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Development Finance Assessment Snapshot

Myanmar

Financing the future with an integrated
national financing framework



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Myanmar: Financing the future with an integrated national financing framework

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Table of Contents

Executive summary	iii
1. Introduction	3
2. Context	6
2.1 Sustainable development context	6
2.2 Policy priorities	11
3. The financing landscape	13
3.1 Overall financing landscape	13
3.2 Domestic public resource flows	14
3.3 International public resource flows	17
3.4 International private resource flows	20
3.5 Domestic private resource flows	23
4. Integrated National Financing Framework	26
4.1 Domestic public resources	30
4.2 Domestic and international private resources	35
5. Climate financing in Myanmar	42
5.1 INFF: Leadership and vision	42
5.2 The climate financing landscape	42
5.3 INFF: Climate financing strategy	44
6. ‘Leave no one behind’ and the delivery of the SDGs	47
6.1 Data on the poorest 20 percent of people in Myanmar	47
6.2 INFF: Leadership and vision for the integration of the SDGs	49
6.3 INFF: Financing strategy	51
6.4 INFF: M&E and accountability	52
7. Conclusions	53
7.1 Key findings	53
7.2 Recommendations to strengthen Myanmar’s INFF and follow-up actions	53
7.3 Next steps for the Development Finance Assessment (DFA)	58
Annex 1: Definition of different financing flows	59
Annex 2: Methodology notes	60

List of figures

Figure 1	The financing landscape in Myanmar	1
Figure 2	Projections for working age of Myanmar's population	7
Figure 2.1	Sector growth in Myanmar	9
Figure 3	The financing landscape in Myanmar	13
Figure 3.1	Myanmar's sources of revenue	14
Figure 3.2	Tax revenue growth	15
Figure 3.3	Oil, gas and energy revenue	16
Figure 3.4	Direct tax revenue	16
Figure 3.5	ODA growth rates	17
Figure 3.6	Sector breakdown of ODA	18
Figure 3.7	Aid bundle comparisons between Myanmar and ASEAN countries	19
Figure 3.8	Aid bundle overview 2010-2015	19
Figure 3.9	FDI growth across sectors	22
Figure 3.10	SMEs and employees in enterprises levels	24
Figure 3.11	SME employment rates across sectors	24
Figure 3.12	Sector contributions to GDP	25
Figure 4	Assessment of existing framework	26
Figure 5	International public climate finance received by ASEAN countries (2004–2014)	43
Figure 5.1	International public climate finance to ASEAN countries	43
Figure 5.2	Diversification of climate funds being accessed by Myanmar	44
Figure 6	Gender Inequality Index score comparisons	48
Figure 6.1	Poverty levels across regions and states in Myanmar	49

Executive summary

Across Myanmar and the ASEAN region as a whole, ambitions for realizing the Sustainable Development Goals (SDGs) will require mobilizing the right scale and mix of financing, incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of 10 country studies undertaken, alongside an ASEAN regional report, to facilitate dialogue at the country and regional levels about financing the SDGs.

This paper uses the concept of an integrated national financing framework (INFF) that can help countries identify areas for strengthening policy towards all types of financing for the SDGs with integrated financing solutions. This is particularly important in Myanmar, given the presence of various types of finance and opportunities to develop an overarching framework to connect them together.

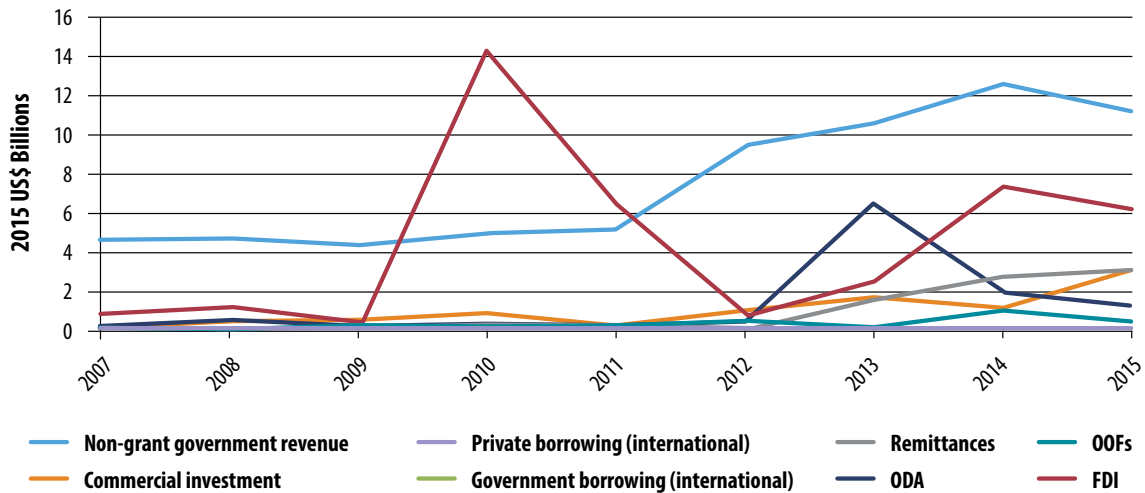
Following decades of political instability and protracted conflict, Myanmar is in the early stages of a ‘triple transition’—from conflict to peace, from military rule to democracy and from a closed to an open economy. The country’s first democratically elected civilian government is committed to delivering the SDGs and has made progress on integrating them into national development planning processes, including the development of an SDG indicator baseline report, thematic SDG discussions and various SDG trainings. Progress is being made in some areas of sustainable development such as poverty reduction, child and maternal mortality and aspects of education. However, significant challenges still exist and Myanmar is particularly vulnerable to the risks of climate-related disasters, which disproportionately affect the poorest people and can derail progress more widely.

Myanmar’s financing landscape is evolving and diversifying as the country undergoes these transitions. Government revenues are the largest source of finance, with extractives accounting for a significant though declining volume of revenues as commodity prices fall. While tax revenues have shown growth, continuing efforts to strengthen tax collection systems and broaden the tax base will be vital in enhancing stable and sustainable domestic revenue streams. Foreign direct investment is growing and broadening beyond a historic focus on extractives and energy, and efforts to continue this diversification of investments and exports will remain critical to reducing the country’s reliance on volatile natural resource sectors. While the business environment remains weak, it is beginning to improve, as the new government has taken steps to strengthen macroeconomic stability and the business environment. International public resources represent a small but important component of Myanmar’s development finance, and volumes of official development assistance (ODA) have increased significantly since the transition to democracy.

There are opportunities for Myanmar to access greater volumes of international climate finance and to utilize instruments such as blended finance, counter-cyclical loans and risk financing, though some of these may be time-bound as the economy grows and the country moves towards graduation from Least Developed Country (LDC) status. Changing income and LDC status will have implications for its ability to access export markets and concessional finance from donors. A mechanism for coordinating climate

financing at the national level would be helpful in addressing overlaps, strengthening development effectiveness and ensuring that Myanmar is accessing all relevant sources of climate finance.

Figure 1: The financing landscape in Myanmar



Source: Development Initiatives based on multiple sources, as detailed in Annex 2: Methodology notes.

Given that the current government in Myanmar is relatively new (formed in April 2016), the establishment of the INFF building blocks is at an early stage. The formation of the Ministry of Planning and Finance (MoPF) presents a key opportunity to build a coherent approach to development financing. The Government of Myanmar introduced a new National Economic and Development Policy in 2016, which presents a new vision for the country's development that could be expanded to encompass a holistic financing strategy for development and act as a basis for an INFF. Further clarity, detail and consultation are required for this plan to become a medium- to long-term driving force for development and financing policies that all ministries endorse and all stakeholders have fed into.

Initial progress has also been made towards establishing strategies for financing development outcomes, and a number of individual mechanisms exist for coordinating specific types of finance. However, an overarching framework which brings together priorities and strategies for different types of financing under one coherent plan that builds on the national vision would be helpful. Without this, it is difficult for the government to gauge the level, mix or sequence of resources that are needed to deliver on development outcomes. An overarching monitoring and evaluation framework that links all types of finance development outcomes would further help to mobilize and maximize the impact of finance on sustainable development outcomes, building upon the new National Strategy for the Development of Statistics being developed by the Central Statistical Organization (CSO).

The MoPF is taking some steps to address this by reinstating the Project Appraisal and Progress Reporting Department and establishing a citizen's budget that has strengthened transparency around budget spending. Mechanisms for consulting with civil society and the private sector will be critical in ensuring accountability and the effectiveness of future development and financing strategies.

Finance has an important role to play in driving forward sustainable development in Myanmar, and the policies and institutional structures put in place during this key period will shape the country's ability to mobilize the volume and mix of finance necessary to achieve its sustainable development objectives. This report highlights a number of options that the government could consider in order to strengthen its approach towards financing policy. These include establishing a cross-government committee responsible for overseeing policy towards all types of finance, considering the development of a new, shared, sustainable development vision through consultations across government and society and establishing an overarching financing strategy to drive its implementation. The government could also consider establishing an overarching monitoring framework that links financing to results and taking steps to improve data collection systems. It may also want to consider recommendations relating to specific areas of financing, including establishing a committee for public-private partnerships (PPPs), setting up a national climate finance coordination mechanism, putting in place a natural resource revenue management fund and implementing measures to continue scaling up tax revenues.

1. Introduction

“Peace and national reconciliation are prerequisites for the successful implementation of policies and programmes aimed at fulfilling the social and economic needs of our people. Myanmar’s 2016 Economic Policy of the Union of Myanmar is designed to meet many of the Sustainable Development Goals, including the enhancement of infrastructure investment, agriculture, private sector, SMEs and, in particular, poverty alleviation. National reconciliation, job creation and preservation of natural resources, capacity building and creating opportunities for the young are the key objectives of our people-centered and inclusive policy.”

Daw Aung San Suu Kyi, State Counsellor of the Republic of the Union of Myanmar, at the General Debate of the 71st session of the United Nations General Assembly, New York, 21 September 2016

Despite decades of political instability and conflict, Myanmar has made progress recently in a number of social development areas, demonstrating positive trends in poverty reduction and other areas such as education and health. Considering how recently the reform process commenced—between 2011 and 2016 under the Union Solidarity and Development Party (USDP) and continued under the new government—significant progress has been made, particularly with regards to public financial management (PFM) and economic reform. The National Comprehensive Development Plan drawn up by the previous government set out priorities for economic reform, inclusive growth and people-centred development, although it is not widely used by the current government. A number of sector plans set out concrete frameworks for delivering priorities and a new National Economic and Development Policy (2016) provides a framework for economic reform.

The Government of Myanmar has also taken steps to integrate the Sustainable Development Goals (SDGs) and the principles of the 2030 Agenda into national development plans, undertaking an exercise to review its planning, budgeting and monitoring frameworks to identify options for doing this. A focal point for SDG delivery and monitoring has been established in the Central Statistical Organization (CSO). Such an ambitious agenda for sustainable development is being implemented in a context of falling foreign direct investment (FDI) following a period of growth since 2012,¹ declining government revenues from natural resources (specifically oil and gas) as a result of falling global commodity prices and time-bound access to concessional financing resulting from a likely change in Myanmar’s income status (which may also lead to a change in its Least Developed Country (LDC) status).

Across Myanmar and the ASEAN region as a whole, ambitions for realizing the SDGs will require mobilizing the right scale and mix of financing, incorporating all resources—public and private, domestic and international. This paper forms part of a project to assess the financing challenges and opportunities that ASEAN countries face, and the policies and institutional frameworks that governments can use to address them in implementing the SDGs. It is one of 10 country studies undertaken alongside an ASEAN regional report to facilitate dialogue at the country and regional levels about financing the SDGs.

¹ The government has reported a rise in FDI and capital inflows during 2016–2017, although, at the time of writing, this is not reflected in data available from DICA. <https://www.mmtimes.com/news/foreign-and-domestic-investments-rise-during-govts-first-fiscal-year.html>

Action at the country level will be key to implementing the SDGs, Financing for Development and other global agendas. The Addis Ababa Action Agenda states: “[C]ohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts.”² The Inter-Agency Task Force on Financing for Development notes in its 2017 report that integrated national financing frameworks (INFFs), which take into consideration all financing sources and policies, can provide coherence across strategies and plans designed to implement the SDGs.³ An INFF is a framework of policies and institutional structures designed to take a holistic approach towards managing and mobilizing all types of financing—domestic, international, public, private—for sustainable development results. It has six building blocks which work together to align a government’s financing strategy across all available resources. These frameworks provide a structure and a prompt for governments to assess their financing frameworks as a whole and to guide thinking about reforms that are needed to strengthen them to implement a strategic, holistic, results-driven approach to financing their development objectives.

Using the concept of an INFF, the Development Finance Assessment (DFA)⁴ approach that this paper follows can help countries identify areas for strengthening their management of financing for the SDGs with Integrated Financing Solutions. A DFA helps a government to understand and adapt its policies, institutions and strategies for the financing challenges the country will face in realizing results across the economic, environmental and social dimensions of sustainable development. It supports the government to establish and strengthen an INFF, and assesses two main questions:

1. What are the main financing challenges and opportunities for achieving sustainable development objectives?
2. How can the government strengthen an INFF that will address these challenges and opportunities?

The approach aggregates a wide range of existing assessments from government, international agencies and other partners that analyse specific aspects of this sustainable development, financing and policy and institutional context. It adds value by collating these analyses, taking a big picture perspective across them all and applying the lens of an INFF to assess the priorities for government across financing as a whole. In doing so, the paper establishes an analytical baseline for an INFF and provides recommendations about how to strengthen the policies and institutional structures that government uses to manage financing strategies. It presents a roadmap outlining steps that a government and its partners can take to strengthen the INFF or leverage new flows, including follow-up discussions and analysis that may be developed in a later phase.

