework statement to Parliament, including underlying assumptions and high, baseline and low case scenarios.	*from gas revenue volatility.*		underlying assumptions (price, production), and alternative scenarios.
Financial viability of the power sector	*The Ministry of Electricity and Energy has furnished a financial viability plan for the electric power sector to completely eliminate over 5 years, the gap in operating revenue and expenditure of government-owned electric power utilities in Myanmar, as evidenced through the letter, dated March 13, 2017 from the Ministry of Electricity and Energy to the Association, appending the plan.*	*GOM has adopted a pricing policy toward full operating cost recovery over 4 years, with appropriate provision for targeted and fiscally affordable support for vulnerable consumers*	*GOM has implemented the earlier adopted pricing policy to achieve full operating cost recovery of the economic cost of gas and electricity supply*	Government-owned Electric Power Utilities' operating balance FY2016/17: - 357 Billion Kyat	FY2018-2019: (-200 Billion Kyat) FY2020-2021: Positive balance
Effective Public Finance Management	*GOM has: (a) pre-approved an updated Myanmar Financial Management Regulation that simplifies financial management procedures to facilitate more efficient public service*	*GOM has presented to Parliament: (a) a new procurement law in line with good practice which would apply across the public sector nationwide; and (b) an organic public*	*GOM has published on the MOPF website the GOM's fiscal policy statement, executive budget proposal, approved budget, revised*	Timely publication of fiscal reports: Approved budget within one month	Fiscal policy statement, budget proposal, approved budget, quarterly

OBJECTIVES	SRDPO-1	SRDPO-2	SRDPO-3	RESULTS	
				Baseline	**Target 2020/21**
	delivery, as evidenced through the copy of the said regulation and the letter from MOPF to the Association, dated March 30, 2017; (b) reestablished the Public Procurement Rules and Regulation Supervision Committee to lead procurement, as evidenced through order notification No. 138/2016 from MOPF dated August 31, 2016; and (c) pre-approved updated Procurement Directives to harmonize procurement practices among spending agencies, as evidenced through the copy of the said directives and the letter from MOPF to the Association, dated March 30, 2017	*finance law which provides functional responsibilities for fiscal management across the public sector.*	*estimates and annual budget execution reports.*		execution reports, within deadlines
				Health budget outturn: < 90% in last 3 years	> 95% in the last three years
				Education budget outturn: < 90% in last 3 years	> 95% in the last three years

ANNEX B: LETTER OF DEVELOPMENT POLICY

THE GOVERNMENT OF THE REPUBLIC OF THE UNION OF MYANMAR
MINISTRY OF PLANNING AND FINANCE

LETTER OF DEVELOPMENT POLICY

17 March 2017

Dr. Jim Yong Kim
President
The World Bank
1818 H Street, NW
Washington, D.C. 20433

Dear Dr. Kim,

On behalf of the Government of the Republic of the Union of Myanmar, I would like to sincerely express our gratitude to you, the World Bank, and development partners for continuous support since Myanmar began its political and economic transition in 2011. The World Bank has been supporting Myanmar's reforms and its development needs in the areas of rural development, financial inclusion, public finance management, energy, and telecommunications. The Government of Myanmar very much appreciates the World Bank's support on policy dialogues, technical and financial assistance tailored to the needs of our people and our country.

Myanmar's political transition continued in November 2015 with the national elections where National League for Democracy (NLD) won and the current administration took office in April 2016. Following the NLD's election manifesto published in October 2015, we released the 12 Economic Policy Priorities in July 2016 to provide the administration's planned economic agenda and reforms. We have made progress in restructuring of Ministries and State Economic Enterprises (SEEs), expanding auctions of treasury bills and bonds in the domestic debt market, maintaining exchange rate flexibility and introducing the new Investment Law. As we continue with implementation of the economic agenda, the Myanmar Economic Stability and Fiscal Resilience Development Policy Operation (SRDPO) will support the policy and institutional reforms outlined in our economic policy priorities.

Between fiscal years 2011-2012 and 2015-2016, Myanmar's economy grew at an average annual rate of 7.3 percent. In 2016-2017 FY, the first six month's data pointed to a 5.0 percent growth. Especially declining of yield of agricultural crops and export prices, slowing down in foreign direct investment, external pressures including general slowdown in the global economy, declining demand from our main trading partners and decrease in commodity prices contributed to this sluggish growth. Therefore the economy was expected in 2016-2017 with 5.7 percent growth. Despite pressures of face during 2016-2017 FY, we expect a favorable environment next year with plans to diversify export and increased potential for foreign direct investment. We also aim to promote private sector led growth through increased domestic saving and investment as well as availability of more financing options.

