



Technical Assistance Report

Project Number: 50173-001
Knowledge and Support Technical Assistance (KSTA)
May 2017

Republic of the Union of Myanmar: Support for Strengthening Business Climate

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 10 May 017)

Currency unit	–	kyat/s (MK)
MK1.00	=	\$0.00073
\$1.00	=	MK1,358

ABBREVIATIONS

ADB	–	Asian Development Bank
IRD	–	Internal Revenue Department
MFI	–	microfinance institution
MIC	–	Myanmar Investment Commission
MOPF	–	Ministry of Planning and Finance
MSMEs	–	micro, small, and medium-sized enterprises
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Myanmar ends on 31 March. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2013 ends on 31 March 2013.
- (ii) In this report, "\$" refers to US dollars.

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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 50173-001	
Project Name	Support for Strengthening Business Climate	Department /Division	SERD/SEPF
Nature of Activity	Capacity Development	Executing Agency	Ministry of Planning and Finance
Modality	Regular		
Country	Republic of the Union of Myanmar		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Decentralization		0.35
	Public administration		0.15
Finance	Finance sector development		0.05
	Inclusive finance		0.25
	Total		0.80
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Anticorruption	No gender elements (NGE)	✓
Private sector development (PSD)	Conducive policy and institutional environment Promotion of private sector investment Public sector goods and services essential for private sector development		
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Nation-wide	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG8		
6. Risk Categorization		Low	
7. Safeguard Categorization		Safeguard Policy Statement does not apply	
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.80	
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.80	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.80	

I. INTRODUCTION

1. The Government of Myanmar requested technical assistance (TA) from the Asian Development Bank (ADB) to support capacity building to strengthen the business climate. The TA is included in the ADB country operations business plan, 2017–2019 for Myanmar,¹ and is aligned with the ADB country partnership strategy, 2017–2021 for Myanmar,² and the government's economic policy.³ ADB fielded a fact-finding mission on 30 January–3 February 2017 and consulted the Ministry of Planning and Finance (MOPF) and development partners in preparing this TA. The government confirmed the scope, implementation arrangements, financing, and terms of reference for consultants.⁴

II. ISSUES

2. Myanmar was formerly the region's most advanced economy, but decades of economic isolation have resulted in high poverty and underinvestment. In 2015, Myanmar's gross domestic product per capita was just \$1,193, making it one of the poorest countries in the region. Despite recent strong economic performance, growth has not been inclusive, and income inequality has worsened. Recognizing that greater private sector participation in the economy will accelerate investment, increase productivity, and generate inclusive growth, the government has targeted private sector development as a main development objective.

3. The government faces significant challenges in meeting this objective, however. According to the World Bank's ease of doing business ranking, Myanmar is currently ranked 170th out of 189 countries.⁵ The main obstacles for business have been identified as limited access to inputs, including credit, land, electricity, and skilled labor. In addition, when facing investment decisions, firms often have difficulties interacting with the government in areas of taxation, regulations, and the crosscutting issue of corruption. To address these constraints, the government has completed several key reforms, including revision of the National Land Use Policy, and adoption of national master plans to improve the energy and education sectors. In addition, two new important business laws—the Company Law and the Investment Law—are expected to come into force in 2017; these will significantly improve the business environment by streamlining business processes, promoting investment, and enhancing transparency. However, more needs to be done, especially to encourage initial business participation, streamline the investment approval process, and provide businesses with better access to finance.

4. **Weak tax administration deters business entry.** A modern, transparent, and predictable tax administration is a key component of an enabling business environment. In contrast, Myanmar's tax system is outdated, complicated, and lacks transparency.⁶ Under the Official Assessment System, the determination of tax liabilities is arbitrary, subject to negotiations, and often perceived by businesses as unfair. Basic tax obligations such as registration, filing, and payment are time-consuming and cumbersome, encouraging many smaller businesses to operate informally to avoid the administrative burden. This, together with low remuneration levels

¹ ADB. 2016. *Country Operations Business Plan: Myanmar, 2017–2019*. Manila.

² ADB. 2017. *Country Partnership Strategy: Myanmar, 2017–2021. Building the Foundations for Inclusive Growth*. Manila.

