



ASIAN DEVELOPMENT FUND (ADF)
ADF XI MIDTERM REVIEW MEETING
12–13 November 2014 Manila, Philippines

**Myanmar:
Building the Foundations for Growth**

Asian Development Bank

October 2014

CURRENCY EQUIVALENTS

(as of 25 September 2014)

Currency unit	–	Myanmar kyat (MK)
MK1.00	=	\$0.001
\$1.00	=	MK992.04

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ASEAN	–	Association of South-East Asian Nations
CPS	–	country partnership strategy
EIA	–	Environmental Impact Assessment
EOC	–	Environment Operations Center
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
JFPR	–	Japan Fund for Poverty Reduction
MOECF	–	Ministry of Environmental Conservation and Forestry
PBT	–	peace-building tool
PPP	–	public–private partnership
TA	–	technical assistance
TVET	–	technical and vocational education and training

NOTES

- (i) The fiscal year (FY) of the government and its agencies ends on 31 March. FY before a calendar year denotes the year in which the fiscal year begins, e.g., FY2014 ends on 31 March 2015.
- (ii) In this report, “\$” refers to US dollars, unless otherwise stated.

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EXECUTIVE SUMMARY

The Asian Development Bank (ADB) has a historic opportunity to support Myanmar in its economic transition, following over 60 years of economic and political isolation. The country is a strategic gateway located between East Asia, South Asia, and Southeast Asia. ADB's allocation of \$1.024 billion in the form of Asian Development Fund (ADF) resources for 2013–2016, including \$512 million for clearing past arrears, has enabled the institution to reengage with Myanmar. These resources aim to accelerate the transition and address poverty reduction, while providing significant opportunities for inclusive growth across the country.

The foundations have been laid for a solid development partnership. Since reengagement, the Government of Myanmar and ADB have made good progress in formulating and adopting an interim assistance strategy, launching a range of capacity-building initiatives, initiating knowledge work, and developing the first generation of policy-based assistance and investment operations. ADB policy and capacity building support have made important contributions to government reforms and to the shaping of national and sector plans and strategies. ADB established the Myanmar Resident Mission with offices in Nay Pyi Taw and Yangon. With the generous support of Asian Development Fund (ADF) donors, in just over 2 years ADB has established operations on the ground, has nurtured excellent high-level relations with the government and other development stakeholders, has built a robust assistance pipeline, and is cooperating closely with other development partners to deliver assistance in ways that are harmonized and closely aligned with government and ADB priorities.

With ADB support, Myanmar is laying the foundation for a democratic, market-oriented economy, and is steadily overcoming decades of isolation, conflict, and neglect. The processing of the first generation of ADB projects and programs in energy, transport, skills, urban development, and rural development is well under way. They are expected to deliver positive, poverty-reducing results. ADB support in key areas such as environmental sustainability, conflict-sensitive programming, governance, and regional cooperation and integration will also support government efforts.

There is a clear need, as well as strong country ownership and aspirations, to build on the positive results and solid partnership that has emerged between the government and ADB. The expected demand for ADF assistance is likely much higher than the resources that ADB is programming for 2014–2017. As a “turn-around” situation country, additional concessional resources will be required if ADB is to assist Myanmar in maintaining the reform momentum, reduce the high poverty rate, improve connectivity, overcome power shortages, and build the human capital the country urgently requires.

I. INTRODUCTION

1. Emerging from decades of economic and political isolation, Myanmar today shows strong potential for inclusive growth and could grow at 7%–8% per year for many years to come. With abundant natural resources, a strategic location at the crossroads of Asia, a large and young population, a sizeable and largely untapped market, and wide-ranging investment opportunities, Myanmar has a unique opportunity to lay the foundation for a brighter, more prosperous future, and the Asian Development Bank (ADB) has a historic opportunity to help Myanmar reach its potential. However, more resources will be required for ADB to respond to the country's needs in a meaningful way.

2. ADB's allocation of \$1.024 billion of Asian Development Fund (ADF) resources for 2013–2016, including \$512 million to support the clearing of past arrears, has enabled ADB to reengage with Myanmar. These resources are being allocated to priority areas, with the aim of accelerating transition, while providing significant opportunities for inclusive growth across the country. However, the expected demand for ADF assistance is two to three times higher than the resources that ADB now has available and is programming for 2014–2017.¹ An additional special allocation of ADF resources will likely be required if ADB is to assist Myanmar in addressing decades of neglect, improving connectivity, overcoming power shortages, enabling private sector initiatives, and building the human capital the country so urgently requires.

3. During the ADF XI replenishment negotiations, the initial positive developments in Myanmar were recognized. Following the negotiations, ADF donors strongly supported ADB's reengagement with Myanmar, granted Myanmar access to ADF resources, and approved special allocations of ADF resources to Myanmar as an exception to the performance-based allocation policy. At the ADF donors' consultation meeting in Astana, Kazakhstan in May 2014, donors requested an update on ADB progress in Myanmar at the ADF XI Midterm Review.

II. MYANMAR DEVELOPMENT OPPORTUNITIES AND CHALLENGES

A. Country Context

4. Myanmar's unique geographic location at the intersection of member countries of the Association of Southeast Asian Nations (ASEAN), the People's Republic of China, and India positions the country to take advantage of its endowments and, with a good set of policies, to generate sustained long-term growth and emulate the growth experiences of its neighbors. The country has a land area of about 676,000 square kilometers and an estimated population of just over 51 million according to the 2014 census.² Myanmar is one of the most ethnically diverse countries in the world, with more than 135 ethnic groups.

5. Myanmar is richly endowed with natural and cultural resources, and possesses large offshore deposits of natural gas, plenty of arable land, teak forests, metallic minerals, jade, rubies, and other precious stones. It has proven reserves of 7.8 trillion cubic feet of natural gas and oil reserves of 3.2 billion barrels. Renewable water resources at about 19,000 cubic meters per capita per year are among the highest in Southeast Asia, and the current utilization rate is

¹ As a new Group A country, Myanmar does not yet have a "regular" ADF allocation. If Myanmar were to enter the performance-based allocation system, it would likely face a declining trend in ADF allocations because, among other factors, Myanmar's economic and social performance lags that of other market-oriented ADF-eligible developing member countries of ADB.

² Prior to the release of the preliminary Population and Housing Census 2014 results in late August 2014, most estimates of the population were about 61 million.

only 5%. Inland water sources and the 1,900 kilometer coastline provide great potential for the production and export of fish and shrimp. Forests cover about 31.5 million hectares, close to 50% of the total land area. Arable land is plentiful, with only about 16.5% of the total land area under cultivation. Pristine beaches, snow-capped mountains, scenic lakes, a diversity of flora and fauna, and a rich archeological heritage offer vast potential for tourism.

6. Myanmar is undergoing a series of complex and far-ranging political, economic, and social transformations. The political system is experiencing a “democratic transition” to an inclusive, multiparty system. The economy is rapidly evolving from a state-led and largely planned economy to a free market. The country is also undergoing a shift from conflict to peace, with an emphasis on reconciliation. Overall, Myanmar has made and continues to make significant progress toward democratization and a system of government based on rule of law, with increased press freedom and measures to counter corruption. Citizens can now protect property, do their business, and operate independently of the state. However, the transition from authoritarian to democratic rule has been accompanied by sectarian incidents and sporadic violence in certain ethnic areas. It has also highlighted the continuing need for support to translate human and other fundamental rights into practice. The general elections planned in late 2015 represent a historic opportunity to advance participatory governance.

B. Economic and Social Performance

7. The structure of the economy largely reflects a legacy of isolation, low investment, and low per capita incomes. The economy is dominated by agriculture and natural resources. Agriculture accounts for 30% of gross domestic product (GDP) but over 50% of employment. Industry, which includes mining and the lucrative natural gas and energy sector, accounts for about 32%, with services contributing 38%.