A key achievement I would like to highlight is the move towards policy based budgeting through the use of Medium Term Fiscal Framework (MTFF). The framework is based on macroeconomic indicators including real and nominal GDP growth, inflation, exchange rates and import growth. We are also expanding the domestic debt market so that there are more options to finance the budget deficit other than the Central Bank, which has now been limited to a maximum of 30 percent of financing needs for this fiscal year. For the first time, we have published the Executive Budget Proposal to the Parliament prior to approval, Financial Commission Comments on the Proposed Budget, Budget Execution Reports (quarterly and half yearly), Commercial Statements of the State Economic Enterprises Statements from 2015-16 provisional actuals to 2017-18 budget estimates.

Having mentioned our current economic situation, challenges, and some of the key achievements, I'd like to summarize the Government fiscal policy for 2017-18 which I presented to the Parliament in February 2017. Our priorities under the Tax Pillar of the Fiscal Policy include establishing a fair and equitable tax administration system in addition to increasing revenue mobilization efforts to finance Union Government's expenditures, controlling inflation, and balancing domestic consumption, investments and savings. The Expenditure Pillar emphasizes the need to continue increasing allocations for education, health and social protection, calls for assigning priority levels in implementation projects and suspend those not in urgent need, regulation of procurement practices, analysis of external loans and grants. Increased expenditure for rural development, electricity and water are also highlighted.

I would like to emphasize that the proposed SRDPO comes at a critical time for Myanmar as the country balances fiscal prudence with financing growing development needs amidst a challenging external environment. SRDPO is also poised to support the Government of Myanmar in implementing our Economic and Fiscal Policy Priorities through enhanced coordination with the key economic agencies. SRDPO will directly support the first point in the Economic Policy regarding transparency and strong public finance management under the program's objectives of "Policy-Based Budgeting" and "Effective Public Finance Management". Key actions within those objectives include policy based budgeting through the use of a rolling medium term fiscal framework with revenue and expenditure projections and adoption of updated Financial Rules and Regulations from 1986 to deliver efficient public services. The updated regulations will in turn have an impact on ensuring efficiency in delivering critical services especially in health and education sectors, the development of which we have indicated as one of our priorities.

Under the objective of "State Economic Enterprises' fiscal discipline", actions in SRDPO aim towards transparent operations of SEEs as well as limiting usage of Union's funds for profitable SEEs. These actions support the second point in our economic policy priorities to have more successful SEEs and privatization of some based on performance. Actions under the objective of "Enhancing revenue mobilization" in SRDPO are also in line with our policy priorities to develop a fair and effective tax system to increase revenue. Other key actions included in SRDPO are 1) adoption of the Public Debt Management Law to centralize public debt management functions at the Ministry of Planning and Finance, 2) application of market interest rates to the government debt, expansion of domestic debt market, and a borrowing plan to limit Central Bank financing of the deficit and 3) approval of financial viability plan for the electricity power sector so as the operating balance will have a positive balance in five years. These key actions are expected to curb inflation, reduce fiscal pressures, and create fiscal space for public services.

The proposed SRDPO will support our efforts in achieving continuous economic growth, to maintain economic stability and to ensure efficient public spending. Our government therefore requests the World Bank's assistance through this First Myanmar Economic Stability and Fiscal Resilience credit to help tackle challenges in implementing the country's economic agenda and developing buffers against increasing fiscal pressures. We hope that we can count on the support of the World Bank to address these challenges and to continue working together to make progress in policy and institutional reforms.

Yours Sincerely,

17.7.17

Kyaw Win
Union Minister

ANNEX C: IMF RELATIONS

INTERNATIONAL MONETARY FUND

COMMUNICATIONS DEPARTMENT

Press Release No. 17/33
FOR IMMEDIATE RELEASE
February 2, 2017

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2016 Article IV Consultation with Myanmar

On January 25, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Myanmar.