2 Addis Ababa Action Agenda, paragraph 9. http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf

3 Inter-Agency Task Force on Financing for Development (2017), ‘Financing for Development: Progress and Prospects’. <https://developmentfinance.un.org/financing-development-progress-and-prospects-2017>

4 UNDP’s Bangkok Regional Hub has been developing the Development Finance Assessment (DFA) and Integrated Financing Solutions to respond to growing demand from countries to establish evidence and analysis and to introduce policy and institutional reforms for managing the increasing complexity of domestic and international sources of finance for development. DFAs and Integrated Financing Solutions support governments to use the concept of the INFF to help strengthen policies and actions for mobilizing different types of finance for economic, environmental and social results into a single, coherent framework. See more at: <http://www.asia-pacific.undp.org/content/rbap/en/home/ourwork/democratic-governance-and-peacebuilding/ap-def.html>. More on the DFA approach can be found here: <http://www.asia-pacific.undp.org/content/dam/rbap/docs/meetTheSDGs/Achieving%20the%20Sustainable%20Development%20Goals%20in%20the%20Era%20of%20the%20AAAA%20-%20DFAs%20as%20a%20tool%20for%20Linking%20Finance%20with%20Results.pdf>

The INFF framework is particularly relevant in the context of Myanmar, given the variety of different individual financing flows contributing to national development strategies (e.g. domestic revenue and the prominence of natural resource industries, official development assistance (ODA) set to rise and the potential for increasing FDI) and the need to bring these financing flows together into one overarching financing framework for effectively realizing development outcomes. This also aligns with the focus of the Development Assistance Coordination Unit (DACU) on the effectiveness of development financing.

Given the particular risk that climate change and climate-related disasters pose to Myanmar, the impact that climate change vulnerability has upon poverty and livelihoods and the resulting need to effectively finance the response to climate-related disasters in order to deliver on the SDGs, climate finance is covered in this report as an in-focus issue and an inherent aspect of the INFF.

The paper provides an overview of the development context (Chapter 2) and of the financing landscape (Chapter 3). By considering each of the INFF building blocks, it then presents those elements that are already in place and highlights where the main gaps are currently (Chapter 4). Chapter 5 takes an in-depth look at climate financing so that key priorities and financing challenges can be identified. Chapter 6 examines the SDG principle of “leaving no one behind” and provides an overview of how this is being mainstreamed in the government’s development plans and programmes. Finally, the paper provides a set of initial recommendations in order to strengthen individual elements of Myanmar’s INFF as well as the way they link together, and to set the stage for further work on more specific integrated financing solutions (Chapter 7).

This DFA differs from the overview report on development finance produced by UNDP in 2016.⁵ While the earlier report sought to present a short summary on various sources of finance for Myanmar’s development and to identify potential measures for improving the management of those resources, this report seeks to build on this earlier analysis to provide a more in-depth focus on institutional and policy analysis through the lens of the INFF. This report also contains action-oriented recommendations, which the overview report did not, and responds to feedback on the overview report for such recommendations. As such, its data analysis is structured in line with the building blocks of the INFF—focusing explicitly on domestic and international public and private resource flows. This DFA seeks to analyse key financing challenges and opportunities specifically within the context of national development plans and the SDGs, and provides recommendations on how to strengthen policies and institutions to attract, leverage and effectively manage financing for sustainable development results.

5 UNDP (2016), ‘Overview Report of Development Finance in Myanmar’:http://themimu.info/sites/themimu.info/files/documents/Overview_Report_Development_Finance_in_Myanmar_UNDP_2016_ENG.pdf

2. Context

2.1 Sustainable development context

Following decades of armed conflict and military rule, Myanmar's first democratically elected civilian government in more than 50 years, led by Daw Aung San Suu Kyi, took office in March 2016. This represented a significant step in the country's democratic transition, which had started a few years earlier.⁶ It is still in the early stages of a 'triple transition'—from conflict to peace, from military rule to democracy and from a closed economy to an open market economy.

The government is committed to delivering the SDGs and has initiated a number of key steps towards integrating them into national development planning processes (Chapter 6). This provides a key opportunity to strengthen development outcomes for all people in the country. Progress, albeit modest, has already been made in delivering on some of the SDGs. However, with no official review of progress against the SDGs having taken place, pre-existing data from the Millennium Development Goals (MDGs)⁷ are used in this chapter to build up a picture of the major challenges to realizing the SDGs.

As set out in UNDP's 2016 Human Development Report,⁸ Myanmar has a Human Development Index (HDI) score of 0.556, which is below the average of 0.631 for countries in the medium human development group, positioning it at 145 out of 188 countries and territories. Between 1990 and 2015, however, its HDI values rose by 57 percent from 0.353 to 0.556, demonstrating improvements in its development outcomes.⁹

Social development

Using the national poverty measure,¹⁰ it is estimated that poverty rates fell from 32.1 percent of the population in 2005 to 19.4 percent in 2015.

Levels of stunting and wasting among children are a challenge in Myanmar, at 31.5 percent and 7.9 percent respectively. Myanmar ranks 106th out of 132 countries globally for nutrition levels.¹¹ There has, however, been some slow progress, with the proportion of underweight children under five falling

6 OECD DAC (2014), 'Investment Policy Review: Myanmar'. <http://www.oecd.org/countries/myanmar/investment-policy-reform-in-myanmar.htm>

7 UN Statistics Division (UNSD) MDG repository database. <https://mdgs.un.org/unsd/mdg/Data.aspx>

8 UNDP (2016), 'Human Development Report 2016, Human Development for Everyone: Briefing note for countries on the 2016 Human Development Report: Myanmar'. http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MMR.pdf

9 UNDP (2016), 'Human Development Report 2016, Human Development for Everyone: Briefing note for countries on the 2016 Human Development Report: Myanmar'. http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/MMR.pdf

10 World Bank (2017), 'An analysis of poverty in Myanmar: part one - trends between 2004/05 and 2015'.

11 Independent Expert Group on Global Nutrition (2016), 'Global Nutrition Report'. <http://www.globalnutritionreport.org/2016/06/14/now-available-the-2016-global-nutrition-report/>

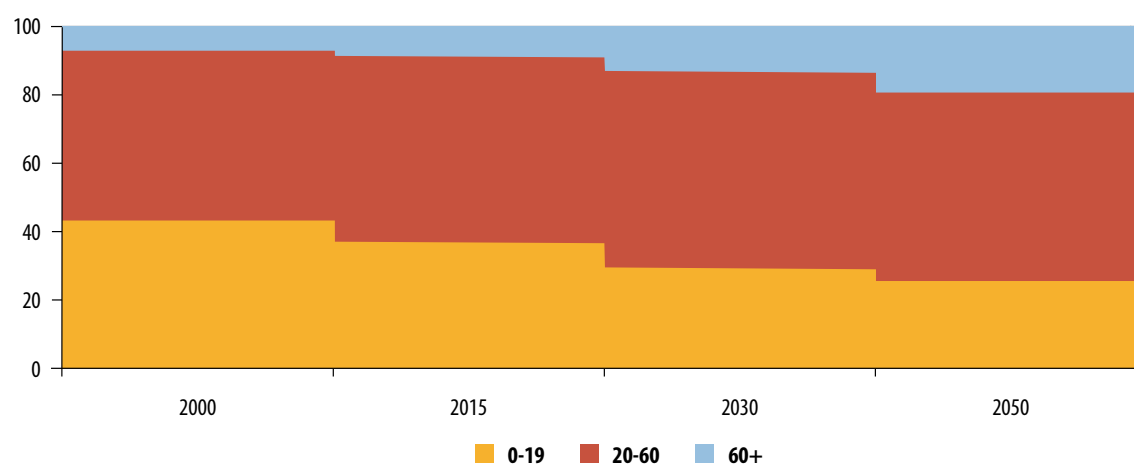
between 1990 and 2009, although the individual MDG target was not met.¹² Child mortality rates are falling, with under-five mortality rates more than halving between 1990 and 2015. Under-five mortality rates fell from 109.9 per 1,000 live births to 50 during this period. Maternal mortality rates fell even more quickly—from 453 per 100,000 live births in 1990 to 178 in 2015.¹³ Progress has taken place at a similar pace to other ASEAN countries, and is set to continue with the delivery of the SDGs.

In the education sector, the individual MDG target for the proportion of primary school pupils entering Grade 1 and completing the final grade was met—rising from 70 percent in 1999 to 85 percent in 2014—and again progress continues to be made through the delivery of the SDGs.¹⁴

On gender equality, Myanmar has made significant progress, and the individual MDG targets regarding ratios of girls to boys in primary, secondary and tertiary education were met. For every 100 males in primary, secondary and tertiary education in 2015, there were respectively 99, 102 and 105 females.¹⁵ Regarding gender equality overall, progress appears to be equally positive. Using the Gender Inequality Index, which measures the loss in human development due to inequality between men and women, Myanmar's score for gender inequality fell gradually between 2012 (from 0.44) and 2015 (0.37), at a faster rate than in most other ASEAN countries. Progress continues to be made in the delivery of SDG 5.

Myanmar has also made positive progress in meeting other MDG targets. The prevalence amongst the population of HIV fell from 0.86 percent of the population in 2003 to 0.61 percent in 2013, and prevalence of tuberculosis amongst the population fell from 718 in 100,000 people in 2003 to 473 in 2013. In addition, the proportion of people without sustainable access to safe drinking water and basic sanitation has more than halved (falling from 41 percent in 1990 to 19 percent in 2015).

Figure 2: Projections for working age of Myanmar's population



Source: UNDESA Population Division, Medium projections. <https://esa.un.org/unpd/wpp/>

12 UNSD MDG repository database. <https://mdgs.un.org/unsd/mdg/Data.aspx>

13 UNSD MDG repository database. <https://mdgs.un.org/unsd/mdg/Data.aspx>

14 UNSD MDG repository database. <https://mdgs.un.org/unsd/mdg/Data.aspx>

15 UNSD MDG repository database. <https://mdgs.un.org/unsd/mdg/Data.aspx>

Demographic trends and future projections are an important factor when considering development priorities and planning to deliver on the 2030 Agenda. Over half (54 percent) of Myanmar's population are currently of working age (20–60), and this is likely to remain relatively constant until 2050 (Figure 2). Ensuring that the working-age population and young people (who will be the working-age population of the future) have access to education, health care and job opportunities by investing in these areas now will be fundamental to realizing development outcomes and economic growth in the longer term. In addition, the proportion of the population aged over 60 is projected to more than double, from 9 percent in 2015 to 19 percent by 2050. In order to avoid an increase in fiscal deficits as a result of an ageing population and increased demand for social welfare, it is imperative that planning and costing for investments in social protection schemes for the elderly is prioritized in the immediate term.

Economic development

The end of military rule saw growth rates in gross domestic product (GDP) rise substantially, reaching a high of 8.4 percent in 2013—the highest in the region. However, rates have fallen slightly in recent years and the latest estimates for 2016, at 6.5 percent, suggest a year-on-year decline for the last three years and a fall below 7 percent for the first time since 2012.¹⁶ Severe flooding in 2015 (combined with falling commodity prices, declines in revenues from associated state-owned economic enterprises (SEEs), and slower export expansion) was a major contributing factor to slowed economic growth during 2015 and 2016.¹⁷ A sluggish real estate market also accounted for this economic slowdown, which resulted from a temporary halt in construction for regulatory compliance purposes. The real estate market is expected to recover from 2017–2018.¹⁸

However, despite this fall, growth remains strong compared with other countries in the region and is projected to recover robustly. The World Bank estimated Myanmar's growth in 2016 as the third highest among ASEAN countries after Cambodia and Lao PDR and projected that it would overtake these countries in 2018 and 2019 with growth rates upwards of 7.3 percent, making it the fastest-growing economy among East Asia and Pacific countries and one of the fastest-growing globally. Such projections suggest significant opportunities for the government to formulate policy and generate finance to maximize the impact of growth for development outcomes.

While agricultural production continues to be an important aspect of Myanmar's economy, employing over half (53 percent) of the country's population, it accounted for only 29 percent of GDP in 2015,¹⁹ declining from 36.9 percent since 2010.²⁰ In contrast, industrial production and services (transport and communications) are becoming an increasingly prominent aspect of the country's economy, accounting

16 World Bank data on Myanmar. <http://data.worldbank.org/country/myanmar>

17 World Bank (2017), 'Global Economic Prospects: A Fragile Recovery'. <http://www.worldbank.org/en/publication/global-economic-prospects>

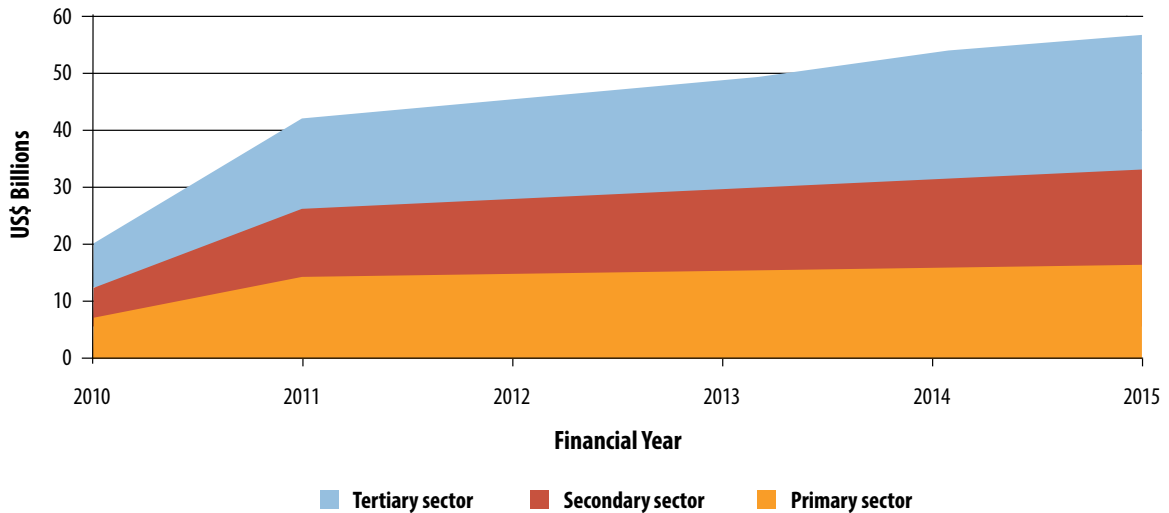
18 IMF (2016) Article IV Consultation. <http://www.imf.org/en/Publications/CR/Issues/2017/02/02/Myanmar-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44612>

19 The World Bank (2017) Myanmar Agriculture Public Expenditure Review. <https://drive.google.com/file/d/0B1dloofOKwZ3X2tvX2pRamJHR1E/view>

20 OECD DAC (2014), 'Investment Policy Review: Myanmar'. <http://www.oecd.org/countries/myanmar/investment-policy-reform-in-myanmar.htm>

for 34.5 percent and 38.7 percent of GDP respectively in 2015, a rise of eight and two percentage points respectively since 2010. This rise can largely be attributed to greater public and private investment in sectors such as production and manufacturing, construction, mining, energy, tourism, services and telecommunications.