8. In recent years, Myanmar’s economic growth has picked up with the implementation of major economic reforms (Table 1). The economy is forecast to grow at 7.8% in FY2014 and has been led by increased gas production and exports, services, construction, and foreign direct investment. ADB forecasts steady future growth of around 7%–8%, provided the momentum of market-friendly policy reforms is maintained. Consumer price index inflation has been kept under control, declining to 2.8% in FY2012 due to lower food prices, before picking up and reaching almost 6% in FY2013, due to rising prices for fuel, rent, and food.

Table 1: Myanmar: Selected Macroeconomic Indicators

Item	FY2012 e	FY2013 e	FY2014 p
Real GDP growth (% per annum)	7.3	7.5	7.8
Inflation (% per annum) (period average)	2.8	5.8	6.6
Credit to private sector (annual % change)	50.5	45.8	30.4
Broad money (annual % change)	46.6	37.4	26.7
External current account balance (% GDP)	(4.4)	(4.8)	(5.1)
Gross official reserves (\$ million)	4,591	4,913	6,027
Gross official reserves (months of imports)	3.6	3.3	3.6
Nominal exchange rate (kyat/\$) (end period)	880	977	...

... = data not available, () = negative value, e = estimate; GDP = gross domestic product, p = projections.

Note: FY2012 starts on 1 April 2012.

Source: Asian Development Bank. 2014. *Asian Development Outlook 2014 Update: Asia in Global Value Chains*. Manila.

9. Myanmar's exports are dominated by offshore natural gas, which rapidly rose from \$171 million in 2000 to nearly \$3.6 billion in 2012, and constitutes almost 40% of the country's total exports of \$7.5 billion. As most imports have been liberalized, Myanmar's current account deficit has grown from about 1.5% of GDP in FY2010 to 4.4% in FY2012, and is expected to widen further to 5.1% of GDP in FY2014. The deficit is largely financed by foreign direct investment inflows representing about 5.0% of GDP in FY2013. Foreign exchange reserves have grown steadily to an estimated \$4.9 billion in FY2013, or about 3 months of import cover. The consolidated fiscal deficit widened to an estimated 4.9% of GDP in FY2013 from 3.8% in FY2012. Total external debt declined to \$10.7 billion, or 19% of GDP, in FY2013 from \$13.5 billion in FY2012, following the restructuring of debt arrears.

C. Key Development Challenges³

10. **Reducing poverty.** Poverty reduction is the single most important challenge for Myanmar. It remains one of the poorest countries in Southeast Asia. In FY2012, GDP in current dollar terms was estimated at about \$56 billion, making per capita income approximately \$876 in current dollars and \$1,405 in purchasing-power parity terms—one of the lowest in Asia.⁴ In terms of the human development index, Myanmar is ranked 149 out of 187 countries.⁵ For comparison purposes, Papua New Guinea is ranked 153, Timor-Leste 147, and Bangladesh 146. The latest integrated household living conditions survey indicates that one in every four Myanmar citizens is considered poor. The report also shows that 84% of poverty is in rural areas and regional poverty disparities are pronounced. Poverty incidence is especially high in ethnic states and also in the two central regions of the country. Most social indicators are very low. For example, one-third of children under 5 years suffer from malnutrition.

11. **Resolving conflicts.** Conflicts are unavoidably interlinked with poverty in Myanmar. Given limited resources, bringing public services to poor and vulnerable groups, in particular ethnic groups, has been a challenge. Many of the smaller minority groups have limited access to basic services or markets, and feel that they are discriminated against. Ethnic relations in some cases (such as in Kachin, Kayin and Rakhine states) are fragile. Communal tension and violence have escalated in recent years. Ensuring that a lasting peace is achieved and minority rights are fully respected will be critical for peace and stability, and all development projects need to take these contextual factors into account. However, signs of progress to resolve long-standing internal conflicts and independence movements are noted. The government is pursuing a three-step process to find a lasting solution to ethnic conflicts. It has reached ceasefire agreements with all the major armed ethnic groups—a critical first step to establishing trust and confidence. The second step entails broader discussions between each group and the national government to address socioeconomic, cultural, and political issues. The third stage will bring together representatives of all armed groups and other stakeholders to discuss the shape of a lasting political agreement on ethnic issues. This would include a change to the constitution to give greater autonomy, provide for greater resource sharing with ethnic communities, and work toward future integration or demobilization of members of armed groups.

12. **Revitalizing agriculture.** Most of the poor live in rural areas dominated by agriculture, which faces constraints at various stages of the supply chain. Poor rural roads increase

³ A detailed discussion of development challenges can be found in: ADB. 2014. *Myanmar: Unlocking the Potential: Country Diagnostic Study*. Manila.

⁴ These figures are not based on the recently released population figures in the Population and Housing Census 2014, but reflect data from International Monetary Fund. 2013. *Myanmar 2013 Article IV Consultation and First Review under the Staff-Monitored Program*. Washington, DC.

⁵ United Nations Development Programme. 2013. *Human Development Report 2013*. Washington, DC.

transport costs to market and depress farm-gate prices, while outdated milling and processing equipment causes large physical and quality losses. Inadequate port and border infrastructure and inefficient logistics further increase costs for agro-exports. Tenure remains inadequately documented, constraining credit to farmers and their investment in inputs and equipment. Input markets are underdeveloped for seeds, fertilizer, and chemicals. Inadequate use of quality inputs constrains productivity, which is exacerbated by climatic risk and stress in the absence of adequate irrigation and drainage infrastructure. Revitalizing agriculture will require an approach that prioritizes improvements in market access, followed by support for irrigation, new technology, and improved support services.

13. Improving infrastructure access and connectivity. High transport costs and limited access to markets and services are among the main causes of poverty and regional inequality. Among ASEAN countries, Myanmar's roads are the most underdeveloped. Only about 40% of the total road network is paved, with the secondary and local road network in generally poor condition. Transport links to neighboring countries continue to be limited and substandard. The World Bank's 2014 logistics performance index ranks Myanmar the lowest among Southeast Asian countries in terms of overall logistics performance and quality of trade- and transport-related infrastructure.⁶ As development of the transport network has been biased to urban centers or selected regions, a large segment of the rural population has difficulty accessing key social services and economic centers because of the limited reach of the transport system. A recent ADB study showed that improving international and national transport systems and services could increase Myanmar's GDP by 21% by 2030.⁷

14. Myanmar has abundant energy resources, notably hydropower and natural gas. However, the energy sector is one of the least developed in Southeast Asia. Just over half of the total installed capacity of 3,593 megawatts is highly reliable because weather-dependent hydropower accounts for 75% of total electricity generation. Consequently, the supply of electricity is limited and unreliable. Existing power infrastructure can only meet about half of the current demand, resulting in frequent blackouts and rationing of the electricity supply. With a population estimated at 61 million,⁸ Myanmar's per capita electricity consumption was only 160 kilowatt-hours in 2011, the lowest in Southeast Asia; just 28% of the population has access to electricity. To improve power supply, steps are being taken to promote public-private partnerships (PPPs), especially in power generation, and to develop off-grid energy sources such as mini-hydropower, biomass, wind, and solar energy. Meeting Myanmar's energy challenge will play a major role in poverty reduction and regional development.

15. Creating a workforce to meet labor market demands. Data from the mid-1990s through 2011 show that, taken together, public expenditure on education and health was less than 1% of GDP—one of the lowest rates in the world. While literacy is high at over 90%, the average schooling for adults age 25 and over is only 4 years. The scarcity of highly educated and skilled workers is exacerbated by an education system that does not focus on developing skills competency. Public education focuses excessively on theory from textbooks, which are often outdated. Foreign firms often hire expatriates for management and higher technical positions in the absence of competent local managers, while those who have managed to obtain good skills and experience are often enticed by higher wages in other countries. All types of businesses list skills shortage as a critical constraint.