Myanmar's economy grew broadly as expected in FY 2015/16 (ending March 31), at a healthy pace of 7.3 percent, despite massive floods during July–September 2015. Activity softened during the first half of FY 2016/17, but is expected to recover in the second half on account of the resumption of construction in Yangon after a temporary halt for regulatory compliance purposes. The growth of agricultural production was softer than expected. The external environment has been weak due to slowing demand from major trading partners and significant natural gas and other commodity price declines in 2015 and 2016. Macroeconomic imbalances persist, with continuing inflation pressure, an increased fiscal deficit, and a widening external current account deficit.

Taking into account sluggish activity in the first half of the year, growth for FY 2016/17 is projected at slower rate of 6.3 percent. Inflation is projected to be around 7 percent on average for FY 2016/17, and the external current account deficit to increase to about 6.5 percent of GDP. Risks to the growth outlook are tilted toward downside and relate to: (i) concerns over policy clarity; (ii) financial sector vulnerability on the back of rapid credit growth in recent years; (iii) weak commodity prices and slow export demand; (iv) global financial market volatility; and (v) natural disasters.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors welcomed Myanmar's continuing progress on economic and political transition, and noted the robust growth performance in 2015/16. As Myanmar continues with its transition, Directors saw good opportunities to expand inclusive growth, which will require a strengthening of macroeconomic and financial stability and a deepening of structural reforms, as well as effective communication of economic policies and development plans to support confidence.

Directors highlighted the critical role of exchange rate flexibility in strengthening Myanmar's external position and protecting foreign exchange reserves. They observed that the official reference exchange rate should reflect market conditions consistent with the managed float exchange rate regime, and welcomed the authorities' interest in exploring options for a transparent mechanism for setting the reference rate. Directors stressed that continued structural reform to improve the business environment is critical to strengthening Myanmar's external position over the longer run.

Directors agreed that monetary conditions should be tightened to contain inflation and reduce pressure on the exchange rate. In this regard, they welcomed the authorities' commitment to phasing out financing by the Central Bank of Myanmar. A number of Directors encouraged a faster phase out of central bank financing, but a few others suggested caution in view of its potential impact on financing costs and credit flow to the private sector, given the underdeveloped bond market. In light of past monetary expansion and continued strong credit growth, Directors also supported a more active liquidity management in line with reserve money targets that are consistent with the medium term inflation objective.

While recognizing Myanmar's significant development needs, Directors emphasized the importance of fiscal restraint and improved spending efficiency to maintain debt sustainability. Directors welcomed improvements in tax administration, and encouraged continued efforts to increase fiscal revenues, including by swiftly moving to the next phase of revenue reform and streamlining tax exemptions and incentives. They also recommended prioritizing key infrastructure and social expenditure, and welcomed preparations for revised Financial Rules and Regulations and a public financial management law. Directors also underscored the importance of containing fiscal risks from state enterprises and public private partnerships.

Directors commended progress on financial sector reform, and called for further steps to reduce financial system risks. They urged the expeditious completion of full scope examinations of all banks, as well as the timely issuance of regulations to implement the Financial Institutions Law. Directors encouraged the authorities to accelerate the reform of systemically important state owned banks and to further increase financial sector supervision capacity. In order to improve access to credit for the agricultural sector and SMEs, Directors saw scope for a carefully

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

sequenced loosening of controls on lending interest rates, supported by appropriate supervision. Directors also emphasized that ongoing work on anti-money laundering/combating the financing of terrorism (AML/CFT) should remain a priority.

Directors welcomed the progress in capacity development in Myanmar and encouraged the authorities' further use of Fund technical assistance and training. They emphasized the importance of improved macroeconomic statistics for surveillance and macroeconomic management.

