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Operation Name	Myanmar Development Policy Operation
Region	EAST ASIA AND PACIFIC
Country	Myanmar
Sector	Sub-National Government (30%); Other Public Administration (30%);Other Education (20%);Health (20%)
Operation ID	P152734
Lending Instrument	Development Policy Lending
Borrower(s)	MINISTRY OF PLANNING AND FINANCE
Implementing Agency	MINISTRY OF PLANNING AND FINANCE
Date PID Prepared	March 11, 2017
Estimated Date of Appraisal	February 16, 2017
Estimated Date of Board Approval	April 27, 2017
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

1. Country and Sector Background

Myanmar is now five years into a significant political and economic transition. 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.

In November, 2015, Myanmar voted in national elections, which delivered a landslide victory for the National League for Democracy led by Daw Aung San Suu Kyi. The new administration took office in April 2016 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. The government has set out its economic policy priorities, tried to maintain fiscal and monetary discipline, and continued structural reforms.

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

2. Operation Objectives

The SRDPO development objective is sustained macroeconomic stability with enhanced fiscal resilience. Sustaining macroeconomic stability is a precondition to sustainable and inclusive growth. Enhancing fiscal resilience is critical to creating and sustaining fiscal space for public service delivery and poverty reduction.

3. Rationale for Bank Involvement

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. In responses to these challenges, the Government of Myanmar has adopted policies that have broadly consistent with ensuring fiscal and external sustainability, and managing demand pressures to sustain macroeconomic stability.

In particular, on fiscal policy, the government has among other things enhanced revenue collection efforts through tax policy and administration reforms, developed a Medium-Term Fiscal Framework to prioritize resources within a sustainable fiscal envelope, and agreed to limits on inflationary monetization of the deficit. On monetary policy, the government has enhanced capacity for liquidity forecasting to better target reserve money growth, and scaled up deposit auctions to tighten liquidity. In parallel, the Central Bank is working on modernizing financial sector regulations under the newly adopted Financial Institutions Law.

In support of these efforts, 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. The SRDPO has two pillars: sustained macroeconomic stability; and enhanced fiscal resilience. The macroeconomic stability pillar includes reforms to promote prudent public debt management; demonetization of the fiscal deficit; SEE fiscal discipline; and policy-based budgeting. The fiscal resilience pillar includes reforms to promote revenue mobilization; prudent gas revenue management; the financial viability of the power sector; and effective Public Finance Management.

Although the SRDPO does not seek to directly tackle the drivers of conflict in Myanmar, it could nonetheless be supportive of conflict resolution by helping to create the necessary macroeconomic and fiscal conditions for inclusive growth. Policy actions under the SRDPO do not relate directly to issues at stake in conflict, and where indirect relations exist (e.g. budget transparency, SEE management) are supportive of conflict resolution. The World Bank remains supportive of the peace process through various other channels, including as a founding member of the Peace Support Group.

4. Financing

SRDPO-1 is the first in a series of 3 DPOs. SRDPO-1 in the amount of US$200 million. SRDPO-2 and SRDPO-3 are expected to proceed in line with the authorities' reform program in roughly one to two-year intervals.

5. Institutional and Implementation Arrangements

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.

6. Benefits and Risks

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.[1] 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.

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

(i) Macroeconomic risks as the economy remains vulnerable to external shocks, which may exacerbate policy challenges and impact on the reform program. To mitigate these risks, the World Bank will continue intensive monitoring of macroeconomic developments in close coordination with the IMF and others to identify issues and take corrective measures.

(ii) Implementation and coordination risks as the SRDPO requires policy coordination and dialogue, and information exchange across several government agencies. 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.

(iii) Budget allocation and implementation risks could arise as the fungible nature of budget support resource could create space for non-developmental spending with little to no additionality for critical economic and social services. 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. 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.

(iv) Political risks could manifest themselves through a slower pace of policy implementation as progress is stalled by stakeholders that may perceive a negative impact of the reforms. To mitigate these risks, the World Bank will continue to consult with a wide variety of stakeholders in and out of government through ongoing analytical works that helps inform SRDPO actions.

(v) Intensification of conflict poses risks not just for the reform program but for Myanmar more generally. The current peace process represents the best chance for peace in a generation, but it is fragile and complex. Although the DPO is not expected to directly impact on conflict dynamics, it could play a critical role in promoting stability and development. The World Bank will continue its ongoing support for the peace process. It has also initiated initiated an active dialogue with the Rakhine State authorities on the Bank's nationwide investment lending operations and how these could promote stability and development.

6. Poverty and Social Impacts and Environment Aspects

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,

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

particularly those in urban areas, have limited absorptive capacity to mitigate food price inflation or to manage unanticipated changes to output prices.

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.

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 National Electrification Project (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.

The PSIA findings and recommendations to date are planned to be incorporated into the design of the subsequent DPOs. In addition, prior to any tariff adjustments, the government and the Bank will undertake further analysis to inform tariff structure and 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

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

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