⁶ World Bank. 2014. *Connecting to Compete 2014—Trade Logistics in the Global Economy, The Logistics Performance Index and Its Indicators*. Washington, DC.

⁷ C-Y. Park and D. Roland-Holst. Forthcoming. *Myanmar: Long Term Scenarios for Sustained Macroeconomic Growth*. Manila: Asian Development Bank; and see footnote 3.

⁸ Prior to the release of the preliminary Population and Housing Census 2014 results in late August 2014.

16. **Strengthening governance and public sector capacity.** The overall reform process is complex. The civil service requires considerable training and capacity development to meet the challenges. According to the World Bank's 2013 public expenditure and financial accountability assessment, public financial management, although improving, remains characterized by weaknesses in aggregate fiscal discipline, poor allocation of resources, and inefficient service delivery.⁹ Notwithstanding the substantial challenges and the need for continued support, significant progress has been made in improving governance. An anticorruption law was passed in September 2013, an anticorruption commission was established, and senior officials are now required to declare their income and assets. Decentralization and deconcentration measures have been enacted to hand over responsibilities to state governments. The use of town hall meetings and other participatory measures has fostered greater civil society participation and oversight. Adoption of a national data integrity law and support for independent statistical data collection and reporting has also contributed to more accurate and credible assessment of economic and social performance.

17. **Building a dynamic and resilient private sector.** Myanmar's private sector is underdeveloped. State-owned enterprises play a dominant role in many areas, including mining, power, telecommunications, and financial services. Small and medium-sized enterprises, which account for much of private sector employment, are hampered by weak infrastructure, lack of access to competitive financing, and inadequate and limited access to markets. The World Economic Forum (2013) lists the top five impediments to doing business in Myanmar as (i) access to financing, (ii) policy instability, (iii) corruption, (iv) an inadequately educated workforce, and (v) an inefficient government bureaucracy.¹⁰ The Myanmar Business Survey 2014 identified corruption and lack of skills as the two leading constraints to private sector development.¹¹ However, substantial progress in improving the enabling business environment is being made. The weak private sector is reflected in the economy's narrow range of agricultural products and natural resources, which are extracted with limited processing and domestic value added. Myanmar's exports are mostly primary goods, for example, natural gas, unfinished logs, uncut gems and semiprecious stones, textiles, and agricultural foodstuffs. Improving public policies, infrastructure, and institutional arrangements to promote a more diverse and competitive economy, which relies less on low-productivity agriculture and more on higher value-addition in manufacturing and services is essential if the engines of growth are to shift from resource extraction to factor productivity and greater domestic value-added.

18. **Fostering regional economic integration.** Myanmar occupies a central geographic location at the crossroads of Asia. Improved infrastructure and economic development in the country will benefit both Myanmar and its neighbors by lowering trade costs, expanding markets, and improving access to raw materials. Regional economic integration opportunities are substantial, but realizing them poses major short- and medium-term financial and management challenges. Substantial hard infrastructure, in the form of new air, road, rail, maritime, port, logistics services, and information and communication technology will be needed to reduce the costs of trading across borders with neighboring countries. The ASEAN power grid, the ASEAN gas pipeline, the Asian Highway, and the establishment of special economic zones are all aimed at boosting regional economic ties. Institutional and policy improvements, especially in trade and investment areas, are required to fully implement regional agreements

⁹ World Bank. 2013. *Myanmar: Public Financial Management Performance Report*. Washington, DC.

¹⁰ World Economic Forum. 2013. *The Global Competitiveness Report 2013–2014*. Geneva.

¹¹ Organisation for Economic Co-operation and Development and United Nations Economic and Social Commission for Asia and the Pacific. 2013. *Myanmar Business Survey 2014*. Bangkok.

including the ASEAN agreement on trade, the ASEAN single-window agreement, and the ASEAN comprehensive investment agreement.

D. The Government's Reform Agenda

19. Myanmar has made rapid strides in its political, social, and economic reforms since early 2011, when a civilian government led by President U Thein Sein was sworn in following the 2010 general election. During the first year of the new administration, initial reforms focused on the political system in an attempt to restore peace and achieve national unity. Progressively, the government has introduced a wide-ranging economic and social reform program, with the main focus of policy reform shifting from macroeconomic policies to improving central and state sector policies and institutional arrangements.

20. Policy reforms have been implemented to strengthen macroeconomic stability and address key impediments to a market-based economy. One of the most significant reforms has been the unification of exchange rates. On 2 April 2012, the country's multiple exchange rates were abolished, while the highly overvalued official exchange rate was replaced by a managed floating rate set by daily auctions of foreign exchange between commercial banks and the Central Bank of Myanmar. The new Foreign Exchange Management Law was approved in August 2012 with the intention of lifting all restrictions on transactions in the current account. The other key macroeconomic problem—the monetization of large budget deficits—is also being addressed. The new central bank law approved in July 2013 grants operating autonomy to the central bank, which is now independent of the Ministry of Finance. The central bank is starting to build capacity to operate independent monetary policy.

21. Much progress has been made in building the foundations for a market-oriented financial system. A broad financial reform program started in 2012, allowing private banks to open foreign exchange counters and adjusting the administratively set interest rate on deposits and loans more frequently. Reforms accelerated in 2013 with facilitation of the opening of new bank branches, broadening of the definition of collateral for lending to include agricultural export goods, partial liberalization of deposit interest rates, extension of loan durations, and introduction of mobile banking. A formal foreign exchange market also commenced. Credit card use has been allowed and is expanding. An automated teller machine network is fast developing and an interbank payments network has been put in place. An electronic transactions law is being drafted, and an anti-money laundering law enacted in April 2014 is being actively enforced. In early October 2014, following a tender process in which 25 foreign banks participated, 9 were awarded limited operating licenses to facilitate foreign direct investment in Myanmar and bring needed capital and expertise to the financial sector.

22. Public sector financial management reforms have been enacted to strengthen budgeting and to broaden the government revenue base. State-owned enterprises have been made more responsible for their budgets, while exchange rate reform has given a more realistic value to revenues from resource extraction, especially for natural gas. Ongoing tax reforms and projected increases in gas production and revenue should increase government income over the next several years. These changes have enabled the government to invest in badly needed infrastructure and social development. On the expenditure side, the government has embarked on a program to improve public financial management, including a public expenditure review.

23. Many structural and sector reforms have been implemented and more are under way. Antiquated laws on labor relations have been replaced, and policies designed to speed skill acquisition by workers implemented. New special economic zones have been established and a new law on foreign direct investment has provided some clarity and security to foreign investors. The law is being improved to cover both domestic and foreign investment. In agriculture, food security programs and participatory rural development programs are under way. New laws have clarified land rights, aided in land registration, and created the beginnings of a market for agricultural land. In the natural resource sector, improvements have been made to the laws on natural resource management. For the power system, PPPs have been used to expand power generation, and new laws and legislation are being processed to improve system oversight and foster competition. Power subsidies were substantially removed in April 2014, while ensuring the protection of lifeline power requirements of the poor. In telecommunications, licenses have been issued to two foreign mobile telecommunications operators, and in tourism, new strategies and reforms for visas, zoning, and marketing have been adopted. In the social sectors, public funding has been increased, school grants introduced, and health financing strategies piloted.

III. THE GOVERNMENT'S FORWARD DEVELOPMENT VISION TO 2031

24. President U Thein Sein's inaugural address acknowledged the multitude of challenges facing the country and offered a preview of the new government's development strategy to address those challenges. He recognized the urgent need for Myanmar to invest in physical and social infrastructure, particularly in education and health; and to pursue a strong, growth-oriented development strategy based, in the first instance, on agriculture and natural resources, and secondarily on manufacturing for domestic and export markets. The President also emphasized the importance of transparency, accountability, good governance, and the rule of law; along with the need to deal with corruption, cronyism, and the widening gap between rich and poor.