Figure 2.1: Sector growth in Myanmar



Source: Myanmar Statistical Information Service.

Notes: At 2010/2011 constant producers' prices for 2010/2011 to 2014/2015.

Revenue from natural resources extractive industries is also an important aspect of Myanmar's economy. Revenues from oil and gas are particularly significant,²¹ accounting for a quarter of non-grant government revenues in 2015, and a higher proportion during the commodity price boom (e.g. 33.6 percent in 2013). In addition, oil and gas contributed 85 percent of revenues generated from the extractive sector in 2013–2014, followed by gemstones and jade.²² Current efforts to explore new offshore gas blocks could potentially result in opportunities to mobilize further sustainable revenue from the extractive sector.²³ However, the current expectation is that levels will be maintained for the next decade as new fields coming on line compensate for falling productivity at some existing sites, though overall productivity may decline beyond this time-frame unless new fields are identified. Further, the recent negative impact of falling commodity prices and inefficient SEEs has demonstrated the risks of dependency on such sources and the need to diversify government revenues.

Myanmar is classified as both a Least Developed Country (LDC) and a lower-middle-income country (LMIC). LMIC status is determined by gross national income (GNI) per capita. LDC status is determined

21 The Asia Foundation et al. (2014), 'Natural Resources and Subnational Governments in Myanmar: Key Considerations for Wealth Sharing'. <https://asiafoundation.org/resources/pdfs/NaturalResourcesandSubnationalGovernmentsinMyanmar.pdf>

22 MEITI (2015), 'Scoping Study for the First EITI Report: For the period April 2013–March 2014'. https://eiti.org/sites/default/files/documents/eiti_myanmar_scoping_report_final_report_final.pdf

23 UNDP (2016), 'Overview Report of Development Finance in Myanmar'. http://themimu.info/sites/themimu.info/files/documents/Overview_Report_Development_Finance_in_Myanmar_UNDP_2016_ENG.pdf

by three criteria: GNI, human assets and economic vulnerability to external shocks. Myanmar met the graduation criteria for human assets in 2015; should it meet a second graduation criterion at the next triennial review in 2018 and then meet these two criteria for a second time at the 2021 triennial review, it would be eligible for graduation in 2024. This is quite possible given that its score for GNI was close to the threshold in 2015 and needs to increase by only US\$179 per capita to exceed the threshold in 2018.²⁴

Changing status in income and development could have implications for the country's ability to access export markets and concessional finance from bilateral and multilateral donors, such as the World Bank's International Development Association (IDA), for which it is currently eligible as a country with low per capita income. Access to climate finance would also become more competitive, given that Myanmar would no longer be eligible to access the LDC Fund.²⁵

However, there are potential ways in which the government can manage these risks and ensure that a change in LDC status within the next 10 years does not have a negative impact on financing development priorities (see recommendations in Chapter 7). Myanmar is currently a member of ASEAN and the World Trade Organization (WTO) as well as a number of other multilateral and regional trade partnerships including the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (**BIMSTEC**), Regional Comprehensive Economic Partnership (**RCEP**) and the ASEAN Free Trade Area (AFTA). Myanmar also has observer status at the South Asian Association for Regional Cooperation (SAARC), with ambitions to become a full member.

Environmental development

Myanmar is particularly vulnerable to the risks of climate-related disasters and, as such, risk and climate financing should be considered as an important factor in broader planning for the financing of development priorities. A chapter on climate finance has thus been included in this report (Chapter 5).

The majority (65 percent) of Myanmar's population reside in rural areas, with agricultural production as their main source of income, making them particularly vulnerable to the impacts of climate-related hazards. According to the Notre Dame Global Adaptation Index,²⁶ Myanmar is allocated a high score (ranking 50th out of 192 countries) for vulnerability and a low score (ranking seventh) for readiness, and would therefore benefit from acting quickly and investing in preparedness. The combined scores for vulnerability and readiness place it as the most vulnerable of all ASEAN countries. Similarly, Myanmar is ranked within the weakest quintile in the World Risk Index (2015) for coping and absorptive capacity, due to low levels of socio-economic development.²⁷

As demonstrated in the aftermath of floods and an earthquake during 2015–2016, Myanmar is also at particular risk of macro-fiscal challenges and climate-related disaster losses as a result of the interplay

24 UN Department of Economic and Social Affairs, Development Policy and Analysis Division <https://www.un.org/development/desa/dpad/least-developed-country-category-myanmar.html>

25 UNDP (2016), 'Assessment of the implications of LDC graduation for Myanmar'.

26 Notre Dame Global Adaptation Index (ND-GAIN). <http://index.gain.org/country/myanmar>

27 IMF (2016), 'Macro-fiscal risks: The challenge of climate-related disasters'.

between its proneness to disaster and its socio-economic vulnerability.²⁸

Regarding progress against environment-related MDGs, Myanmar achieved the MDG target to prevent biodiversity loss by increasing the proportion of terrestrial and marine areas protected (which rose from 1.7 percent to 4.1 percent). However, it did not meet the target on the proportion of land covered by forest, which fell between 1990 (59.6 percent) and 2015 (44.2 percent).

2.2 Policy priorities

A National Comprehensive Development Plan (NCDP) (2011–2030) was drawn up by the previous government and outlined Myanmar's development goals and objectives (although this plan has not been approved by parliament). It was intended to span a 20-year time-frame, though plans for only the first five years were developed (2011–2016). The focus of the NCDP centres on economic development—to develop “a prosperous nation integrated into the global community”—and it is structured around two key goals, aimed at creating a diversified and sustainable economy and people-centred development and inclusive growth, and seven “strategic thrusts”²⁹ which fall under these two goals.³⁰ It also includes a number of targets for each strategic thrust and provides an estimate of the investments required to deliver the plan. However, this plan is not widely used by the current government.

Under the new government a new 2016 Economic Policy of the Union of Myanmar³¹ has been developed, which sets out a vision for economic development through 12 key objectives (Chapter 4). The policy sets out objectives on trade, along with: the emergence of a federal democratic union for national reconciliation; equitable regional development; a qualified young workforce; an inclusive economic system that fosters innovation; a transparent public financial management system; privatization of SEEs; assistance for small and medium-sized enterprises (SMEs); a market-oriented and diversified economy; a strengthened tax system; and infrastructure development. The policy itself articulates an economic vision but does not provide specific details on how it will be delivered. However, this has been addressed through accompanying actions defined in a 95 Procedure Implementation Plan derived from the 2012 National Economic and Development Policy that details how ministries will deliver on the policy.³² There is, however, low awareness across government on this new 95 Procedure Implementation plan.

Ministries have also developed sector plans, which outline a vision for results and are used for planning. A number are detailed and effective planning and budgeting tools, and are used to develop national as well as state and regional budgets and ensure alignment with the 2030 Agenda. They include, among

28 IMF (2016), ‘Macro-fiscal risks: The challenge of climate-related disasters’.

29 These are: strengthen governance and public institutions (cross-cutting); create an enabling business environment and strong enterprise base; expand domestic and global connectivity; foster internationally competitive sectors; develop local economic potentials; promote human development and reduce poverty; conserve and protect the resource base.

30 Ministry of National Planning and Economic Development, Republic of Union of Myanmar (2014), ‘National Comprehensive Development Plan’. <https://policy.asiapacificenergy.org/sites/default/files/MCCSAP-Feb-Version.pdf>

31 Republic of the Union of Myanmar (2016), ‘National Economic and Development Policy: Economic Policy Statement’. http://themimu.info/sites/themimu.info/files/documents/Statement_Economic_Policy_Aug2016.pdf

32 Interview with Permanent Secretary and Director General of FERD, MoPF, 3 July 2017. The 95 Procedure Implementation Plan is not currently a published document and as such was not reviewed in detail for this report.

others, the Tourism Master Plan (2013–2020),³³ Social Protection Plan (2014),³⁴ Agricultural Development Plan, National Health Plan (2017–2021),³⁵ National Education Strategic Plan (2016–2021),³⁶ Myanmar Climate Change Strategy and Action Plan (2017), Private Sector Development Framework and Action Plan, and Myanmar Energy Master Plan (2015).³⁷

There is also political support for the SDGs and efforts are under way to integrate them into national development planning and delivery, as outlined in detail in Chapter 6.

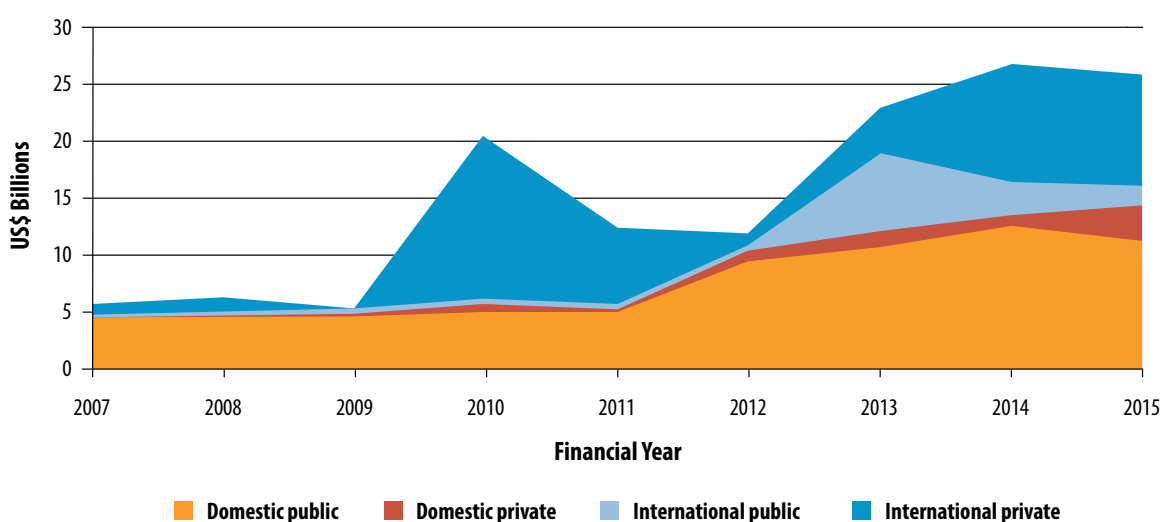
-
- 33 Ministry of Hotels and Tourism, Government of Myanmar (2013), 'Myanmar Tourism Master Plan (2013–2020)'. http://themimu.info/sites/themimu.info/files/documents/Core_Doc_Myanmar_Tourism_Master_Plan_2013-2020.pdf
- 34 Republic of the Union of Myanmar (2014), 'Myanmar National Social Protection Strategic Plan'. <http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=50377>
- 35 Republic of the Union of Myanmar (2016), 'Myanmar National Health Plan (2017–2021)'. See <http://www.themimu.info/node/50048>
- 36 Republic of the Union of Myanmar (2016), 'Myanmar Education Strategic Plan (2016–21)'. http://planipolis.iiep.unesco.org/sites/planipolis/files/ressources/myanmar_nesp-english.pdf
- 37 Republic of the Union of Myanmar (2015), 'Myanmar Energy Master Plan'. http://www.burmalibrary.org/docs22/2015-12-Myanmar_Energy_Master_Plan.pdf

3. The financing landscape

3.1 Overall financing landscape

Government revenues, driven by SEE receipts and taxation, are at the core of Myanmar's financing landscape. Over the past 10 years sporadic large-scale investments from international private resource flows in power and extractives during particular years (2005 and 2010) have gradually given way to growth in FDI supporting a broader range of sectors. The establishment of the new government in 2016 brought initial policy and institutional constraints which resulted in part in falls in both foreign and domestic investment,³⁸ while falling commodity prices, combined with adverse exchange rates, saw government revenues decline and trade deficits widen. International public resources, while growing, remain small in comparison (see Annex 1 for a definition of resource flows).

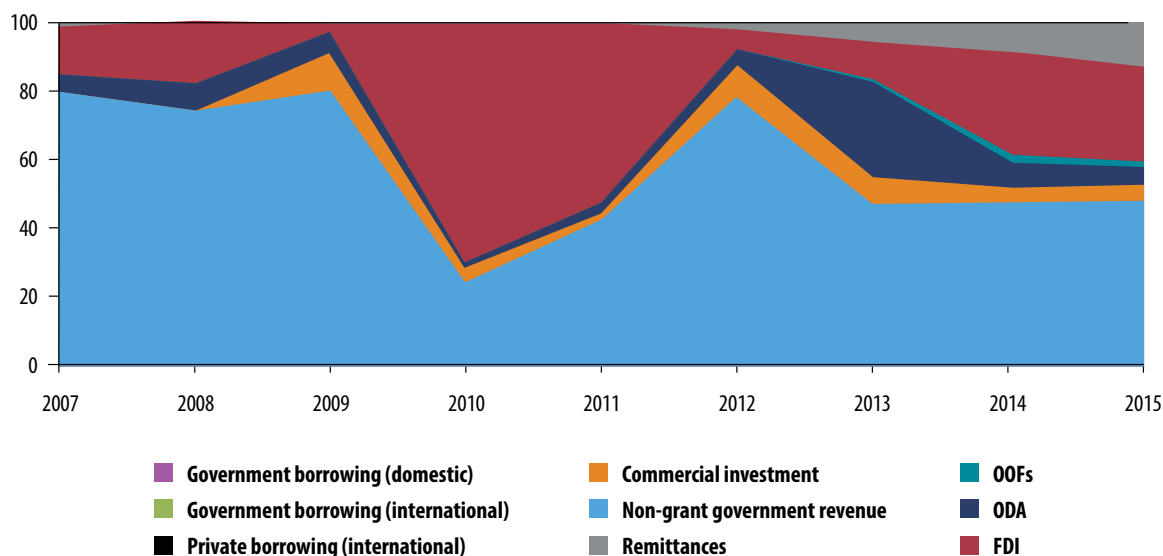
Figure 3: The financing landscape in Myanmar



Source: Development Initiatives based on multiple sources, as detailed in Annex 2: Methodology notes.