³ Government of Myanmar. 2016. *Economic Policy of the Union of Myanmar*. Nay Pyi Taw.

⁴ The TA first appeared in the business opportunities section of ADB's website on 13 March 2017.

⁵ World Bank Doing Business. Economy Ranking. <http://www.doingbusiness.org/rankings> (Accessed 8 May 2017).

⁶ ADB. 2015. *Fiscal Management in Myanmar*. Manila.

of civil servants and the lack of effective safeguards, has resulted in incentives for corruption, further deterring formal business participation.⁷

5. The government has recognized these constraints and has solicited support from development partners to modernize the tax system. The legislative framework is being modernized to improve fairness, and to clarify the roles and responsibilities of both taxpayers and the tax authority. The most notable reform is the introduction of the Self-Assessment System, which is being piloted by the Large Taxpayer Office; the office has operated since 2014 and achieved a 95% on-time filing rate in its first income tax filing cycle. However, the Internal Revenue Department (IRD) still faces significant challenges, as growth of the taxpayer registration base is outpacing IRD's capacity. IRD also lacks the capacity to analyze the large amount of tax data collected, further restricting the government's ability to make fact-based management decisions. Finally, the internal audit function of IRD will need to be strengthened to ensure accountability and eliminate corruption.

6. **Bottleneck in the investment approval process.** Myanmar is an attractive destination for foreign investment, and foreign direct investment reached \$9.4 billion in FY2015, following opening of the economy in 2012. However, Myanmar's annual inflows are only slightly higher than those of Cambodia, despite Myanmar's more abundant natural resources. Several issues have been identified with respect to the investment climate, but the process for obtaining approvals for inward investments in particular is highly cumbersome and time consuming, increasing the cost of investment. All companies applying for investment in a restricted sector must obtain approval from the Myanmar Investment Commission (MIC).⁸ Despite the influx of investment proposals, only a few investment projects are approved at each MIC meeting, resulting in a large backlog of investment proposals awaiting approval.

7. The new Myanmar Investment Law amalgamates the 2012 Foreign Investment Law and the Myanmar Citizens Investment Law, and gives equal treatment to foreign and domestic investors. The new law allows MIC to open regional branches and delegate some decision-making power—regarding investment proposals of up to \$5 million—to regional governments. International experience suggests that decentralization should be accompanied by good coordination among different agencies, as well as sufficient regional-level capacity building. As such, the government will need to carefully implement the new law to ensure competition among regional governments to attract investment does not result in degradation of the approval process.

8. **Businesses face difficulties in accessing credit.** Myanmar is currently ranked last out of 140 countries in the ease of access to loans for businesses.⁹ On the demand side, businesses often face complex loan procedures, unfavorable interest rates, strict collateral requirements, and restricted loan maturities; they cite these as factors that constrain them from borrowing from the formal banking sector. On the supply side, strict regulations and the use of administrative tools by the central bank have resulted in high transaction costs for financial institutions. Efforts have been made to address some of these constraints, including the proposed new secured transaction law, the establishment of a credit bureau, and capacity development for commercial banks in credit and risk assessment. Development partners, including ADB, are engaging in policy dialogue with the government to gradually liberalize the market while ensuring market stability.

⁷ In 2016, Myanmar ranks 136th out of 176 countries in the Corruption Perception Index. http://www.transparency.org/news/feature/corruption_perceptions_index_2016 (Accessed 8 May 2017).

⁸ MIC, which is chaired by the finance minister, is the government-appointed body under MOPF.

⁹ World Economic Forum. Global Competitiveness Report 2015-2016. http://www3.weforum.org/docs/gcr/2015-2016/Global_Competitiveness_Report_2015-2016.pdf (Accessed 8 May 2017).

9. The microfinance sector can play a significant role in intermediating credit to the business sector in developing countries with embryonic finance sectors. Most businesses in Myanmar are either informal or micro, small, and medium-sized enterprises (MSMEs), and it is likely that the microfinance sector has filled the role traditionally left to banks, as they are subject to less-stringent regulations.¹⁰ In addition, recent regulatory changes have given microfinance institutions greater flexibility in offering loans and accepting deposits and will enable microfinance institutions to offer more credit to the business sector, especially MSMEs. Supporting the microfinance sector will provide much-needed credit to the private sector, and provide a catalyst to rationalize banking regulations in the near future.