25. The Framework for Economic and Social Reforms¹² identifies four government policy priorities for 2012–2015: (i) sustained industrial development, while maintaining the momentum of agricultural reforms and attaining poverty alleviation and rural development; (ii) equitable sharing of resources among regions and states, while promoting foreign and local investments for regional development; (iii) effective implementation of people-centered development through community-driven and participatory approaches to improvements in education, health, and living standards; and (iv) reliable and accurate gathering of statistical data and other information to enable better informed public policy decisions.

26. To guide future reform and development, the proposed National Comprehensive Development Plan, 2011–2031 currently being prepared, will map development pathways to 2031. It aims at achieving the status of a developed nation by integrating into the global community; building a growing, diversified, and sustainable economy; and ensuring people-centered growth and development. Strategic thrusts of the plan are (i) strengthening governance and public institutions, (ii) creating an enabling business environment and strong enterprise base, (iii) expanding domestic and global connectivity and economic integration, (iv) fostering internationally competitive sectors, (v) developing local economic potential, (vi) promoting human development and reducing poverty, and (vii) conserving and protecting the natural resource base.

¹² Republic of the Union of Myanmar. 2013. *Framework for Economic and Social Reforms: Policy Priorities for 2012-15 towards the Long-Term Goals of the National Comprehensive Development Plan*. Nay Pyi Taw.

27. The government's planning framework is results-oriented. It aims to achieve full economic integration with ASEAN in accordance with its ASEAN Economic Community 2015 schedules; to realize the Millennium Development Goals and other human development objectives by 2015; and to graduate from less-developed country status and become a knowledge-based economy by 2020. Under the Framework for Economic and Social Reforms, the government has set goals for the period up to 2015 of (i) average annual GDP growth of 7.7%; (ii) growth of the industrial share of GDP from 26% to 32% together with an increase in the services sector; and (iii) growth in per capita GDP of 30%–40% from the base year of 2010.

IV. ADB'S REENGAGEMENT IN MYANMAR

28. Myanmar joined ADB in 1973 and operations started in December of the same year. From 1973 to 1986, ADB provided 32 loans totaling \$531 million for 29 projects. All of the loans are closed. Most of the ADB assistance was provided for the development of agriculture, energy, transport, health, and water. Processing of ADB loan and technical assistance (TA) projects in Myanmar was suspended in 1988. ADB staff visits to Myanmar were fielded periodically to keep abreast of the country situation and to join the annual International Monetary Fund Article IV consultation. Government representatives continued to participate as observers in ADB's Greater Mekong Subregion (GMS) regional cooperation programs, which allowed for ongoing dialogue on regional cooperation plans and strategies.

A. Reengagement Process

29. **Initial phase.** In response to the country's opening under President Thein Sein, in early 2012 ADB reengaged with Myanmar through a series of initial economic and sector analyses, the conduct of comprehensive sector assessments, capacity development and institutional support, support for project preparation, preparation of an interim country partnership strategy (CPS), and resumption of lending operations.

30. **Framework for reengagement activities.** The interim CPS, 2012–2014 was approved in October 2012 to provide the framework for reengagement activities. The strategy embodies the strategic thrusts of (i) building human resources and capacity (capacity building in ministries in core areas of ADB involvement, and education), (ii) promoting an enabling economic environment (macroeconomic and fiscal management, trade, investment, and finance sector reform), and (iii) creating access and connectivity (rural livelihoods and infrastructure development, especially energy and transport). ADB is providing support in the thematic areas of good governance, environmental sustainability, private sector development, regional cooperation and integration, and gender; as well as focusing on the crosscutting areas of knowledge and partnerships.

31. **Support for reform and clearing arrears.** Generous development partner support was critical to enabling ADB's reengagement in Myanmar. ADB coordinated closely with the Japan Bank for International Cooperation and the World Bank to clear Myanmar's arrears to multilateral development banks by way of debt rescheduling. This was a required condition precedent for clearance of bilateral arrears under the Paris Club. The Japan Bank for International Cooperation provided bridging loans to the government in January 2013 to clear its arrears to ADB and the World Bank, which allowed disbursement of policy-based loans from ADB and the World Bank to immediately clear the bridging loans. ADB's \$512 million ADF policy-based loan, Support for Myanmar's Reforms for Inclusive Growth, was disbursed in a single tranche on 27 January 2013 to provide the foundation for improved policy frameworks that support inclusive growth, such as macroeconomic policy, public finance, trade, investment

and finance sector development, agriculture, and education.¹³ A post-program partnership framework was put in place to support and track reforms in each of these areas.

32. **ADF special allocation.** ADF donors recognized the importance of Myanmar's reengagement and responded with the special resources required for ADB to reengage with the country. In view of its low per capita income, Myanmar is classified as a group A (ADF-only) country. Following clearance of the arrears in January 2013, demand for ADF-financed investments was assessed based on the interim CPS, government priorities, ADB economic and sector work, and consultation with other development partners, which was the basis for proposing a second special ADF allocation approved by the Board in August 2013.¹⁴ ADF donors provided a special allocation of ADF resources, indicatively amounting to \$1.024 billion for 2013–2016, and including the policy-based loan for \$512 million approved in January 2013 (Table 2).

Table 2: Remaining Special Allocations and Additional Resources under ADF XI
(\$ million)

Item	Amount
Remaining special ADF allocation (projected)	512.0
Additional ADF resources available ^a	418.0
Incremental reflows	65.0
Carryover of ADF X resources	227.0
Committed additional donor contributions	126.0
Resource gap	94.0

ADF = Asian Development Fund.

^a Valued as of 18 March 2014. Figures are indicative and subject to exchange rate volatility.

Source: Asian Development Bank estimates.

33. **Cofinancing.** Leveraging ADB's scarce ADF resources, and combining efforts with other partners to reduce aid transaction costs is central to ADB's reengagement strategy. By the end of 2013, cumulative direct value-added official cofinancing for Myanmar amounted to \$60.1 million for eight investment projects and \$19.1 million for 28 TA projects, from the governments of Australia, France, and Norway, and from the e-Asia and Knowledge Partnership Fund of the Republic of Korea; the Japan Fund for Poverty Reduction; the People's Republic of China's Regional Cooperation and Poverty Reduction Fund; and the Multi-Donor Trust Fund under the Water Financing Partnership Facility. To date, Myanmar has received grant cofinancing of \$26 million for three projects from the Japan Fund for Poverty Reduction, under a special Myanmar allocation. In 2014, the Mandalay Urban Services Improvement project attracted cofinancing interest from the French government for \$80 million, the Support for Public-Private Partnerships Framework Development technical assistance received \$2 million from the United Kingdom Department for International Development, and cofinancing for the Preparing Youth for the Workplace project is under discussion with several development partners. Meanwhile, the government and ADB are actively working together to mobilize cofinancing from other development partners to supplement ADB resources. The resident mission Yangon office coordinates activities with development partners, and actively encourages other development partners to become involved in project identification and design to inspire more project cofinancing. ADB support for country capacity and reform programs and

¹³ ADB. 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loan to the Republic of the Union of Myanmar for Support for Myanmar's Reforms for Inclusive Growth*. Manila.

¹⁴ ADB. 2013. *Financing Asian Development Fund Operations in Myanmar*. Manila.

investment plans in key sectors contributes to common platforms around which development resources can be combined.