³⁸ The government has reported a rise in FDI during 2016–2017 although at the time of writing, this is not reflected in data available from DICA. <https://www.mmtimes.com/news/foreign-and-domestic-investments-rise-during-govts-first-fiscal-year.html>

Figure 3.1: Myanmar’s sources of revenue



Source: Development Initiatives based on multiple sources, as detailed in Annex 2: methodology notes.
 Note: This chart shows the proportion (%) of different resource flows out of total resource flows in Myanmar between 2007 and 2015.

3.2 Domestic public resource flows

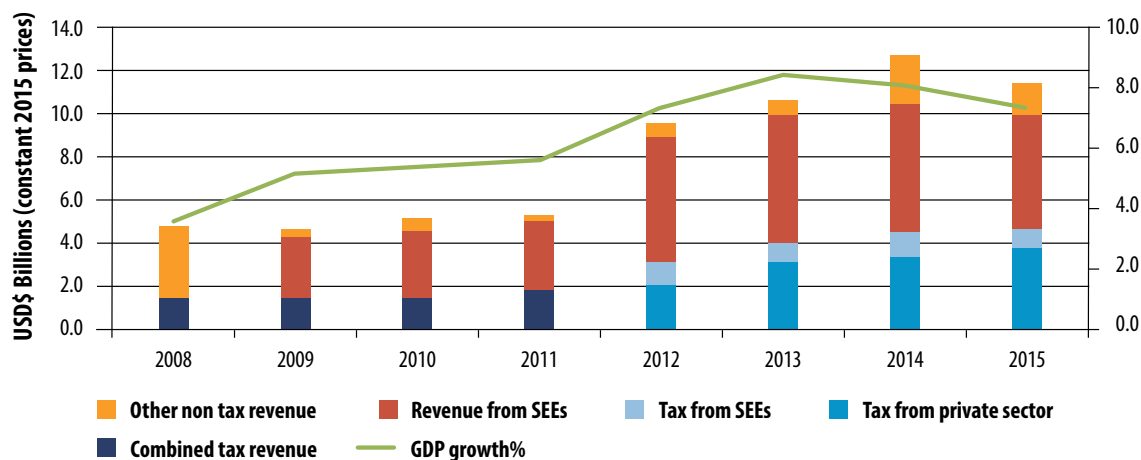
Government revenues are the largest source of finance in Myanmar. The upward trend in GDP growth in absolute volumes was broken in 2015, when volumes of government revenue fell from \$12.6 billion in 2014 to an estimated \$11.3 billion,³⁹ mainly due to falls in revenues and transfers from SEEs. Projections expect a return to positive growth from 2017, however. As a proportion of GDP, revenues (excluding SEE transfers and grants) increased to 12.1 percent in FY2014–2015 but subsequently fell in both 2015–2016 and 2016–2017, to 10.0 percent (from 21.9 percent to 17.2 percent for all revenues over the three-year period). Further declines are projected, with a levelling out at 9.9 percent of GDP by 2018/2019.⁴⁰ This is lower than in some other ASEAN countries; for example, in Thailand revenues as a proportion of GDP are projected to rise to 22 percent in 2018.⁴¹

39 2015 prices, converted from IMF 2016 Article IV Consultation. <http://www.imf.org/en/Publications/CR/Issues/2017/02/02/Myanmar-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44612>. All volumes exclude grants.

40 2015 prices, converted from IMF 2016 Article IV Consultation. <http://www.imf.org/en/Publications/CR/Issues/2017/02/02/Myanmar-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44612>. All volumes exclude grants.

41 Development Initiatives, Development Data Hub, based on IMF data. <http://data.devinit.org/#/>

Figure 3.2: Tax revenue growth



Source: IMF.

More than half (52 percent) of government revenue was generated through transfers from SEEs in FY2016/2017. However, this proportion has declined over recent years, from 62.6 percent in FY2014/2015 and 52.3 percent in FY2015.⁴² Volumes of SEE transfers fell in real terms over 2013–2014 as a consequence of both falling commodity prices in oil and gas and falling external demand for gemstones.⁴³ Consequently, while extractives, notably oil and gas, remain an important source of government income, accounting for 25.3 percent of total revenues in 2016–2017 through both transfers and tax, this proportion is down from 29.8 percent in 2014–2015 as both transfers and tax revenues from the sector have declined. Total revenues from minerals and mines have fallen even more substantially, by 68 percent, from \$1.4 billion in 2014–2015 to \$439 million in 2016–2017.

Total tax revenues, however, have continued to grow, despite falling commodity prices and a recent dip in both domestic and international private investment. Strengthened tax collection systems, attempts to broaden the tax base and longer-term private sector growth since 2012 saw tax revenues in total rise to almost \$4.65 billion in 2015–2016, accounting for 39 percent of total government revenues (up from 21 percent in 2013–2014). Tax as a proportion of GDP has also increased, from 6.3 percent in 2012–2013 to an estimated 7.5 percent in 2015–2016 (down slightly from 7.8 percent in 2014–2015), and it is projected to continue to rise to 8.2 percent by 2019.⁴⁴ However, rates remain substantially lower than in other countries in the ASEAN region, which average around 14 percent of GDP. Planned efforts to further improve tax collection and widen the tax base (see Chapter 4) are expected to lift tax-to-GDP ratios above 10 percent within five years,⁴⁵ and will be vital to enhance stable and sustainable revenue streams.

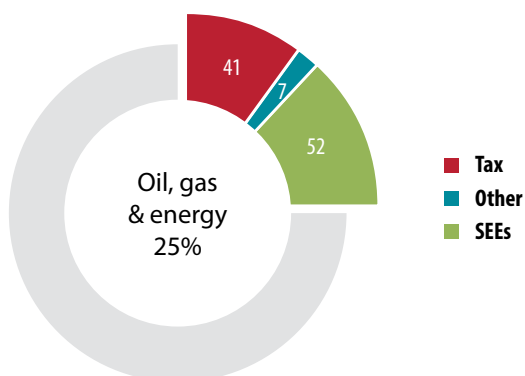
42 Data from Myanmar Statistics Service

43 World Bank (2016), 'Myanmar Economic Monitor'. <http://www.worldbank.org/en/country/myanmar/publication/myanmar-economic-monitor-reports>

44 2015 prices, converted from IMF 2016 Article IV Consultation. <http://www.imf.org/en/Publications/CR/Issues/2017/02/02/Myanmar-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44612>. All volumes exclude grants.

45 Interview with Country Representative, IMF Myanmar, 7 July 2017.

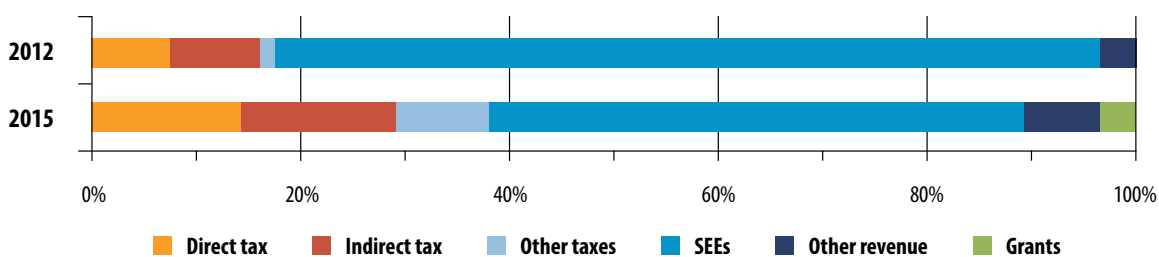
Figure 3.3: Oil, gas and energy revenue



Source: Open Myanmar Initiative Budget Explorer.

Furthermore, the proportion of Myanmar’s direct tax in total government revenue is comparatively low compared with other ASEAN countries, largely due to its high levels of income from SEEs, as illustrated in Figure 3.4. While there has been a rise in the proportion of direct tax revenues since 2012, it remained low in 2015 (at 14.1 percent). In contrast, direct tax in total government revenue comprises 44 percent of tax revenues in the Philippines and 36.8 percent in Indonesia.⁴⁶ Direct tax, through for example income, corporation and property taxes, is critical to the mobilization of government revenues and to addressing gaps in finance for delivering on national development outcomes. Efforts to strengthen tax administration and policy and broaden the tax base, which the government has begun to undertake with support from development partners, will be critical in achieving this (see INFF Building Block 4 in Chapter 4).

Figure 3.4: Direct tax revenue



Source: Open Budget Initiative, International Budget Partnership.

Notes: Indirect tax is composed of excises and trade taxes. This may be an overestimation. Direct tax is composed of taxes on income and property, and on land. ‘Other’ taxes are those whose direct/indirect nature could not be determined.

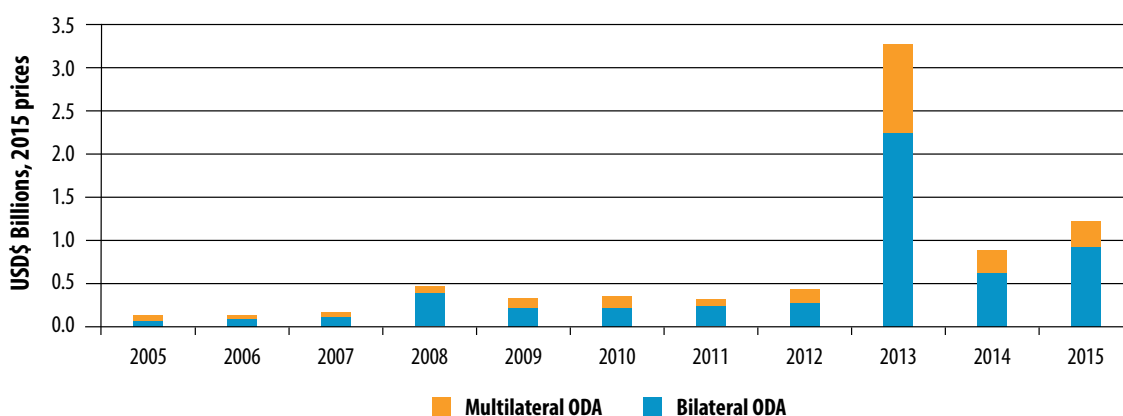
46 It is not possible to compare with a regional average, since methodologies for tax breakdown differ between countries.

3.3 International public resource flows

Concessional ODA represents a small component of Myanmar's development finance, at just 4.7 percent of financing in 2015 (rising to 6.4 percent if non-concessional development finance, or other official flows (OOFs), is also included). However, the comparative advantage of aid specifically targeting development and poverty reduction measures means that development partners play an important role in supporting social sectors and economic and institutional reform.

Since the transition to democracy that began in 2011 and the democratic elections in 2015, volumes of ODA have increased significantly, reaching \$1.2 billion in 2015. The rapid influx of donors saw Myanmar become the largest country recipient of gross ODA globally in 2013, assisted by substantial volumes of debt relief.

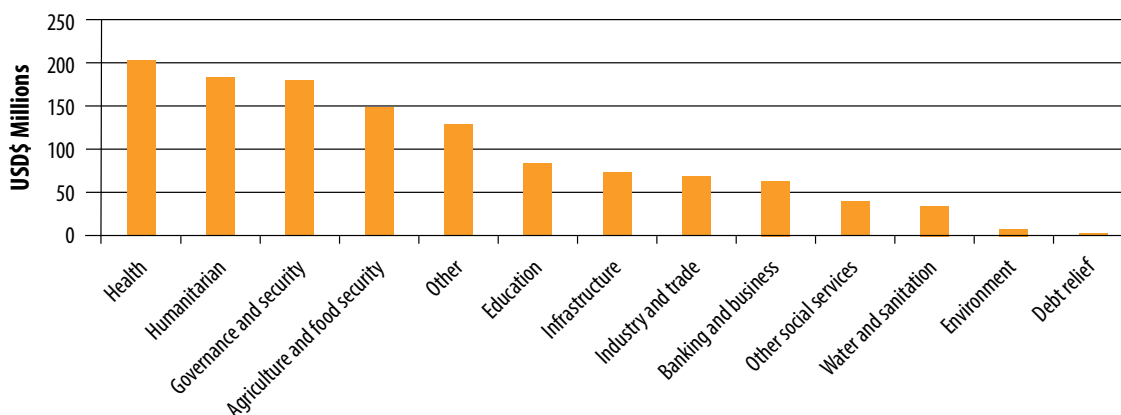
Figure 3.5: ODA growth rates



Source: Development Initiatives, based on OECD DAC Creditor Reporting System (CRS).

As illustrated in Figure 3.6, the health sector receives the largest volumes of ODA from development partners (\$204 million in 2015), followed by humanitarian assistance (\$184 million). Since 2013, Myanmar has also regularly been the second largest recipient of humanitarian assistance in the ASEAN region after the Philippines, reflecting its vulnerability to natural disasters and displacement-related crises. In addition, the prominence of ODA funding to the country's governance and security sector reflects Myanmar's history of conflict and its ambition to transition towards peace.

Figure 3.6: Sector breakdown of ODA



Source: Development Initiatives, based on OECD DAC CRS.