10. Having recognized these constraints, the government has recently announced the new Economic Policy of the Union of Myanmar (footnote 3). This TA is aligned with the government's new economic policy, and will support the government to achieve the objective of creating an enabling business environment to promote the overall participation of the private sector.

11. **ADB experience.** This TA builds on a number of previous ADB engagements, starting with support for public financial management reforms by improving revenue mobilization,¹¹ and strengthening the public debt management function of MOPF.¹² The TA will provide support to strengthen the business regulatory and legislative environment, complementing earlier ADB engagements that supported reform of the 1914 Company Law,¹³ and reform of the Insolvency Law.¹⁴ The TA will continue work under ADB's TA for the Financial Sector Reforms, which initiated ADB's engagement in the microfinance sector.¹⁵ Finally, regional TA is providing parallel support to promote private sector development in the Greater Mekong Subregion.¹⁶

12. **Donor coordination and lessons learned.** The TA will support the government's ongoing tax reforms, in coordination with the International Monetary Fund, the World Bank, and the United States Treasury Office of Technical Assistance.¹⁷ While there is strong development partner involvement in tax reform, the government's TA needs span many areas, some of which have not yet been addressed by development partners. Past experience shows that a strong government commitment to reforms and good coordination among development partners are keys to successful engagement. Given past ADB experience in the sector and close coordination with other development partners, tax reform represents a strategic area of support that can be expanded over time. Support for the microfinance sector has been coordinated with development partners active in the finance sector,¹⁸ and will serve as an anchor for future engagement in finance sector development and inclusion in Myanmar.

¹⁰ Microfinance institutions are subject to a 30% interest rate cap on loans, compared with 13% for banks, and microfinance institutions are allowed to lend to customers without requiring land as collateral.

¹¹ ADB. 2012. *Small-Scale Technical Assistance for Improving Fiscal Revenue Mobilization*. Manila.

¹² ADB. 2013. *Technical Assistance to the Republic of Union of Myanmar for Support for Strengthening Public Debt Management*. Manila.

¹³ ADB. 2014. *Technical Assistance to the Republic of the Union of Myanmar for Strengthening Institutions for a Better Investment Climate*. Manila.

¹⁴ ADB. 2016. *Technical Assistance to the Republic of the Union of Myanmar for Strengthening Law, Regulation, and the Legal Profession for a Better Investment Climate*. Manila.

¹⁵ ADB. 2013. *Technical Assistance to the Republic of the Union of Myanmar for Financial Sector Reforms*. Manila.

¹⁶ ADB. 2014. *Technical Assistance for the Mekong Business Initiative*. Manila.

¹⁷ The United States Treasury Office of Technical Assistance currently provides a resident advisor to support the Large Taxpayer Office, in addition to a number of short-term expert visits. The World Bank funds a resident audit advisor and supports an information and communication technology system. The International Monetary Fund has a resident tax advisor providing strategic guidance on the reform program.

¹⁸ The United Nations Capital Development Fund has supported the government with a financial inclusion road map and action plan. The World Bank's Financial Inclusion for National Development Program focuses on three areas: institution building for microfinance supervision, capacity building for regulators, and financial literacy.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

13. The TA is aligned with the following impact: private sector growth in line with a market economy system enabled (footnote 3). The TA will have the following outcome: an improved business environment improved.¹⁹

B. Outputs, Methods, and Activities

14. **Output 1: Tax administration strengthened.** In close coordination with other development partners, the TA will provide support to modernize specific tax administration functions as part of the government's tax reform efforts. In particular, the TA will contribute to enhanced integrity of tax administration, and support IRD to adopt a fact-based decision making process. An internal audit expert with a taxation background will be recruited to advise IRD on how to strengthen the newly established Internal Audit Division, and a tax data expert will be hired to train IRD staff on tax data analysis.