34. **An investment pipeline.** To quickly realize tangible benefits and help sustain the government's reform programs, the country operations business plan, 2014–2016 proposes that initial lending and grant operations focus on the priority areas of access, connectivity, and infrastructure development. TA projects are to primarily focus on the program areas of institutional and human capacity building, and the enabling economic environment. The present investment pipeline envisages \$580 million in ADF loans during 2014–2016. For 2014, two projects (Maubin Phayapon Road Rehabilitation, and Pro-poor Community Infrastructure and Basic Services) are programmed for a total of \$80 million in ADF loans and \$4 million in trust fund grants. For 2015, six projects (GMS East–West Economic Corridor Eindu to Kawkareik Road Improvement, Power Transmission and Distribution, Preparing Youth for the Workplace, Irrigation Command Area Development, and Mandalay Urban Services Improvement, and Economic Empowerment of the Poor and Women in the East–West Economic Corridor) are programmed for a total of \$335 million in ADF loans and \$3 million in trust fund grants. For 2016, four projects (Second Power Transmission and Distribution, Third GMS Corridor Town Development, Enhancing Rural Livelihoods and Incomes in Kayin State, and Third GMS Health Security Project) are programmed for \$165 million in ADF loans and \$12 million in trust fund grants.

35. **Grant projects.** In December 2013, ADB approved two project grants financed by the Japan Fund for Poverty Reduction: (i) Enhancing Rural Livelihoods and Incomes for \$12 million to improve agricultural productivity and enhance livelihoods to reduce rural poverty in the Ayeyawaddy Delta, in Magway and Mandalay regions in the Central Dry Zone, in Tanintharyi Region, and in Shan State; and (ii) Capacity Building for HIV/AIDS Prevention for \$10 million to establish innovative partnerships between the government and nongovernment organizations to deliver better health prevention and treatment services in 739 villages in five townships of Kayin, Mon and Shan states. In early 2014, another Japan Fund for Poverty Reduction project was approved, the \$4 million Pro-poor Community Infrastructure and Basic Services Project.

36. **Planned technical assistance.** A total of 10 TA proposals are being processed for approval in 2014 for around \$13 million, including preparation of an irrigation project and capacity development in project implementation, vocational and technical training, finance sector reforms, PPPs, public debt management, and private sector development. ADB plans to work with the World Bank and JICA to help the government develop standard operating principles for the use of external assistance, which will reduce the cost of managing its foreign borrowings.

37. **Extending the interim Country Partnership Strategy.** The interim Country Partnership Strategy (CPS) 2012–2014 is proposed to be extended up to 2016 to align with the government's next 5-year development plan and the ADF funding cycle. The 2-year extension permits a smooth transition into the full 5-year CPS, 2017–2021, for which background consultations and assessments are already under way. In the next 2 years, ADB will increasingly focus its support on Myanmar's efforts to address key development constraints through substantial infrastructure, skills, and related investments, as well as direct support for key reforms, building on the absorptive capacity-building efforts to date in the areas of public financial management and project management. As agreed with the authorities, ADB will seek to increasingly tighten the sector focus and selectivity in line with the interim CPS, evolving

government needs and priorities, and the midterm review of Strategy 2020.¹⁵ This will involve taking a long-term, programmatic approach in priority sectors.

38. **Establishment of the ADB Resident Mission.** The Extended Mission in Myanmar was established and initially located with the World Bank Group in Yangon from 1 August 2012. The ADB Board of Directors in October 2013 approved the establishment of a full resident mission in Myanmar with two offices: one in the capital Nay Pyi Taw, and one in Yangon, the commercial center and base of most development partners. The Host Country Agreement was signed shortly thereafter. In April 2014, ADB completed the establishment of its Myanmar Resident Mission with the two offices. ADB is the first development partner to establish a significant presence in Nay Pyi Taw. Six international staff have been fielded, of which four are based in Nay Pyi Taw, one in Yangon, and the country director commuting between both offices.

B. ADB Operations

1. Building Human Resources and Capacity

39. With reengagement, the government and ADB recognized that basic capacity and competencies in the public sector needed to be developed if external assistance was to be used effectively and efficiently. Considering the large gap that existed between international norms and government policies, legal and regulatory environment, and the institutional systems and procedures, ADB is implementing a wide-ranging TA program to support the government's reform and capacity development agenda. During 2012–2013, ADB approved a total of 25 TA projects totaling about \$25 million and financed by ADB's TA program, trust funds, and bilateral cofinancing. Sector coverage encompasses education, finance sector, public financial management, external debt management, private sector development, trade and investment policy, energy, power, transport, information and communication technology, statistics, tourism, environmental and social safeguards, community and civil society participation in development, urban development, and municipal infrastructure.

40. ADB's capacity development approach has involved support to develop the legal, regulatory, and institutional framework in thematic areas critical to development management (e.g., planning, procurement, public financial management, private sector development) and in core sectors of the economy (e.g., ADB has supported in-depth analytical work on post-primary education for the Comprehensive Education Sector Review to identify more clearly sector challenges, priority areas, and strategic options). Building from the work on the education sector review, ADB is developing a Preparing Youth for the Workplace Sector Development Project which aims to meet the capacity needs of the labor market through improvements in both secondary and technical and vocational education and training (TVET) sectors. This project will improve workforce skills and training quality, and ensure that secondary education and TVET subsectors are closely aligned, meet labor force needs, and facilitate domestic and foreign investment.

¹⁵ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and the Pacific*. Manila.

2. Promoting an Enabling Economic Environment

41. **Private sector development.** ADB is supporting the government's plans to develop a strong private sector as the engine of economic growth. ADB is implementing a PPP initiative to develop tools and processes for energy sector PPPs as well as a national PPP framework. This is planned to be extended to cover legal, regulatory, and institutional reform; capacity building in line ministries; and preparation of a PPP fund along with pathfinder projects. A TA project to reform the company law and the company registry was approved and rolled out in 2014. The Financial Sector Reform TA was approved in 2013 to assist the Central Bank of Myanmar by (i) providing direct, targeted capacity building and a flexible training fund for staff; and (ii) supporting financial inclusion through the development of a financial literacy strategy, and strengthening microfinance support organizations. In addition, the proposed project on Preparing Youth for the Workplace will help address human resources as a major constraint to private sector development.

42. ADB has developed its private sector network including through engagements with business leaders and entrepreneurs in roundtable meetings and discussions. The resident mission, along with other ADB resident missions in the GMS, has developed a concept paper for the Mekong Business Initiative. The proposed initiative, which is developed jointly with Australia, will be an advisory and advocacy facility to promote private sector development in the GMS region. It will help align national and regional private sector development agendas and act as a regionwide umbrella for private sector development. To support this activity and to underpin the private sector reform agenda, ADB is carrying out a private sector assessment in Myanmar in 2014.

43. **Private sector operations.** Starting in 2014, ADB is expected to play a role in providing equity investments and long-term debt, as well as catalyzing cofinanciers for private sector projects in Myanmar. Key target sectors include urban renewal, telecommunications, energy, and finance. ADB's Trade Finance Program fills market gaps by providing guarantees and loans through partner banks in support of trade. In Myanmar, the program is working with a number of banks and plans to commence lending activities; a Trade Finance Program loan to one bank has already been approved.

3. Creating Access and Connectivity

44. **Infrastructure.** On 6 December 2013, the first investment project loan since reengagement was approved. The \$60 million Power Distribution Improvement Project will rehabilitate the distribution network and help reduce system losses and subsequently enhance access to electricity for urban and rural consumers. ADB's second investment project loan will be the \$80 million Maubin Phyapon Road Rehabilitation Project planned for approval in late 2014. This will open up Myanmar's delta region to commercial opportunities both in Myanmar and the Greater Mekong Subregion.

45. **Regional cooperation and integration.** ADB is aligning national and regional programs to gain access to regional and global markets, technology, and finance and management expertise, bringing relevant lessons from its regional neighbors. ADB has assisted the government in preparing for and participating in numerous workshops and conferences promoting regional cooperation and integration, both under the GMS and other regional cooperation and integration forums. ADB's near-term regional support will focus on three fronts: (i) increasing investments to expand urban development around corridor nodal points (e.g., the Third GMS Corridor Town Project in 2016, and the Mandalay Urban Services Improvement

Project in 2015); (ii) making progress in transport and trade facilitation, and in logistics development (e.g., GMS road projects in Myanmar, GMS trade facilitation TA, and extending GMS sanitary and phytosanitary activities to Myanmar) and (iii) fostering south–south cooperation, particularly knowledge sharing between other ADB developing member countries and, in particular, neighboring countries. A major investment project is being developed for approval in 2015 that will reconstruct a section of the GMS East–West Economic Corridor between Eindu and Kawkareik.