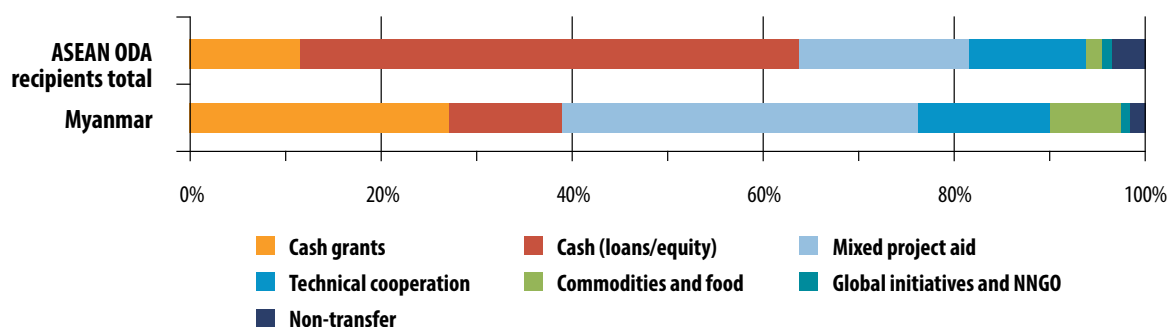
Non-concessional development finance (OOFs) has also increased, from just \$1.6 million in 2010 to \$439.5 million in 2015. Meanwhile, South–South cooperation and funding from donors within the region have also played a critical role over recent years, especially during the time of economic isolation (although data on this are limited).⁴⁷ Such cooperation and development partners outside the OECD Development Assistance Committee (DAC) group are an important source of potential future finance, alongside other actors such as development finance institutions (DFIs). Myanmar, for example, is the second ASEAN country to be considered for funding by the Asian Infrastructure Investment Bank (AIIB).

Projections of country-programmable aid (CPA), a measure of the amount of ODA actually available for programming at the country level, suggest that aid to Myanmar will continue to grow at a substantially higher rate than to most other developing countries. CPA is projected to rise by 91 percent in 2016 over 2015 levels, substantially higher than for other ASEAN countries (excluding Thailand at 86 percent). Longer-term projections through to 2019 predict that Myanmar will receive the second highest increase in CPA over 2015 levels (116 percent) of any developing country, after Syria. Ensuring that this is aligned to a clearly articulated national development vision and that it takes into account other forms of development finance will be crucial to ensure that future aid delivers tangible and more inclusive development outcomes.

The form in which Myanmar receives its ODA is different from that of other countries in the ASEAN region. In 2015 it received the highest proportion of aid as grants (27 percent) or mixed aid (37 percent) of any ASEAN country, while receiving the lowest proportion in the form of lending (12 percent)—less than half the proportion of the next lowest country in the region, Lao PDR (29 percent). Following exceptional levels of debt relief and high lending in 2013 and 2014, it is too soon to ascertain how the proportions for different modalities may be shifting, although the most recent data for 2015 suggest increases in loans and mixed project aid compared with the previous year.

47 UNDP (2016), ‘Overview Report of Development Finance in Myanmar’. http://themimu.info/sites/themimu.info/files/documents/Overview_Report_Development_Finance_in_Myanmar_UNDP_2016_ENG.pdf

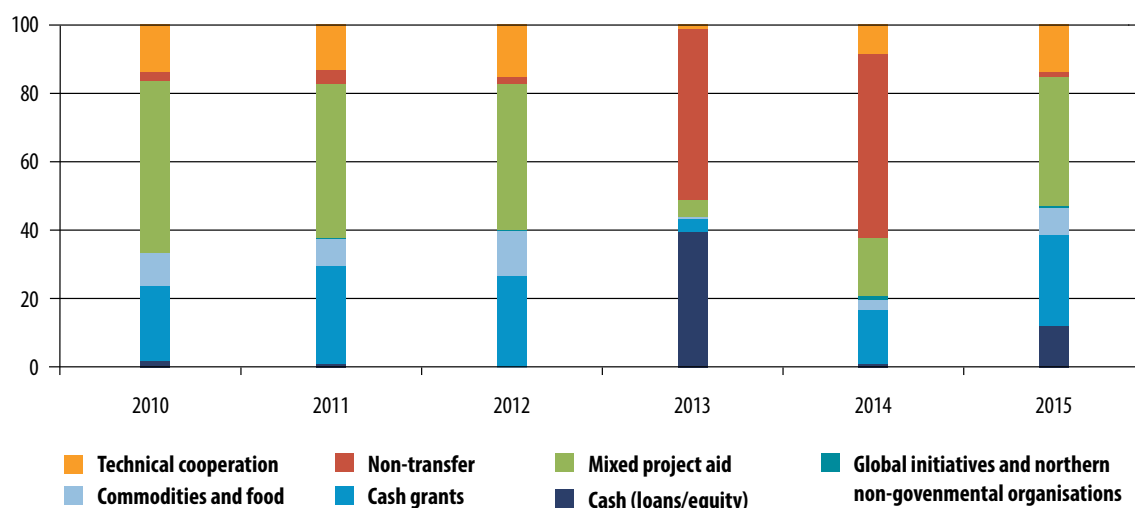
Figure 3.7: Aid bundle comparisons between Myanmar and ASEAN countries



Source: Development Initiatives based on OECD DAC CRS data.

Note: 'NNGOs' means Northern non-governmental organizations (which includes international non-governmental organizations).

Figure 3.8: Aid bundle overview 2010-2015



Source: Development Initiatives based on OECD DAC CRS data.

Notes: 'Cash (grants)' represents aid given in a modality that is cash-based or described by the donor in a way that makes it identifiable as cash; 'cash (loans/equity)' is a disbursement marked with a 'loan/equity investment' flow code in the CRS data; 'commodities and food' relate to aid supplied in the form of either equipment or food aid; 'technical cooperation' is aid that donors have marked as free-standing technical cooperation; 'global initiatives and northern NGOs (NNGOs)' refers to aid that is given as either: 1) funding for global initiatives—usually this is either funding for research with a potentially global impact or support for special-purpose funds with a global remit; or 2) core support to NNGOs. This is usually available for the NNGO to spend anywhere in the world, but in some cases the specific country recipient is identifiable. 'Non-transfer' refers to in-donor costs such as administrative expenses and spending on students and refugees within the donor country. 'Mixed project aid' refers to disbursements to specific projects where data do not contain sufficient information to determine the composition of the aid. This typically represents a mixture of cash and aid-in-kind transfers (e.g. a mixture of cash and technical cooperation).

While projections suggest that aid might rise over the next three years, access to concessional finance may be time-bound as Myanmar's economy grows and it graduates from LDC status (which projected indicators suggest is possible from 2024). A number of bilateral and multilateral funders use GNI per capita and LDC status in their decisions about how to invest their resources. As GNI rises and the country graduates from LDC status, it is likely that many of these donors will start to reduce their funding, or eligibility for certain funding streams, such as the LDC Fund (Chapter 5) or the IDA, will be curtailed. This

can have a negative impact on services or public investments in areas where donors have historically played an important role. However, a number of bilateral agencies do not use LDC status as a driver of allocation decisions, and changing concessional loan terms are already being applied by some donors (e.g. the Japan International Cooperation Agency (JICA)) as Myanmar has met the threshold for the most concessional loan terms.⁴⁸ Planning for this transition in advance—both budgeting to meet gaps and investing in skilled staff—is essential to ensuring that it does not have a negative impact on these services and public investments.

3.4 International private resource flows

Foreign direct investment

FDI grew more than six-fold (in nominal terms) between FY2012/2013 and FY2015/2016, reaching \$9.48 billion in that year. However, this growth trend reversed in FY2016/2017, with total investments falling to \$6.65 billion, as a consequence of market uncertainty associated with the formation of the new National League for Democracy (NLD) government. However, a new investment law and expected amendments to company law as well as the re-establishment of the Myanmar Investment Commission (see Chapter 4) are expected to return FDI to positive growth in the coming years.⁴⁹

Despite its recent fall, FDI remains Myanmar's second largest source of finance after government revenues, accounting for almost a quarter (24.5 percent) of recorded flows. Growth spikes in 2010 and 2011, and to a lesser extent in 2014 and 2015, can be explained by large investments in power and extractives (oil and gas). Oil and gas accounted for 40 percent and 51 percent of FDI in 2014–2015 and 2015–2016 respectively. However, large investments in such sectors are sporadic and sectors supported by FDI have diversified since the end of military rule, responding to the new investment climate, with notable growth in transport and communications, real estate, manufacturing and tourism.

The garment industry has grown considerably over recent years within the manufacturing sector as a non-commodity exporter,⁵⁰ and is identified as the manufacturing sub-sector with the second largest economic output following food/beverages/tobacco.⁵¹ As the investment environment has become increasingly favourable,⁵² Chinese and Korean firms have begun to relocate from other countries in the

48 UNDP (2016), 'Overview Report of Development Finance in Myanmar'. http://themimu.info/sites/themimu.info/files/documents/Overview_Report_Development_Finance_in_Myanmar_UNDP_2016_ENG.pdf

49 The government has reported a rise in FDI during 2016–2017 although, at the time of writing, this is not reflected in data available from DICA. <https://www.mmtimes.com/news/foreign-and-domestic-investments-rise-during-govts-first-fiscal-year.html>

50 HKTDC Research (2016), 'Myanmar Rising: Opportunities in Asia's Final Production Frontier'. <http://economists-pick-research.hktdc.com/business-news/article/Research-Articles/Myanmar-Rising-Opportunities-in-Asia-s-Final-Production-Frontier/rp/en/1/1X000000/1X0A6C1Z.htm>

51 Government of Myanmar and UNDP (2015), 'Myanmar Business Survey'. Data exclude agriculture and financial services.

52 Reasons for this include natural resource availability, a large proportion of working-age population, low labour costs, the country's strategic geographical location between India and China, a coastline enabling logistical competitiveness and an increasingly favourable legal investment environment. UNDP (2016), 'Overview Report of Development Finance in Myanmar'. http://themimu.info/sites/themimu.info/files/documents/Overview_Report_Development_Finance_in_Myanmar_UNDP_2016_ENG.pdf

region.⁵³ According to the Myanmar Garment Manufacturers Association (MGMA), from 2012 to 2014 the export value of the garment industry more than doubled, from \$900 million to \$1.56 billion (and is predicted to have reached over \$2 billion in 2015).⁵⁴ It is important that, as the government looks to support growth in this sector, it could consider encouraging the use of the proceeds in a way that enables further expansion into diversified and higher-value-added sectors as well as sustainable job creation.

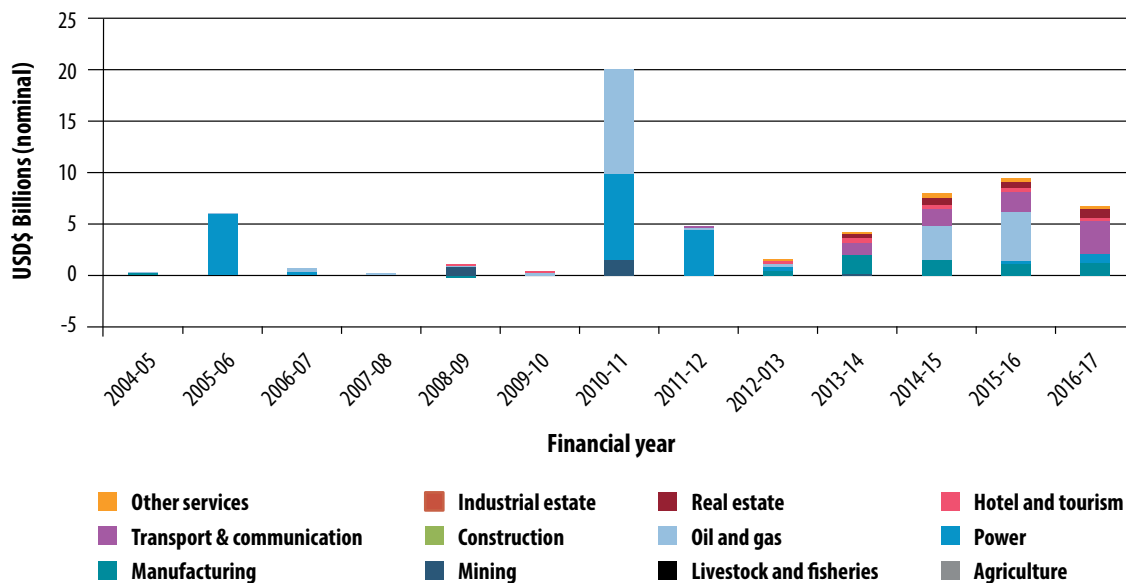
In terms of countries of origin, FDI continues to remain concentrated in the Southeast and East Asia region, with 78 percent of FDI between FY2014/2015 and FY2016/2017 coming from China and Singapore alone, and Viet Nam, Thailand, Hong Kong, Malaysia and Japan accounting for most of the remainder. Some investments have started to come from European countries, such as France and the Netherlands, but other investors, such as the US, remain absent.

Diversification of investment—in both source and sector—alongside a broadening of the tax base will be critical to reducing the government’s reliance upon volatile natural resource sectors which, together with fluctuating commodity prices, have the potential to destabilize the economy. Diversification is also important in broadening job creation activities, a strategy that is being explicitly pursued through the new investment law and foreign investment incentives (see Chapter 4). With these improvements in the investment climate, FDI is expected to grow and diversify further; the nature of this investment and the impacts it has will make an important contribution to Myanmar’s sustainable development path.

53 Centre for Research on Multinational Corporations (SOMO) (2017), ‘Garment industry in Myanmar far from fair’. <https://www.somo.nl/garment-industry-myanmar-far-fair/>

54 MGMA website, ‘Export data’. <http://www.myanmargarments.org/events-news/export-data/>

Figure 3.9: FDI growth across sectors



Source: Department of Investment and Company Administration.