15. **Output 2: Investment approval process rationalized.** The TA will support the government to implement the new Investment Law, particularly decentralization of the investment approval process to regional MICs. In particular, the TA will hire a consulting firm to provide a study detailing international experience in investment approval decentralization. The study will also provide a needs assessment of the central and regional MICs, and produce a strategic action plan to rationalize and decentralize the investment approval process. The TA will also support implementation of the action plan and capacity building for regional MIC staff to ensure investment proposals delegated to regional offices are handled in a consistent manner.

16. **Output 3: Business access to financial services increased.** This output will support the government's initiatives to expand access by MSMEs to financial services. The TA will recruit a microfinance expert to provide capacity training for staff of MOPF's Financial Regulatory Department in microfinance supervision. Focus areas include accounting, financial analysis, delinquency analysis, financial products and services, and peer analysis. In addition, the TA will support the Financial Regulatory Department in revising regulations that allow for growth of microfinance institutions, and implementation of the national financial literacy strategy.

C. Cost and Financing

17. The TA is estimated to cost \$880,000, of which \$800,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-6). The key expenditure items are listed in Appendix 2. The government will provide counterpart support in the form of office space, counterpart staff, office accommodations, and other in-kind contributions.

D. Implementation Arrangements

18. ADB will administer the TA. The Public Financial Management, Financial Sector and Trade Division of ADB's Southeast Asia Department will select, supervise, and evaluate consultants; and organize training workshops. MOPF is the executing agency of the TA.

¹⁹ The design and monitoring framework is in Appendix 1.

Table 1: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	August 2017–July 2020		
Executing agency	MOPF		
Implementing agencies	Departments within MOPF: FRD, IRD, and DICA ^a		
Consultants	To be selected and engaged by ADB		
	Quality- and cost-based selection (90:10)	8 person-months	\$242,376
	Individual consultant selection	38 person-months	\$411,836
Procurement	Procurement will be undertaken by consultants, and will conducted in accordance with ADB's Procurement Guidelines (2015, as amended from time to time).		
	Shopping	One contract	\$10,000
Disbursement	TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	Upon TA completion, all goods purchased will be turned over to the relevant MOPF offices.		

ADB = Asian Development Bank, DICA = Directorate of Investment and Company Administration, FRD = Financial Regulatory Department, IRD = Internal Revenue Department, MOPF = Ministry of Planning and Finance, TA = technical assistance.

^a IRD will be accountable for output 1, DICA for output 2, and FRD for output 3. All three departments will oversee implementation, and communicate with consultants and stakeholders.

Source: Asian Development Bank.

19. **Consulting services.** The activities under the TA will be delivered by one consulting firm, and one national and three international individual consultants. ADB will hire the consulting firm through quality- and cost-based selection (90:10), using biodata technical proposal. Eight person-months of consulting inputs are allocated to the consulting firm and will be split among three experts. The contract package will be an output-based, lump sum contract. A total of 8 person-months will be allocated to three international individual consultants: a tax audit expert, a tax economist and a microfinance specialist. Thirty person-months are allocated to an individual national consultant who will serve as project coordinator for all activities under the TA. Individual consultants will be recruited using individual consultant selection. Individual consultant contracts will be input-based. Consultants will be engaged by ADB in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$800,000 on a grant basis to the Government of Myanmar for Support for Strengthening Business Climate, and hereby reports this action to the Board.