4. Cross-Cutting Issues

46. **Good governance.** ADB has promoted good governance in Myanmar by integrating support for stronger sector planning, project management, and safeguards in each of its operations. Support for improved fiscal and sector policies has contributed to better governance. In 2013, ADB supported strengthening public financial management through staff participation in the public expenditure review for Myanmar as well as conducting a public debt management. Staff have also actively participated in regular public financial management sector working group meetings. Outcomes of this dialogue include the government’s development and adoption of a comprehensive and well-sequenced public financial management reform strategy along with well-coordinated support from development partners for implementation of the strategy. ADB is also supporting strengthening of public debt management through an ongoing technical TA project approved in 2013.

47. **Knowledge solutions.** In 2012, ADB produced a series of sector studies covering key sectors of the economy; these were the first major Myanmar sector studies published internationally. A major diagnostic assessment of the economy, and its reform potential, *Myanmar in Transition: Opportunities and Challenges*, was published in 2012¹⁶. A 2013 report, *New Energy Architecture: Myanmar*, was produced together with the World Economic Forum and Accenture¹⁷. The report offers a vision for how Myanmar can deliver on its objective of crafting an energy architecture that better meets the goals of the “energy triangle,” namely achieving economic growth and development to provide energy access and security in an environmentally sustainable fashion. Building on the study findings, and in close consultation with other development partners, ongoing advisory support is being provided to develop an energy sector policy paper, an energy-efficiency policy, and an energy sector master plan. With grant cofinancing from Norway (\$0.25 million), ADB assisted the Ministry of Hotels and Tourism to prepare Myanmar’s first Tourism Master Plan, 2013–2020. The government approved the plan in June 2013; the plan is recognized internationally (including at the Myanmar World Economic Forum meeting in 2013) as a comprehensive, practical, and action-oriented document. This was the first ADB TA project completed since reengagement with Myanmar and it is rated highly successful. ADB also supported the Myanmar Comprehensive Education Sector Review, which is contributing to planning and reform in the education sector. In 2014, the Myanmar Country Diagnostics Study by ADB’s Economics and Research Department contributed to informing Myanmar’s planning process.¹⁸

48. **Gender equity.** A gender situation analysis is being prepared in collaboration with the Department of Social Welfare of the Ministry of Social Welfare, Relief and Resettlement with support from ADB, United Nations Women, United Nations Population Fund, and United Nations

¹⁶ ADB. 2012. *Myanmar in Transition: Opportunities and Challenges*. Manila.

¹⁷ World Economic Forum. 2013. *New Energy Architecture: Myanmar*. Prepared in collaboration with Accenture and the Asian Development Bank. Geneva.

¹⁸ See footnote 3.

Development Programme. After extensive consultations, the report will be finalized and presented to the government and development partners in late 2014.

49. **Environment impact guidelines.** The GMS Environment Operations Center (EOC) has engaged with the Ministry of Environmental Conservation and Forestry (MOECAF) on a range of environmental matters. EOC helped finalize the Foreign Investment Law and Rules, providing guidance on environmental aspects and ensuring consistency with forthcoming environmental impact assessment (EIA) procedures. EOC has supported the preparation of new EIA procedures, which set out requirements for projects to prepare an initial environmental examination and/or EIA, and environmental management plans for submission to MOECAF. EOC has concurrently been preparing interim national environmental quality standards for MOECAF and commenced preparation of EIA technical guidelines.

50. **Compliance with ADB policies and procedures.** ADB and the government recognize the urgent need to increase government counterparts' awareness and understanding of ADB policies and standards, which must be complied with in order to absorb ADB assistance. These include environmental and social impact safeguards, project procurement and financial management, and public information disclosure. ADB is simultaneously focusing on strengthening national systems and government capacity, in collaboration with other development partners, while implementing a program of priority investment projects. Harmonization of development partner systems and ensuring strong interfaces with civil society, local communities, and other stakeholders is a key focus. ADB has been providing capacity building and advisory support on safeguard policies through the regional TA on Strengthening Country Safeguards Systems. Targeted support has been provided to MOECAF, the Ministry of Construction, the Ministry of Industry, and the Ministry of Electric Power to introduce social and environment safeguards. A capacity development assistance plan, currently being drafted, will delineate the specific needs of MOECAF in implementing and applying environmental and social impact assessments guidelines, and discussions on potential collaboration with JICA and the World Bank on developing country safeguard systems are under way.

51. **Conflict sensitivity approach.** Some of the poorest regions in Myanmar are those that have been isolated and underserved after decades of conflict. Bringing services to these regions is essential if the cycle of poverty, violence, and instability is to be broken. But these are difficult regions to work in because political conflicts have yet to be fully resolved and because poorly planned initiatives could inadvertently contribute to social unrest and instability. ADB will build on lessons from other postconflict countries, such as Nepal, to develop peace-building tools and conflict-sensitive approaches that can be integrated into Myanmar operations (Box). The resident mission is currently incorporating a conflict-sensitive approach into all ADB work in Myanmar in three areas: (i) considering whether or not to undertake specific activities in conflict areas; (ii) raising awareness among the Myanmar country team of the broad issues, and providing more detailed training on how to deal with conflict-affected areas if ADB decides to get involved; and (iii) ensuring that projects that do go into conflict-affected areas apply a conflict-sensitive approach.

Lessons for Myanmar from Post-Conflict Peace Building in Nepal

ADB began using a peace-building tool (PBT) in Nepal in early 2010 to improve project design and implementation. ADB's Nepal Resident Mission retained a peace-building advisor on a long-term basis to assist in applying the PBT, to make practical recommendations for improving its content and use, and to raise awareness among all country team members. The PBT assists project team leaders in understanding the local context, identifying potential risks to the implementation of development projects linked to social conflict, and formulating mitigation measures. The PBT focuses on (i) structural causes of conflict, (ii) project-specific issues, (iii) risks to the project associated with social conflict, (iv) possible peace-building opportunities, and (v) recommended adjustments to the project. Seven major issues are dealt with: (i) post-conflict environment, (ii) formal decision-making and implementation structures, (iii) informal peace-building structures, (iv) social issues, (v) socioeconomic issues, (vi) geographic issues, and (vii) security issues.

The PBT is initially used during project fact-finding and is then revised during implementation of a project preparatory technical assistance in consultation with a social or conflict specialist. Where the conflict risks could have a significant negative impact on project implementation, use of the PBT is accompanied by a more extensive conflict-sensitive approach to project analysis formulated during project design. During 2010–2012, about 13 Nepal projects were analyzed and 15 districts monitored using the PBT. Coordination among ADB's development partners was likewise strengthened through regular sharing of experiences and through ADB participation at meetings and workshops relating to the PBT.

Lessons: Use of the PBT in project design and monitoring of implementation has shown that quick-impact projects with tangible results, such as small infrastructure building, are likely to gain local acceptance by citizens in conflict-affected areas. Likewise, implementation approaches that create community ownership, boost local employment, and develop income-oriented skills are readily accepted. Fair selection of project beneficiaries is also important to mitigating conflict risks. Demonstrating fairness in the selection processes with respect to geographic location, gender equality, and social inclusion helps boost stakeholder ownership and support for ADB projects. Application of the tool reveals that approaches to peace building are strongly location and sector and/or site specific.