Myanmar: Selected Economic Indicators, 2012/13–2018/19 1/

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
				Est.	Proj.	Proj.	Proj.
Output and prices							
Real GDP 2/	7.3	8.4	8.0	7.3	6.3	7.5	7.6
CPI (end-period; base year=2006)	4.7	6.3	7.4	10.7	10.4	8.9	7.7
CPI (end-period; base year=2012)			6.1	8.5	8.3	7.1	6.5
CPI (period average; base year=2006)	2.8	5.7	5.9	11.4	9.0	8.7	7.9
CPI (period average; base year=2012)			5.1	10.0	7.0	6.9	6.7
Consolidated public sector 3/				(In percent of GDP)			
Total revenue	19.0	20.1	21.9	18.8	17.2	16.5	16.8
Union government	8.7	10.0	12.1	10.8	10.0	9.6	9.9
Of which: Tax revenue	6.3	7.3	7.8	7.5	7.7	8.0	8.2
SEE receipts	10.3	9.7	9.5	7.2	6.6	6.2	6.2
Grants	0.1	0.3	0.3	0.6	0.6	0.7	0.7
Total expenditure	18.1	21.4	22.9	22.9	21.8	21.1	21.3
Expense	10.5	13.8	16.1	16.9	16.5	15.7	15.8
Net acquisition of nonfinancial assets	7.6	7.6	6.8	6.0	5.3	5.4	5.5
Gross operating balance	8.5	6.3	5.9	1.9	0.8	0.8	1.0
Net lending (+)/borrowing (-)	0.9	-1.3	-0.9	-4.1	-4.6	-4.5	-4.5
Underlying net lending (+)/borrowing (-) 4/	0.9	-1.7	-3.1	-5.3	-5.6	-4.5	-4.5
Domestic public debt	16.6	15.4	15.3	18.1	19.7	20.2	20.6
Money and credit				(Percent change)			
Reserve money	38.5	16.3	4.6	19.6	14.5	13.5	12.5
Broad money	46.6	31.7	17.6	26.3	24.2	21.8	21.0
Domestic credit	5.1	24.6	22.9	32.3	27.7	23.6	22.1
Private sector	50.5	52.5	36.5	34.3	28.5	28.4	26.1
Balance of payments				(In percent of GDP)			
Current account balance	-4.0	-4.9	-3.3	-5.2	-6.5	-6.6	-6.7
Trade balance	-3.6	-5.1	-6.3	-9.1	-10.1	-10.4	-10.4
Financial account	9.8	7.6	7.1	7.0	6.4	7.9	8.1
Foreign direct investment, net	4.7	4.4	7.1	7.1	5.9	6.5	6.7
Overall balance	4.4	2.1	1.8	-0.7	-0.1	1.3	1.4
CBM reserves (gross)							
In millions of U.S. dollars	3,156	4,419	4,803	4,511	4,436	5,360	6,476
In months of total imports	2.4	2.8	3.0	2.6	2.3	2.4	2.5
Total external debt (billions of U.S. dollars)	13.7	10.2	8.8	9.6	9.9	10.9	12.0
Total external debt (percent of GDP)	23.0	17.0	13.9	15.9	15.4	15.5	15.4
Exchange rates (kyat/$, end of period)							
Official exchange rate	879.5	965.0	1,027.0	1,216.0	...	...	...
Parallel rate	878.0	964.7	1,085.5	1,200.5	...	...	...
Memorandum items:							
GDP (billions of kyats)	51,259	58,012	65,262	72,780	83,479	96,479	111,395

Sources: Data provided by the Myanmar authorities; and IMF staff estimates and projections.

1/ Fiscal year from April 1 to March 31.
2/ Real GDP series is rebased to 2010/11 prices by the authorities.
3/ Union and state/region governments and state economic enterprises.
4/ Excludes one-off receipts from telecoms licenses and signature bonus from gas contracts.

ANNEX D: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior action	Significant environmental effects	Significant poverty, social and distributional effects
1.1 GOM has centralized public debt management functions in the MOPF, precluding any public sector body, including ministries and state-owned economic enterprises from independently contracting debt, as evidenced through the adoption of the Public Debt Management Law (Pyidaungsu Hluttaw Law No. 2/2016).	No negative environmental impacts envisaged.	Some positive second order benefits may accrue as improving debt management framework will allow government to ensure macro-fiscal sustainability, which is precondition for growth and shared prosperity.
1.2 GOM has: (a) instructed that the Central Bank of Myanmar charges market interest rates[22] on CBM financing of the Union Budget deficit from fiscal year 2016/17 onwards as evidenced through the letter from the Union Cabinet to CBM dated July 7, 2016; (b) submitted a debt strategy to Parliament that sets out the government's borrowing plan for the 2017/18 fiscal year and limits CBM financing of the 2017/18 budget deficit to 30 percent of deficit financing requirement, as evidenced through the copy of the strategy and the Union Minister of Planning, Finance's speech to the Parliament uploaded on the MoPF's website, and the letter from the Treasury Department of MOPF to the Association, dated March 23, 2017; and (c) launched treasury-bond auctions, as evidenced through the treasury bonds offering memorandum and the auction results uploaded on the CBM website.	No significant negative impacts envisaged.	This action is expected to curtail inflation, which will benefit all, especially the poor.
1.3 GOM has: (a) required state-owned economic enterprises with sufficient own account balances to cover all their recurrent expenditures out of their own accounts in fiscal year	No significant negative impact envisaged.	This measure is expected to have a marginally positive impact on the government's fiscal position and hence the ability to spend more

[22] The average interest rate as determined in bi-monthly Treasury Bill auctions.