Remittances

Beyond commercial private investment flows, remittances represent another important private inflow for Myanmar’s financing landscape. Recorded remittances jumped from \$229 million in 2012 to \$1.5 billion in 2013, and almost doubled to \$2.8 billion in 2014. Volumes have continued to grow at an average annual rate of 3.3 percent, reaching an estimated \$3.3 billion in 2016.⁵⁵ This is in contrast to global trends, which saw remittances to developing countries fall for two consecutive years in 2015 and 2016 by 1.0 percent and 2.4 percent respectively. Similarly, in 2016 remittances fell in the East Asia/Pacific region (by 1.2 percent) and in South Asia (6.4 percent), the latter driven in particular by falls in India.⁵⁶

In 2015 remittances accounted for an estimated 12.5 percent of Myanmar’s recorded finance flows and 5 percent of GDP, the third highest proportion of GDP in the ASEAN region after the Philippines and Viet Nam. Global remittances are projected to resume positive growth in 2017 and thus will remain an important component of Myanmar’s economy and, given the nature of direct transfers, important for particular communities and households. Myanmar may want, therefore, to further develop its policy framework for remittances and the role of tools such as diaspora bonds to better harness such resources for national development priorities.

55 World Bank, ‘Migration and Remittances Data’, updated April 2017. <http://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

56 World Bank (2017), ‘Migration and Development Brief 27: Migration and Remittances: Recent Developments and Outlook’ <http://pubdocs.worldbank.org/en/992371492706371662/MigrationandDevelopmentBrief27.pdf>

3.5 Domestic private resource flows

Since 2011 domestic private investments⁵⁷ have increased incrementally, with a notable jump in FY2015/2016 to reach \$3.2 billion. Preliminary figures suggest that new investments fell substantially in FY2016/2017, to below \$1 billion, as investors took a ‘wait and see’ stance to the new government. While the business environment remains weak, it is beginning to improve as the new government has taken steps to create macro-economic stability and strengthen the business environment (see Chapter 4, INFF Building Block 4 under ‘Domestic and international private financing policies’).

Real estate, transport and manufacturing constitute the largest domestic investment sectors, with a general increase in the diversity of sectors receiving investment since 2014.⁵⁸ Financial institutions, underdeveloped under state control during the military regime, are starting to evolve.

Access to credit and other financial services remains a key constraint,⁵⁹ although the environment is improving: Myanmar has seen the fastest-growing rate of domestic credit to the private sector as a proportion of GDP—a measure of the role of the private sector in the national economy—of any ASEAN country, doubling by 2016 over 2012 values. But at 20.7 percent it remains the lowest in the region, half that of Indonesia, the next lowest (39.4 percent), with Thailand the highest at 147.4 percent.⁶⁰ Addressing such constraints could unleash considerable potential to drive growth, employment and revenues as part of Myanmar’s development vision.

The domestic private sector in Myanmar is largely comprised of SMEs and the informal sector, and is small in comparison with other ASEAN countries. Of the estimated 127,000 enterprises employing more than one individual, 87 percent employ 10 staff or fewer.⁶¹ However, an increase in the number of SMEs operating in Myanmar and a rise in the number of employees in enterprises following a sharp decline in 2012 suggest that the business environment is becoming more favourable. Such rises, however, remain small, with the number of SMEs increasing by only 1 percent between 2012 and 2014 (from 38,590 to 39,062 SMEs), as demonstrated in Figure 3.10.

57 Domestic investments, recorded as investments by citizens in permitted enterprises by the Directorate of Investment Company Administration (DICA) include investments by (a) national citizens; (b) joint ventures between citizens and government departments; (c) investment contracts between citizens and the Union government, including build–operate–transfer (BOT) and build–own–operate (BOO); and (d) any legal system under work-related contract.

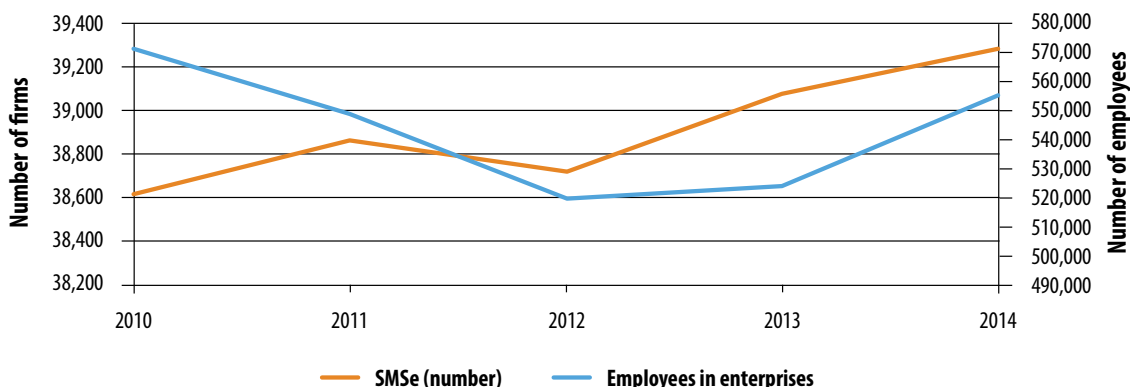
58 DICA Data and Statistics. http://www.dica.gov.mm/en/topic/myanmar-citizen-investment-sector?title=&tid_1=All

59 World Bank (2015), ‘Myanmar Investment Climate Assessment’. <http://documents.worldbank.org/curated/en/219161468109465403/Myanmar-Investment-climate-assessment-sustaining-reforms-in-a-time-of-transition>

60 World Bank, World Development Indicators. <http://data.worldbank.org/indicator/FS.AST.PRVT.GD.ZS>

61 Government of Myanmar and UNDP (2015), ‘Myanmar Business Survey’. Data exclude agriculture and financial services.

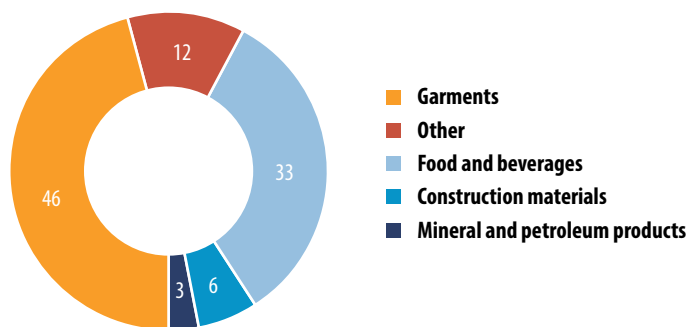
Figure 3.10: SMEs and employees in enterprises levels



Source: Asia SME Finance Monitor, 2010–2014.

While the largest number of SMEs is found within the food and beverages industry (62 percent), the garments industry accounts for the largest proportion of employees (46 percent) (Figure 3.11). This reinforces findings on the growing relevance of the garments industry within the Myanmar economy and its potential to create jobs and raise wages

Figure 3.11: SME employment rates across sectors



Source: Asia SME Finance Monitor, 2010–2014.

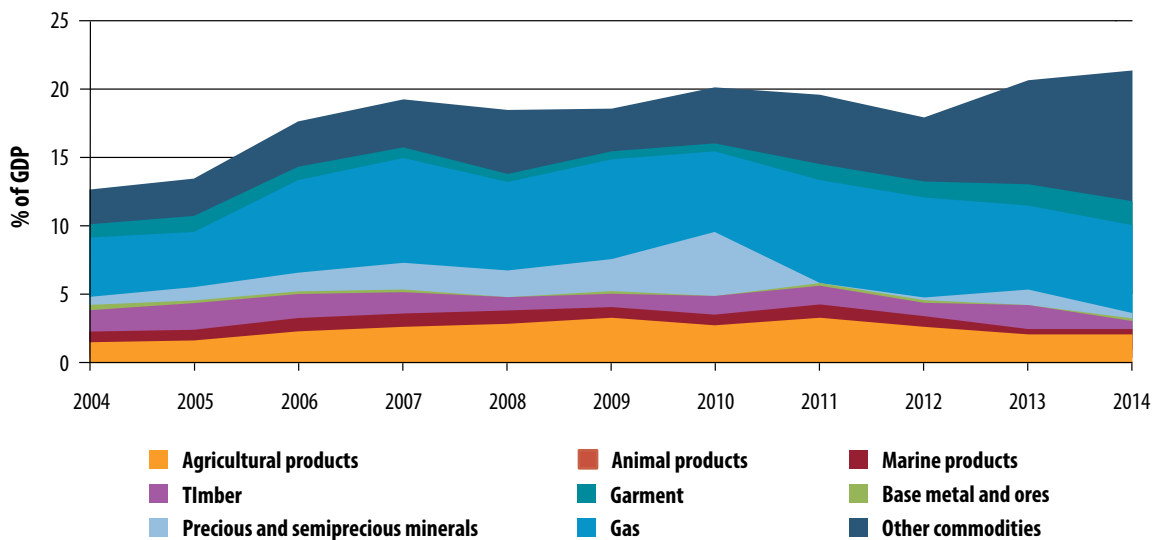
Gas accounted for 40 percent of merchandise exports in 2015–2016.⁶² Exports of oil and gas (Figure 3.12—oil is captured in ‘Other’) have accounted for the largest proportion of GDP over the past decade; in 2014 gas accounted for 30 percent of exports and ‘Other’ for 45 percent.

While oil and natural gas have been and will continue to be critical sources of foreign investment and government revenue, reserves are finite, and investments and commodity prices have fluctuated. Economic diversification and reduced dependency on extractive industries will be critical for long-term economic growth and macro-economic stability. Recognizing this, the National Export Strategy (2016) sets out a vision to work with the private sector to diversify exports by focusing on seven priority areas: textiles and garments, rubber, beans/pulses/oilseeds, rice, forestry products, fisheries and tourism.⁶³

62 World Bank (May 2016), ‘Myanmar Economic Monitor’, p.16.

63 Ministry of Commerce (2016), ‘National Export Strategy’. http://eventisistemapaese.esteri.it/Eventi/5/pdf/brochure_ITC_NES-MYA.pdf

Figure 3.12: Sector contributions to GDP



Source: Myanmar Statistical Information Service.

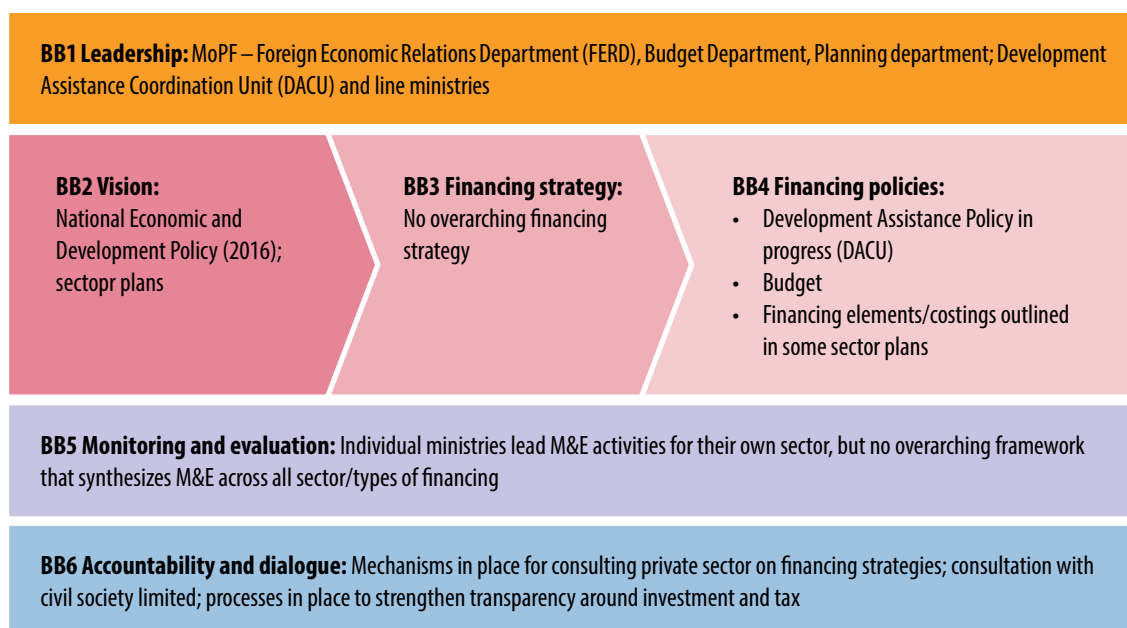
4. Integrated National Financing Framework

As outlined in the introduction to this report, the concept of the INFF emerged out of commitments made by countries at the Third International Conference on Financing for Development in 2015 in order to establish key building blocks and support efforts by governments to finance national sustainable development priorities (including the SDGs). The INFF is a system of policies and institutional structures built around six interconnected building blocks designed to take a holistic approach to managing and mobilizing all types of financing—domestic, international, public and private—for national development strategies. The INFF concept is designed to facilitate government-led implementation of the SDGs by supporting governments to link finance with results, strengthen coordination and maximize the impact of all available resources.

This framework is particularly important in Myanmar, given the presence of various individual types of finance but the absence of any overarching framework that connects them together—a critical factor for delivering on national development outcomes. The main financing challenges, as highlighted in Chapter 3, relate to the need to expand domestic revenue generation and diversify exports and investments in light of falling domestic natural resource revenues and FDI. Important opportunities lie in the potential of expanding tax revenues, FDI and domestic private investment, which remains relatively untapped in relation both to channelling existing resources to longer-term, more sustainable development outcomes and leveraging additional resources. The INFF can be a valuable tool in ensuring that the challenges and opportunities identified are addressed, prioritized and leveraged in a coherent, sustainable manner.

This chapter explores the extent to which INFF elements are already in place in Myanmar and highlights areas for improvement, in the context of identified financing challenges and opportunities.