Source: ADB. 2012. *A Peace-Building Tool for a Conflict-Sensitive Approach to Development: A Pilot Initiative in Nepal*. Manila. www.adb.org/publications/peacebuilding-tool-conflict-sensitive-approach-development-pilot-initiative-nepal

52. Partnerships with civil society. Working in partnership with other stakeholders is critical to the success of ADB support to Myanmar. The TA project, Strengthening Civil Society Participation in ADB-Financed Operations, which aims to support inclusive growth in all ADB projects by building civil society participation into ADB operations in Myanmar, began in 2013. The project is preparing a stakeholder map of civil society participants, developing a knowledge product providing an overview of civil society in Myanmar, and developing a consultation and participation plan for ADB in Myanmar.

53. Partnerships with development partners. ADB supported the government in convening its first Myanmar Development Cooperation Forum in January 2013. At the forum, development partners endorsed the Nay Pyi Taw Accord for Effective Development Cooperation and committed to principles of aid effectiveness agreed at the Paris, Accra, and Busan high-level forums. The Second Myanmar Development Cooperation Forum, again with ADB support, was held in January 2014; it reviewed progress made in implementing the Nay Pyi Taw Accord and provided guidance for enhancing support to the government's reform objectives. The government and development partners have formed an overall aid coordination working committee, comprising ADB, Department for International Development of the United Kingdom, European Union, Government of Australia, Japan, United States Agency for International Development, the United Nations, and the World Bank Group, chaired by the Ministry of

National Planning and Economic Development. The government has formed 16 sector working groups for development partner coordination in various sectors and thematic areas. Each group is chaired by a relevant government agency with two co-chairs, each representing a bilateral and a multilateral development partner. ADB is leading coordination—jointly with the Japan International Cooperation Agency—in the electric power and transport sector working groups, and plays an active role in a number of other groups.

C. Expected Development Results

54. ADB and the government are deploying ADF and partner resources to achieve significant results. In the transport sector, support for the East–West corridor and significant arteries to the south will connect Myanmar’s delta region to vibrant regional markets. Linkages from that transport corridor to the countryside will bring access to markets and essential services within reach of thousands of villages. In the power subsector, support for establishing a proper regulatory framework, both for the subsector and for PPPs, will unlock major investments in power generation and help overcome the country’s chronic power shortages. Support for better transmission and distribution systems will cut power losses in project areas from 18% to around 14%, while improving the stability of the grid. Access to affordable power will be increased due both to ADB support and private investment.

55. ADB support for skills and TVET will enhance alignment to the needs of the labor force, and it will provide a large number of youth with the skills they need to find productive employment. ADB support for capacity development and policy reform will put in place many of the building blocks for a functioning commercial legal system, including support for a new company law, a new business registry, PPP legislation, public debt management capacity, and stronger capacity in the central bank. ADB support to the city of Mandalay will establish a good-practice model for involving the private sector in improving that city’s drinking water, sewerage, and sanitation services.

V. REENGAGEMENT OPPORTUNITIES AND FUNDING NEEDS

56. Myanmar has high growth potential, but reform and major investments in infrastructure, a market-friendly enabling environment, and relevant skills will be needed if the country is to realize this potential. ADB research suggests that Myanmar could grow at 7%–8% every year and achieve a real per capita GDP of \$3,000–\$3,600 by 2030.¹⁹ ADB estimates that public investments in infrastructure and the social sectors would need to steadily rise from \$4 billion–\$5 billion per annum over the next few years to \$10 billion–\$15 billion per annum by 2020 if the country is to tackle its connectivity, power, and skill bottlenecks and sustain high rates of inclusive economic growth. Domestic investment increased to 30% of GDP in 2012 from 19% in 2009, of which 9.8% of GDP was in the form of public (i.e., government and state-owned enterprise) investment. In 2012, the latest year for which complete figures are available, public infrastructure investment reached \$4.6 billion. Infrastructure investment alone needs to triple in real terms over the next decade if Myanmar is going to overcome decades of isolation and neglect. But for this to happen, a substantial increase in external assistance will be required to (i) provide positive incentives and support for continued reform, (ii) meet critical public investment requirements, and (iii) build on the positive results to date in bringing essential services and access to markets across the country.

¹⁹ See footnote 3.

57. While the special allocation provided by ADF donors has proven critical to enabling ADB to reengage and help address a number of key constraints, Myanmar's demand for ADF resources for 2014–2016 is well in excess of the approximately \$150 million per annum that ADB has made available for the country. The total indicative allocation for 2013–2016 is \$1.024 billion (Table 2).²⁰ In 2013, \$572 million of ADF resources were allocated for the Support for Myanmar's Reforms for Inclusive Growth Program and the Power Distribution Improvement Project. The proposed national ADF allocation in the present pipeline for 2014–2016 is \$452 million for transport, energy, education and skills, irrigation, and urban development projects. The financing gap is \$94 million. An additional \$128 million of funding is required for three regional projects: Greater Mekong Subregion East–West Economic Corridor Eindu to Kawkareik Road Improvement (\$65 million of a total of \$100 million), Third GMS Corridor Town Development (\$55 million of a total of \$80 million), and Third GMS Health Security Project (\$8 million of a total of \$12 million). If additional ADF resources are not available, these projects will be underfunded.

58. ADB has an opportunity to take on a major role in supporting Myanmar's economic transition and its integration into regional and global markets, and addressing bottlenecks in connectivity, power, and skills. To do so, however, the country will need significantly more ADF resources than have been made available to date. For a number of years, Myanmar may require a special allocation of ADF assistance because it is at the early stages of introducing market-oriented reforms and developing effective development institutions.²¹ A special ADF allocation would be appropriate because Myanmar is a large, poor, rapidly reforming country, and the ADB–Myanmar partnership faces a historic opportunity to bolster reforms, foster regional integration, and stimulate poverty reduction and socioeconomic development.

59. Looking ahead, the indicative ADF national allocation for 2017 is \$124 million.²² Given that Myanmar is in a “turn-around” situation, the country warrants exceptional support.²³ In particular, an ADF allocation outside the performance-based allocation formula could be considered taking into account ADB's commitment to date in building the absorptive capacity of executing agencies to implement projects,²⁴ supporting critical reforms in key sectors, and developing the first generation of strategic investment operations. The prospects for the effective utilization of assistance are significantly better in mid-2014 than they were when ADB resumed operations in 2012. The strong track record of the program and ADB's close

²⁰ The \$1.024 billion is funded by (i) a projected remaining special ADF allocation of \$512 million, and (ii) additional ADF resources available (from incremental reflows, carryover of ADF X resources, and committed additional donor contributions) of \$418 million.

²¹ The 2014 Myanmar country performance assessment under preparation for the ADF allocation process confirms the progress made to date in policy reforms and capacity building, while at the same time indicating clearly the extent of reforms required in the future.

²² This allocation would compare with expected annual allocations by Japan (around \$1.2 billion), World Bank (\$300 million–\$400 million), United States Agency for International Development (almost \$200 million), Republic of Korea (\$150 million), and Department for International Development of the United Kingdom (\$140 million). The People's Republic of China, the European Union, and India are also major donors.

²³ The World Bank defines a “turn-around” situation as a critical juncture in a country's development trajectory providing a significant opportunity for building stability and resilience marked by (i) the cessation of an ongoing conflict (e.g., interstate warfare, civil war, or other cycles of violence that significantly disrupt a country's development prospects); or (ii) the commitment to a major change in the policy environment following a prolonged period of disengagement from bank lending or a major shift in a country's policy priorities addressing critical elements of fragility. Myanmar has to date been eligible for exceptional IDA allocations. See World Bank. 2013. *Implementation Arrangements for Allocating IDA Resources To Countries Facing “Turn-Around” Situations: Background Note*, Washington.

²⁴ The increased selectivity and long-term programmatic approach being explored for future ADB operations in Myanmar will greatly facilitate the development of absorptive capacity in the respective executing agencies.

partnership with the government and other stakeholders provides an excellent foundation for increased development support.