Prior action	Significant environmental effects	Significant poverty, social and distributional effects
2017/18, as evidenced through a section on the state-owned economic enterprises' revenues and expenditures in the draft Union budget law submitted to Parliament and uploaded on the MOPF website, and the letter issued by the Union Minister of Finance and Planning to all Union Government agencies dated November 22, 2016; and (b) consolidated the audits of own accounts of all state-owned economic enterprises for fiscal year 2015/16 to determine carry over, as evidenced through the summary statement of audit results submitted by the Union Minister of Planning and Finance to the Economic Committee under the Union Cabinet dated February 7, 2017.		resources on service delivery. Therefore overall impact of social aspects could be positive.
1.4 GOM has: (a) submitted to Parliament the consolidated Union budget for fiscal year 2017/18 based on GOM's rolling medium-term fiscal framework with medium-term revenue projections, expenditure estimates and deficit targets, as evidenced through the draft Union budget law and Union Minister of Planning and Finance's speech to Parliament uploaded on the MOPF website; and (b) publicly released prior to Parliamentary approval the 2017/18 executive budget proposal submitted to Parliament and the 2017/18 Union budget summary book as evidenced through the publication of these documents on the MOPF website	No significant environmental impact.	This action is expected to increase fiscal transparency which could have a positive impact on the social contract between citizens and state.
2.1 GOM has: (a) achieved compliance rates of at least 90 percent for income tax filing under the self-assessment system for fiscal year 2015/16, as evidenced through the report submitted by the Large Taxpayers' Office to the Internal Revenue	No significant environmental impact envisaged.	This measure is expected to improve tax compliance and make the tax system more transparent. Improvement in compliance could increase tax collection which could be used to fund economic and social

Prior action	Significant environmental effects	Significant poverty, social and distributional effects
Department Headquarter dated October 11, 2016; (b) adopted the Special Goods Tax Law, as evidenced through the copy of Pyidaungsu Hluttaw Law No. 11/2016; and (c) reorganized the internal structure of the Headquarter and Self -Assessment Offices of the Internal Revenue Department from a tax instrument-based structure into a function-based one, as evidenced through the letter, dated January 27, 2016, from the Internal Revenue Department to the Union Minister of Planning and Finance		services. A more transparent tax system could curtail avenues for corruption. These measures could have a positive impact on the social and poverty dimensions.
2.3 The Ministry of Electricity and Energy has furnished a financial viability plan for the electric power sector to completely eliminate over 5 years, the gap in operating revenue and expenditure of government-owned electric power utilities in Myanmar, as evidenced through the letter, dated March 13, 2017 from the Ministry of Electricity and Energy to the Association, appending the plan.	This measure does not envisage any negative impact on the environment.	By approving this financial viability plan, the government would demonstrate its intention to reduce the regressive gap and free up more resources for economic and social services. Therefore this measure is expected to have a positive impact.
2.4 GOM has: (a) pre-approved an updated Myanmar Financial Management Regulation that simplifies financial management procedures to facilitate more efficient public service delivery, as evidenced through the copy of the said regulation and the letter from MOPF to the Association, dated March 30, 2017; (b) reestablished the Public Procurement Rules and Regulation Supervision Committee to lead procurement, as evidenced through order notification No. 138/2016 from MOPF dated August 31, 2016; and (c) pre-approved updated Procurement Directives to harmonize procurement practices among spending agencies, as	No significant environmental impact envisaged.	This action could improve the fiduciary environment and allow front line service delivery units more autonomy within an accountable framework to provide responsive services. Impact of this measure is expected to be positive.

Prior action	Significant environmental effects	Significant poverty, social and distributional effects
evidenced through the copy of the said directives and the letter from MOPF to the Association, dated March 30, 2017		