Figure 4: Assessment of existing framework



Building Block 1: Leadership on national development vision and financing

A coherent approach to sustainable development within government is a prerequisite for achieving a holistic approach to financing development outcomes. The new Ministry of Planning and Finance (MoPF) is the key actor responsible for driving coherence in setting a national development vision and an aligned strategy for financing this vision. The formation of this new ministry (by merging previous ministries of finance and national planning and economic development) presents a key opportunity to strengthen leadership on building a coherent approach to development financing. Line ministries also play an important role in developing sector plans, which feed into the budget planning process overseen by the new Planning and Budget departments. The new Development Assistance Coordination Unit (DACU) also plays a key leadership role in coordinating development assistance and financing plans.

Building Block 2: Vision for development financing

Strategic objectives are set out in the National Comprehensive Development Plan (NCDP) developed by the previous government, in sector plans and in the new 2016 Economic Policy of the Union of Myanmar (see Chapter 2). While the NCDP sets out the planning framework and serves as a coherent planning tool for actors at Union, state and regional levels—which helps to guide prioritization of sector projects—it does not present a development vision for sustainable development that is widely used by the current government.

It is important that a sustainable development vision is in place in Myanmar which all ministries use and endorse and which all key stakeholders have fed into (including all line ministries and regional/state governments, the private sector, development partners and civil society). Buy-in to a sustainable development vision is critical in terms of laying the foundations for long-term development outcomes and, on the basis of this, an overarching financing strategy. Such a vision could include all aspects of development—including the peace process, social, environmental and economic outcomes and national statistical capacities. A clear national vision for development is also often critical to maintaining sustained and coherent support from development partners.

The National Economic and Development Policy of 2016 presents a vision for the country, but further clarity and detail are needed if this is to become a medium- to long-term development plan encompassing a financing strategy for development. As such, it would be advisable to undertake a process to expand on and clarify the overarching vision for national development set out in this policy and generate widespread buy-in through a consultative multi-stakeholder process. Lessons can be drawn from the experience of the Philippines in developing its AmBisyon Natin 2040 vision (Box 1).

In addition, there is sometimes a lack of clarity regarding the level of continuity of policies produced by the previous government. In order to strengthen partnerships and effectively deliver on development priorities, it is important that the government explicitly communicates this with external actors (e.g. development partners, civil society and the private sector).

Lessons from the experience of the Philippines in developing a new national development vision: AmBisyon Natin 2040⁶⁴

The long-term vision for the Philippines articulated in its AmBisyon Natin 2040 strategy is the first of its kind for the country. Prior to this, the development planning process relied on six-year, term-based national development plans, which were not anchored on a longer-term development plan or vision.

The 2040 vision is the result of a highly consultative and participatory process which began in 2015, guided by an Advisory Committee composed of representatives from government, the private sector, academia and civil society, and led by the National Economic and Development Authority (NEDA). The process started with 42 focus group discussions in 10 different regions across the islands of Luzon, Visayas and Mindanao. The focus groups were especially targeted at poor and marginalized groups to ensure that their voices were heard in the process; these included fishermen, farmers, the urban poor, disaster survivors, overseas Filipino worker (OFW) families, indigenous people, students, formal workers, government workers, out-of-school youth and persons with disabilities. The results of these discussions then formed the basis for the design of a survey that was shared across the country and to which approximately 10,000 people responded. As well as identifying the aspirations of the Filipino people, NEDA, with the support of the Asian Development Bank (ADB), sought to explore means of implementation to achieve them, through undertaking thematic studies with the aim of ascertaining the constraints and possibilities of attaining each goal. AmBisyon Natin 2040 was officially adopted in October 2016.

Building Block 3: Strategy for financing development outcomes

Some initial progress has been made towards establishing strategies for financing development outcomes. Progress is at an early stage, which is unsurprising given that the new government has only been in power since April 2016. The NCDP (2011), National Economic and Development Policy (2016), National Export Strategy (2016) and Myanmar Investment Law (2017) provide the broad direction for development results, together with costed strategies developed under some line ministries. While none of these policies or documents explicitly provides a comprehensive framework for financing results in the long term, they do give some broad direction regarding certain financing areas (or government priorities). Regarding the private sector, the National Export Strategy provides guidance on the sectors to be prioritized in order to achieve greater diversification and economic growth, the new Myanmar Investment Law outlines priority sectors for investment (INFF Building Block 4) and the National Economic and Development Policy sets out some general objectives for economic growth. The National Export Strategy and Myanmar Investment Law are largely aligned in terms of the industries that they target (INFF Building Block 4).

However, these policies do not provide estimates of the cost of these interventions or provide benchmarks for the scale of financing required. The NCDP—developed by the previous government—provides an estimate of the investments required to deliver the plan (\$520 billion from 2010 to 2030), although it does not break this figure down or detail how funding will be allocated. No formal guidance exists on the use of different types of finance in supporting an overarching financing framework, although this is something that the new Development Assistance Coordination Unit working with the MoPF seeks to address.

⁶⁴ See: <http://2040.neda.gov.ph/wp-content/uploads/2016/04/A-Long-Term-Vision-for-the-Philippines.pdf>

A number of sector plans have also been developed, with varying levels of detail on plans⁶⁵ for financing results. Some sector plans recognize the need to establish innovative financing mechanisms in order to deliver on the strategy (e.g. the Agricultural Development Plan and accompanying Agricultural Investment Strategy adopted by the Ministry of Agriculture, Livestock and Irrigation in 2017 and Private Sector Development Framework and Action Plan⁶⁶), although they do not set out specific costs for delivering the strategy or targets relating to the scale of finance to be mobilized. Other sector plans, such as the Tourism Master Plan,⁶⁷ National Education Strategic Plan (2016–2021),⁶⁸ Social Protection Plan (2014),⁶⁹ draft Myanmar Climate Change Strategy and Action Plan (2017), National Adaptation Plan of Action⁷⁰ and (as is planned) the National Health Plan (2017–2021),⁷¹ have gone further and have provided cost estimates for delivering on strategies as proportions of GDP. Developing costings and medium- to long-term financing plans for the delivery of the sector plans and embedding these within the national budget planning process will be an immediate priority of the new Sector Coordination Groups (INFF Building Block 4). Each Sector Coordination Group is required to develop a sector plan within six months of launching.

While these sector plans are often effective in driving decision-making, an overarching framework that brings together overlapping priorities and strategies for different types of financing under one coherent plan would be the ideal solution. Without this, it is difficult for government to gauge the level of resources that are needed to deliver on development outcomes or how they could be sequenced and to overcome longer-term blockages in realizing these resources. Financing strategies attached to sector plans (including costing exercises) being led by Sector Working (soon to be Coordination) Groups could also be integrated into this overarching strategy. The Sector Working Groups previously played a critical role during 2013–2017 as the primary mechanisms for sector planning.

Although mechanisms exist within government to coordinate specific types of finance—such as DACU (on development assistance), the MoPF (on the SDGs, public financial management (PFM) and national planning and budget development), Sector Working/Coordination Groups (delivery of sector plans/financing strategies) and the Myanmar Investment Commission (MIC) (private investment)—a cross-government committee with the specific responsibility of synchronizing all of these different development and financing priorities would expedite the effective delivery of development outcomes. Coordination takes place through Planning and Finance Commissions at the national, regional and state

65 Ministry of Agriculture, Livestock and Irrigation (2016), 'Second Short Term Five Year Agriculture Policies and Strategic Thrusts' and draft Agriculture Development Strategy and Investment Strategy https://www.myanmarfswg.org/files/uploads/PDF/3rd_draft_ads_december_2016.pdf

66 Republic of the Union of Myanmar (2016), 'Indicative Private Sector Development Framework and Action Plan'. http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/psd_framework_final_01_apr_englidh.pdf

67 Ministry of Hotels and Tourism, Government of Myanmar (2013), 'Myanmar Tourism Master Plan (2013–2020)'. http://themimu.info/sites/themimu.info/files/documents/Core_Doc_Myanmar_Tourism_Master_Plan_2013-2020.pdf

68 Republic of the Union of Myanmar (2016), 'Myanmar Education Strategic Plan (2016–21)'. http://planipolis.iiep.unesco.org/sites/planipolis/files/ressources/myanmar_nesp-english.pdf

69 Republic of the Union of Myanmar (2014), 'Myanmar National Social Protection Strategic Plan'. <http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=50377>

70 Republic of the Union of Myanmar (2012), 'Myanmar's National Adaptation Programme of Action (NAPA) to Climate Change 2012'. <http://unfccc.int/resource/docs/napa/mmr01.pdf>

71 Republic of the Union of Myanmar (2016), 'Myanmar National Health Plan (2017–2021)'. <http://www.themimu.info/node/50048>

levels, led by the Chief Minister and supported by Planning and Finance Committees led by the Minister of Planning and Finance (e.g. Township Plan Formulation and Implementation Committees), but these do not have responsibility for overseeing and coordinating all types of financing priority (with their focus being on domestic financing and not on development assistance or private resource flows). As such, there is a need for a cross-government committee that draws on the interests and expertise of a wider group of senior representatives and that spans all types of finance contributing to development outcomes. This would also help to shift some of the administrative burden for decision-making away from the Economic Committee of the Cabinet.

Either a new committee comprised of representatives from across government who oversee different types of finance could be established and chaired by the MoPF and the Central Bank of Myanmar, or the responsibilities and capacities of the existing planning and financial commissions and committees at national, regional and state levels could be expanded to oversee all types of finance. The Foreign Economic Relations Department (FERD) within the MoPF (as the Secretariat for DACU) could work with DACU to scope the priorities and feasible governance and institutional structure of this new committee.

However, a key challenge to the development of effective financing strategies at the national and subnational levels has sometimes been the absence of consistent and sufficiently disaggregated data on existing resource flows. Without these data, it is not possible to develop effective financing strategies or to target resources effectively in line with achieving development priorities. The government and development partners may wish to prioritize strengthening of this data. While Myanmar's 'Mohinga' Aid Information Management System is useful in tracking aid flows,⁷² it does not include wider resource flows and, being voluntary, is potentially incomplete. A number of development partners do not enter their data and the system is challenged by timely data entry.

Building Block 4: Financing policies for each type of flow

In practice, the government's financing strategy is delivered through a range of largely uncoordinated financing policies: firstly, policies that focus on a particular type of finance (for example the budget, which focuses on allocating non-grant government revenue, and forthcoming development assistance policy being developed by DACU); and secondly, policies that focus on sectors and themes and include financing plans as part of their overarching strategy (such as the plans for the tourism, health and education sectors). The effectiveness of the government's approach to financing is dependent upon how comprehensive these different policies are across all types of financing and the extent to which there is coordination between them and with long-term development plans.

4.1 Domestic public resources

The Planning and Finance Commissions, respectively, are responsible for coordinating national planning and budgeting processes. The Planning Department within the MoPF is responsible for compiling the plans vertically and horizontally, and the Budget Department within the MoPF is responsible for formulating and implementing the annual Union budget. The Internal Revenue Department is

⁷² See: <https://mohinga.info/en/>

responsible for overseeing revenue collection. The current budget allocates funds within a specific envelope for a year, organized along administrative lines by ministry, department and state/region. The recent merging of planning and financing ministries into the MoPF presents a key opportunity to ensure that spending is aligned with national development planning.

The Budget Department has recently developed medium-term (three-year) expenditure frameworks which link to sector plans. This is an important step towards aligning budget planning with longer-term national development and sector plans. The MoPF has also begun to provide line ministries and Township Planning Formulation and Implementation Committees with budget ceilings to support them in planning.⁷³ While this represents important progress, implementation is in the very early stages and a number of key budget planning tools are sometimes missing from the process, thus undermining it; these include a budget narrative describing policy goals, activities for implementation, expected outputs/outcomes and impact measurement.⁷⁴

The remit of the Planning Commission is to ensure that spending is in line with national plans, and efforts are under way to align the budget with the 2016 Economic Policy of the Union of Myanmar. The Planning Commission does this by reviewing and directing the alignment of spending plans against national development plans. Line ministries align budget planning with sector plans when preparing budget requests.

Public sector accountability around the budget has increased: a citizen's budget was produced by the government for the fiscal years 2015/2016, 2016/2017 and 2017/2018 and accompanying awareness-raising programmes were delivered. Once the Planning Commission submits the budget to parliament, the parliamentary Joint Public Accounts Committee is responsible for reviewing it against national development and sector plans.⁷⁵ While progress has been made in strengthening budget accountability, challenges remain and implementation of reforms is only just beginning. Parliamentarians could play a stronger role in ensuring accountability over the budget—for example, by participating in parliamentary debates, monitoring implementation of budgets, engaging civil society and encouraging the publication of executive budget proposals.⁷⁶

While there has been progress on horizontal budget coordination, vertical budget coordination with regional and state governments is more challenging. The 2008 Constitution⁷⁷ set out plans for subnational autonomy and fiscal decentralization of budgeting and planning functions from the Union government to the states and regions. Resources flow through two channels—from Union to states/regions and through line ministries.⁷⁸ However, in reality regional/state planning is not in general feeding effectively into Union budget formulations and the national Financial Commission determines allocations from the Union budget to regions and states. This is because no clear legal framework exists that determines the

73 Interview with Senior Public Sector Specialist, World Bank, 7 July 2017.

74 International IDEA (2017), 'Discussion Draft: The Myanmar Budget Process and Legislative Branch'. Not yet published.

75 International IDEA (2017), 'Discussion Draft: The Myanmar Budget Process and Legislative Branch'.

76 International IDEA (2017), 'Discussion Draft: The Myanmar Budget Process and Legislative Branch'.

77 Constitution of the Republic of the Union of Myanmar (2008). <http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/79572/85698/F1127243646/MMR79572.pdf>

78 The Asia Foundation (2013), 'State and Region Governments in Myanmar'. <https://asiafoundation.org/resources/pdfs/StateandRegionGovernmentsinMyanmarCESDTAF.PDF>

scope of resources for states and regions, while local tax policy and administration are underdeveloped⁷⁹ and regional and state governments do not often have adequate capacity to develop budgets and policies or to raise revenues.⁸⁰ As such, there is limited transparency regarding Union-level decisions on budget allocations to state and regional governments; a clear process and criteria for this could be developed through a consultative process and published.⁸¹ To strengthen fiscal decentralization, greater focus could be placed on building state and regional capacity on budget formation, revenue collection and institutional structures.