VI. CONCLUSIONS

60. Myanmar has made tremendous progress in its transition to a democratic, market-oriented, and peaceful economy. The country has plans in place to reach upper-middle-income status by 2030 and is determined to pursue measures to reform public policies, to improve governance and human rights, to attract foreign investment, and to close the development gap with its ASEAN neighbors.

61. Since reengaging in Myanmar, ADB has established a presence in the country, and contributed to building the country's institutional capacity, to policy reform, and to financing and implementing strategic investments. With the support of ADB and other development partners, the government's long- and medium-term plans are being formulated, and strategies developed to address decades of infrastructure and social service neglect.

62. Myanmar has a unique opportunity to lay the foundation for a brighter, more prosperous future, but to approach upper middle income status by 2030, major investments in infrastructure and human development will be required. While the private sector will play a growing role in meeting infrastructure investment needs, public sector investment requirements are enormous. Capacity is being developed and the government's ability to plan and deploy external assistance effectively has substantially improved in the last 2 years. An additional special allocation of ADF resources, suitable for a "turn-around" situation, would allow ADB to build on its track record and solid partnership to help Myanmar to improve connectivity, overcome power shortages, and build the human capital the country so urgently requires. ADB's progress in supporting reform, developing infrastructure, and building knowledge and awareness provides a strong assistance record on which to build in the years to come. The success of ADB's reengagement in Myanmar so far is due, in no small part, to the generosity of the ADF donors. Continued support of ADF financiers is needed if ADB, and the partners it cooperates with, are to help Myanmar achieve its development goals at the center of a thriving and prosperous region.

PORTFOLIO INFORMATION

Table A.1: Loan, Equity, Guarantee, Grant, and Technical Assistance Approvals
(\$ million)

Item	2012	2013	1973–2013
Loans	0.0	572.0	1,102.9
Sovereign	0.0	572.0	1,102.9
Nonsovereign	0.0	0.0	0.0
Grants	...	22.0	22.0
ADF	0.0	0.0	0.0
JFPR	...	22.0	22.0
Others	0.0	0.0	0.0
Technical Assistance	5.4	19.4	30.1
TASF	4.6	6.3	
JFPR	0.2	7.7	
Others	0.6	5.4	
Total	5.4	613.4	1,155.0

... = data not available, ADF = Asian Development Fund, JFPR = Japan Fund for Poverty Reduction, TASF = Technical Assistance Special Fund

Source: Asian Development Bank.

Table A.2: Portfolio Performance: Loan and Grant Approvals (2012–2013)

Item	ADF		
	Loans	Grants	Total
2013 Support for Myanmar's Reforms for Inclusive Growth	512.0		512.0
Power Distribution Improvement Project	60.0		60.0
Total	572.0		572.0

ADF = Asian Development Fund.

Source: Asian Development Bank.

Table A.3: Portfolio Performance: JFPR Grant Approvals (2012–2013)
(\$ million)

Year	Project Name	Amount
2012		0.0
2013	Enhancing Rural Livelihoods and Incomes	12.0
	Greater Mekong Subregion Capacity Building for HIV/AIDs Prevention	10.0
Total (2009–2013)		22.0

Note: Includes only Japan Fund for Poverty Reduction (JFPR) projects, excluding technical assistance projects.

Source: Asian Development Bank.

Table A.4: Portfolio Performance: Technical Assistance (2012–2013)
(\$ million)

Year	Project Name	Amount	
		TASF	Others
2012	Support for Education Sector Planning	0.200	0.370
	Financial Management Assessment of Energy Sector	0.160	0.000
	Myanmar Tourism Master Plan	0.000	0.225
	Trade Facilitation Support for ASEAN Economic Community Blueprint Implementation (Myanmar)	0.000	0.225
	Capacity Development and Institutional Support	1.500	0.000
	Capacity Building Support for Project Identification	1.500	0.000
	Support for the Preparation and Dissemination of the Myanmar Gender Situational Analysis	0.115	0.000
	Strengthening Civil Society Participation ADB-Financed Operations	0.225	0.000
	Support for Trade Policy Development	0.225	0.000
	Support for Improving the Business Climate	0.225	0.000
	Improving Fiscal Revenue Mobilization	0.225	0.000
	Maximizing Transport Benefits Through Community Engagement	0.190	0.000
	Total	4.565	0.820
	2013	Developing the Asset Management Program for Myanmar Roads	0.000
Greater Mekong Subregion East–West Economic Corridor Eindu to Kawkareik Road Improvement		0.000	1.500
Power Transmission and Distribution Improvement Project		0.000	1.500
Institutional Strengthening of National Energy Management Committee in Energy Policy and Planning		0.000	1.350
Capacity Development of the National Statistical System of Myanmar		0.000	1.200
Support for Post-Primary Education Development		1.000	0.500
Design of e-Governance Master Plan and Review of ICT Capacity in Academic Institutions		0.500	1.000
Transformation of Urban Management		0.000	2.000
Enhancing the Power Sector's Legal and Regulatory Framework		0.000	0.850
Mandalay City: Urban Services Improvement Project		1.000	1.000
Support for Strengthening Public Debt Management		1.500	0.000
Support for Financial Sector Reforms		1.000	0.000
Capacity Development and Institutional Support (Supplementary)		0.590	0.300
Preparing Irrigation Command Area Development Project		1.200	0.000
Total	6.790	12.565	

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, ICT = information and communication technology, TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

Table A.5: Portfolio Performance: 2014 Loan and Grant Program

Year	Project Name	ADF		Other Sources ^a
		Loans	Grants	
2014	Firm			
	Maubin to Phyapon Road Rehabilitation Project	80.0		
	Pro-Poor Community Infrastructure and Basic Services (grant)			4.0
	Total Firm	80.0		4.0

ADF = Asian Development Fund

^a Includes Japan Fund for Poverty Reduction, other trust funds and cofinancing sources.

Source: Asian Development Bank.

Table A.6: Portfolio Performance: Technical Assistance (2014)
(\$ million)

Year	Project Name	Amount	
		TASF	Others
2014	Firm		
	Skills Development for Inclusive Growth		2.00
	Off-Grid Renewable Energy Demonstration Project		2.00
	Strengthening Institutions for a Better Business Investment Climate		1.50
	Support for Public–Private Partnerships Framework Development		2.00
	Environmental Safeguard Institutional Strengthening	1.00	
	Myanmar Knowledge and Capacity Development	0.50	0.50
	Transport Sector Reform and Modernization		1.00
	Preparing the Third Corridor Towns Development Project	0.50	0.85
	Interconnection and Electrification Grid Studies	0.25	
	Support for Capacity Development in Sanitary and Phytosanitary Arrangements	0.22	
	Total Firm	2.47	9.85

TASF = Technical Assistance Special Fund.

Source: Asian Development Bank.

Table A.7: Portfolio Performance: Lending and Grant Products 2015–2016
(\$ million)

Project/Program Name	Cost		
	Total	ADF Loan	Co-finance
2015			
1. Irrigation Command Area Development Project	75.0	75.0	...
2. Power Transmission and Distribution Improvement Project	80.0	80.0	...
3. Mandalay Urban Services Improvement Project	140.0	60.0	80.0
4. Preparing Youth for the Workplace Sector Development Project	52.0	20.0	32.0
5. GMS East-West Economic Corridor Eindu to Kawkareik Road Improvement Project	100.0	100.0	...
6. Economic Empowerment of the Poor and Women in the East West Economic Corridor (grant)	3.0	...	3.0
Total	450.0	335.0	115.0
2016			
1. Second Power Transmission and Distribution Improvement Project	73.0	73.0	...
2. Enhancing Rural Livelihoods and Incomes in Kayin State (grant)	12.0	0.0	12.0
3. Third GMS Corridor Town Development Project	80.0	80.0	...
4. Third GMS Health Security Project	12.0	12.0	...
Total	177.0	165.0	12.0

... = data not available, ADF = Asian Development Fund, GMS = Greater Mekong Subregion
Source: Asian Development Bank.