Takehiko Nakao
President

31 May 2017

DESIGN AND MONITORING FRAMEWORK

Impact the Technical Assistance is Aligned With Private sector growth in line with a market economy system enabled (Economic Policy of Union of Myanmar) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Business environment improved	By 2022: Myanmar's "ease of doing business" ranking increased by at least 10 places. (2017 baseline: 170)	World Bank Doing Business website ^b	Macroeconomic conditions deteriorate
Outputs 1. Tax administration strengthened 2. Investment approval process rationalized 3. Business access to financial services increased	By 2020: 1a. Myanmar's "strength of auditing and reporting standards" ranking in the Global Competitiveness Index increased by at least eight places. (2015 baseline: 140) 1b. At least two audit reports are produced by IAD. (2017 baseline: 0) 1c. At least one empirical tax data analysis report is prepared. (2017 baseline: 0) 2a. At least 10 investment projects (of at least \$1 million in size) are approved by regional MICs. (2017 baseline: 0) 2b. At least 100 investment projects (of at least \$50 million in size) are approved by central MIC under the new investment law system. (2017 baseline: 0) 3a. The "availability of financial services" ranking in the Global Competitiveness Index is increased by at least eight places. (2015 baseline: 138) 3b. At least 75% of Financial Regulation Department staff are trained on on-site and off-site	1a. Global Competitiveness Index ^c 1b.–1c. MOPF and TA consultant progress reports 2a. MOPF and TA consultant progress reports 3a. Global Competitiveness Index ^c 3b. TA consultant reports	Political or commercial vested interests resist liberalization of the reforms. Technical capacity is insufficient to support the proposed reforms.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	supervision (2017 baseline: 0) 3c. The number of deposit taking microfinance institutions increased to eight. (2017 baseline: 4)	3c. MOPF and TA consultant progress reports	
<p>Key Activities with Milestones</p> <ol style="list-style-type: none"> 1. Tax administration strengthened. <ol style="list-style-type: none"> 1.1 Complete consultant recruitment (Q3 2017). 1.2 Develop organization structure, processes, and procedures; and deliver to IAD (Q4 2017). 1.3 Complete diagnostic of tax data and data collection methods (Q2 2018). 1.4 Train IRD staff on internal audit (Q3 2018). 1.5 Complete action plan and recommendations for data collection and analysis (Q4 2018). 1.6 Commence IRD IAD examinations (Q4 2018). 1.7 Launch IRD data analytics pilot analysis (Q2 2019). 2. Investment approval process rationalized <ol style="list-style-type: none"> 2.1 Complete consultant recruitment (Q4 2017). 2.2 Complete decentralization case study; and deliver to MIC and Directorate of Investment and Company Administration (Q2 2018). 2.3 Complete action plan for decentralization (Q4 2018). 2.4 Train staff of regional MICs in investment approval process (Q1 2019). 3. Business access to financial services increased <ol style="list-style-type: none"> 3.1 Complete consultant recruitment (Q3 2017). 3.2 Prepare needs assessment and comprehensive training program (Q4 2017). 3.3 Train Financial Regulation Department staff on on-site and off-site supervision (Q2 2018). 3.4 Implement the national financial literacy strategy (Q3 2018). 			
<p>Inputs Asian Development Bank: \$800,000 Technical Assistance Special Fund (TASF-6) Note: The government will provide counterpart support in the form of office space, counterpart staff, office accommodations, basic office supplies, and other in-kind contributions.</p>			
<p>Assumptions for Partner Financing Not applicable.</p>			

IAD = Internal Audit Division, IRD = Internal Revenue Department, MIC = Myanmar Investment Commission, MOPF = Ministry of Planning and Finance, Q = quarter, TA = technical assistance.

^a Government of Myanmar. 2016. *Economic Policy of Union of Myanmar*. Nay Pyi Taw.

^b World Bank Doing Business. Economy Rankings. <http://www.doingbusiness.org/rankings>.

^c World Economic Forum. Global Competitiveness Index. <http://reports.weforum.org/global-competitiveness-index/competitiveness-rankings/>.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	348.95
ii. National consultants	132.66
b. International and local travel	167.60
c. Reports and communications	5.00
2. Goods (rental or purchase) ^b	10.00
3. Training, seminars, workshops, forum, and conferences ^c	55.00
4. Miscellaneous administration and support costs ^d	5.00
5. Contingency	75.79
Total	800.00

Note: The technical assistance is estimated to cost \$800,000, of which contributions from the Asian Development Bank are presented in the table above. The government will provide counterpart support in the form of office space, counterpart staff, office accommodations, basic office supplies, and other in-kind contributions. The value of the government's contribution is estimated to account for 10% of the total TA cost.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-6).

^b Includes nine computers and office furniture for two provincial Myanmar Investment Commission offices and the Internal Audit Division of the Ministry of Planning and Finance.

^c Includes 11 planned workshops, seminars, and conferences. Estimated number of participants per workshop is 50. Workshops will be held in the government's offices and hotels.

^d Including expenses for administrative staff who will help during workshops and seminars.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=50173-001-TARreport>

1. Terms of Reference for Consultants