There are also inconsistencies between ministries and sectors regarding the extent that planning at the state and regional levels determines budget allocations at the Union level, which further undermines coordination. As a result of the two-channel financing system, some ministries with stronger decentralized infrastructure are able to plan and budget from Union through to state and regional levels, whereas other sectors are planned and financed through vertical channels only.⁸²

Progress is, however, being made where some states and regions have received increased budget resources, and even taxation rights; all states and regions now have their own parliaments, and some of these subnational parliaments have begun to focus on budgetary issues and the issue of fiscal decentralization. Nevertheless, it is unclear what role subnational parliaments play in the oversight of state-level budgets when they do not control resources. It is also hoped that regional planning committees will participate in the new Sector Coordination Groups to ensure greater coordination between sector and regional planning regarding budget development.⁸³

Development partners are supporting a programme overseen by the MoPF to strengthen PFM and transparency and to address such capacity constraints at union and state/regional levels.⁸⁴ For example, efforts are under way to develop systems and procedures for capturing revenues from natural resource sectors, support new mandates for the Planning and Budget departments, strengthen Myanmar's nascent structures for external oversight and accountability and provide support for effective budget execution, with a focus on building the capacity of the Planning Department within the MoPF, the Treasury and Office of the Auditor General.⁸⁵

Strengthening tax revenue is a priority in Myanmar. In the context of recent declines in FDI, falling extractives revenues as a result of declining global commodity prices, a widening trade deficit⁸⁶ and time-bound access to concessional finance, increasing the coverage and depth of taxation will be critical for maintaining fiscal stability and providing a robust base for financing development

79 International IDEA (2017), 'Discussion Draft: The Myanmar Budget Process and Legislative Branch'.

80 International IDEA (2017), 'Discussion Draft: The Myanmar Budget Process and Legislative Branch'.

81 The Asia Foundation (2013), 'State and Region Governments in Myanmar'. <https://asiafoundation.org/resources/pdfs/StateandRegionGovernmentsinMyanmarCESDTAF.PDF>

82 Constitution of the Republic of the Union of Myanmar (2008). <http://www.ilo.org/dyn/natlex/docs/ELECTRONIC/79572/85698/F1127243646/MMR79572.pdf>

83 Interview with Permanent Secretary and Director General of FERD, MoPF, 3 July 2017.

84 International IDEA (2017), 'Discussion Draft: The Myanmar Budget Process and Legislative Branch'.

85 Interview with Senior Public Sector Specialist, World Bank, 7 July 2017.

86 IMF (2016), 'Staff Report for the 2016 Article IV Consultation'. See <https://www.imf.org/en/Publications/CR/Issues/2017/02/02/Myanmar-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44612>

outcomes.⁸⁷ Tax administration could continue to be strengthened, moving from administrative achievements among large taxpayers to other taxpayers and building a well-defined administrative framework through the tax administration procedural draft currently under Parliamentary review.⁸⁸

This could be accompanied by deeper measures to broaden the tax base. Initial progress has been made, such as through a special goods tax on alcohol and tobacco, a new commercial tax (a preliminary form of value-added tax (VAT)), new taxation on telecommunications (mobile technology) and income tax law.⁸⁹ These tax-related laws are captured within the overarching Union Tax Law 2017, which came into effect on 1 April 2017 for the 2017/2018 financial year.⁹⁰

However, a number of tax laws require updating (e.g. stamp duty law), while a full VAT law remains some way off. More can also be done to develop and enhance taxation from extractives and to optimize the fiscal regime between taxation and production-sharing non-tax revenues. Greater transparency on how taxes are spent can further improve compliance, particularly when this is promoted through citizen education on tax as a public good and on what tax is to be paid by different actors.⁹¹

Plans for establishing a system for VAT—which comes later in the sequence—will be a critical step towards broadening the tax base and could also be designed with consideration for Myanmar's goals on inclusivity and people-centred development.⁹² High-level commitment will be needed to accelerate the reform of SEEs to improve their efficiency and revenue contribution.⁹³

An ideal solution could be an overarching plan that brings together all of these government initiatives and outlines the tax system that the government wants to develop in order to provide the public resources that will be needed to fund services and public investment into the future. This plan could also be aligned with the objectives of national development plans, including ensuring that distributional impacts on the poorest people are managed in line with the SDGs. One option could be for this plan to form one key component of the broader long-term financing strategy (INFF Building Block 3). The tax working group within the Myanmar Business Forum played a role in facilitating dialogue between the government and the private sector on tax issues⁹⁴ and could potentially play a key role in developing this overarching tax plan once its Secretariat has moved to the Union of Myanmar Federation of Chambers of Commerce and Industry (UMFCCI), as is planned in the near future.⁹⁵

87 UNDP (2016), 'Overview Report of Development Finance in Myanmar'. http://themimu.info/sites/themimu.info/files/documents/Overview_Report_Development_Finance_in_Myanmar_UNDP_2016_ENG.pdf

88 The IMF has supported the Internal Revenue Department to set up a large taxpayers office and a self-assessment system while, through the World Bank-supported PFM programme, the government is developing systems for medium-level taxpayers and tax return audits, and a medium-term sector plan for tax with support from the IMF.

89 Interview with Resident Representative, IMF Myanmar, 7 July 2017.

90 Government of Myanmar (2017), 'Union Tax Law 2017'. <http://www.lincolnmyanmar.com/wp-content/uploads/2017/03/Union-Tax-Law-2017-2.pdf>

91 OECD DAC (2014), 'Investment Policy Review: Myanmar'. <http://www.oecd.org/countries/myanmar/investment-policy-reform-in-myanmar.htm>

92 Interview with Country Representative, IMF Myanmar, 7 July 2017.

93 IMF (2016), 'Staff Report for the 2016 Article IV Consultation'.

94 Myanmar Business Forum website, 'Taxation'. <http://myanmarbusinessforum.org/en/taxation/>

95 *Myanmar Times* (2017), 'UMFCCI takes over Myanmar Business Forum secretariat from IRC'. <http://www.mmtimes.com/index.php/business/27223-umfcci-takes-over-myanmar-business-forum-secretariat-from-ifc.html>

Given the significant role that natural resources (particularly oil and gas) play in Myanmar's economy, the country is currently very vulnerable to fiscal instability as a result of falling global commodity prices (as it has been in recent years). The establishment of a Natural Resource Revenue Management Fund would act as a buffer between the budget and short-term swings in commodity prices and would minimize the risk that a large influx of foreign currency could have a negative impact on inflation levels. This is particularly important given that future global commodity prices are uncertain. The fund would also help to invest the proceeds wisely, so that they continue to generate revenue for the country after the natural resources themselves have run out. Such a fund would also help to strengthen the governance of natural resource revenues in Myanmar. Responsibilities for resource extraction and revenue are unclear, specifically regarding the distribution of resource endowment. Myanmar's legislation on natural resources does not define the licensing process, the role of governmental authorities at union, region and state levels or the fiscal system for extractive revenues.⁹⁶ A fund of this nature would also help to manage the issue of wealth distribution from natural resources as a key component of the peace process. Lessons can be drawn from the experience of Timor-Leste in establishing a sovereign wealth fund to manage revenues from oil (Box 2).

The experience of Timor-Leste in establishing a sovereign wealth fund for petroleum revenues

Timor-Leste has benefited from strong management of its natural resources by a sovereign wealth fund, the Petroleum Fund, which it established in 2005 to manage revenues from its oil fields. The Petroleum Fund acts as a buffer between oil revenues, which fluctuate significantly with changes in global prices, and fiscus. It invests the revenues it receives from oil extraction, generating a return on the more than \$16 billion worth of assets it had built up by 2015. The government withdraws an amount of money on an annual basis to fund public spending. An estimated sustainable income (ESI), equivalent to 3 percent of the value of the Petroleum Fund's assets, sets the level of withdrawals that would be sustainable indefinitely. In practice the government has established a policy of frontloading, which involves withdrawals above this level in the short term to fund investments that can stimulate economic diversification and growth in the medium to long term. Nevertheless, the Petroleum Fund has been very successful in managing Timor-Leste's resource wealth and protecting government from fluctuations in revenues as commodity prices rise and fall.

DACU was established in November 2016 and is now the primary mechanism for promoting coordination between donors and government on international development assistance, financing and aid effectiveness.⁹⁷ DACU sits within the office of the State Counsellor, who acts as *chairperson*. DACU currently prioritizes the coordination and effectiveness of development assistance, but it plans to expand its focus to other types of financing flows in the future.⁹⁸

The new development assistance policy being prepared by DACU currently is an opportunity to action

96 Natural Resource Governance Institute, 'Myanmar' (webpages). <https://resourcegovernance.org/our-work/country/myanmar>

97 DACU's primary responsibilities are to identify priority projects and programmes for development assistance; draw up a national policy for development assistance; review and revise the existing Sector Working Group structures; support the Economic Committee in reviewing potential loans and major grant and technical assistance projects; and identify and where possible to resolve "implementation constraints" to the effective delivery of development assistance.

98 Interview with Permanent Secretary and Director General of FERD, MoPF, 3 July 2017.

this ambition. The strategy will include sections on financing, results and government preferences for financing modalities. While this is an important step in clarifying financing priorities for international development assistance and aligning development partner priorities with those of the government, it is important to explore the option of basing this strategy on a national development vision which sets out priorities and brings together strategies on different types of financing into a single framework (Building INFF Blocks 2 and 3).

In line with the National Economic and Development Policy (2016) and sector plans, DACU is currently working with line ministries to develop cross-departmental criteria for determining the sources of financing for priority projects for national development. An Economic Committee of the Cabinet chaired by the State Counsellor coordinates decision-making regarding major priority projects. Infrastructure, job creation, health and education projects are currently being prioritized. The government is seeking to align aid with national priorities and to enhance country ownership in line with the aid effectiveness principles.⁹⁹ To assist in achieving this, it may be helpful for the National Economic and Development Policy to be expanded and clarified further in order to become a medium- to long-term development plan which sets out a national development vision (INFF Building Block 2).

The State Counsellor, Daw Aung San Suu Kyi, announced in July 2017 the formation of 10 new Sector Coordination Groups to replace the 17 Sector Working Groups established under the previous government and operation under the new government), under the coordination of DACU. While the Sector Working Groups were decentralized and not automatically subject to ministerial engagement, the new Sector Coordination Groups will act as multi-stakeholder forums that are chaired by a line minister or co-chaired by senior ministry representatives where they are cross-sectoral. The membership of Sector Coordination Groups will include representatives from development partners; multilateral organizations, civil society organizations, INGOs and philanthropic organizations.

With such high-level government buy-in, the new Sector Coordination Groups have the potential to deliver greater impact and to coordinate the delivery of sector plans, clarify the roles of different stakeholders and facilitate the costing of sector plans where this has not already been done.

4.2 Domestic and international private resources

The business environment in Myanmar is underdeveloped, although it is beginning to show signs of improvement. The country ranked 170th out of 190 in the World Bank's 2017 Doing Business report.¹⁰⁰ The World Bank Enterprise Survey (2014)¹⁰¹ found that access to finance is regarded as the main obstacle for companies (24.1 percent), followed by access to land (22.7 percent) and electricity (17.9 percent). As an example of the challenges involved in accessing the formal financial system, over 75 percent of adults in Myanmar do not have access to a bank account.¹⁰² As well as an unsophisticated banking sector, weak

99 Interview with Permanent Secretary and Director General of FERD, MoPF, 3 July 2017.

100 World Bank Doing Business data set. <http://www.doingbusiness.org/data/exploreeconomies/myanmar>

101 World Bank (2016), 'Enterprise Surveys: Myanmar'. <http://www.ifc.org/wps/wcm/connect/19541f80461149509ea1bf9916182e35/Myanmar+Enterprise+Survey+2014.pdf?MOD=AJPERES>

102 IMF (2017), 'World Economic and Financial Surveys: Regional Economic Outlook: Asia and Pacific'. <https://www.imf.org/en/Publications/REO/APAC/Issues/2017/04/28/areo0517>

infrastructure, outdated and complicated legislation, insufficient government guarantee arrangements and import licence requirements are key challenges,¹⁰³ and poor data and weak transparency undermine investment as companies cannot adequately assess risk.¹⁰⁴ There is a strong sentiment that domestic and international capital is available but that investors are waiting for signs to boost confidence.

However, some improvements can be noted. Myanmar scores relatively well by international comparison in terms of business licensing and permits, customs and trade regulation and courts in the World Bank's Enterprise Survey, and demonstrated improvements between 2016 and 2017 under the accessing credit and starting a business categories, according to the World Bank's Doing Business report.¹⁰⁵

A number of reforms either already implemented or in the pipeline seek to improve the business environment and enhance private sector development, although they are at a nascent stage. The National Economic and Development Policy and the Private Sector Development Framework and Action Plan (both 2016) set out an agenda for improving the legal and regulatory environment, strengthening access to finance for SMEs, reducing dependency on volatile natural resources, strengthening manufacturing, promoting trade and investment and building the capacity of Myanmar's labour force.¹⁰⁶

A Financial Inclusion Roadmap (2015–2020) has been developed by the government, with technical support from UNDP and the UN Capital Development Fund (UNCDF). This seeks to strengthen financial inclusion in Myanmar—i.e. the extent to which adults have access to credit, savings payments and insurance products from formal institutions—from 30 percent to 40 percent as a prerequisite for economic growth. Financial sector reform has been driven largely by an increase in demand for financial services from the private sector. The role of the private sector in development assistance will also be covered in the forthcoming development assistance strategy that is being developed by DACU; private sector financing could include public-private partnerships (PPPs), guarantees, equity and blended finance (i.e. use of public funds to leverage private investment), with the strategy drawing upon evidence from other countries in the region.

A number of steps towards delivery have already been undertaken which account for diversification in FDI, as outlined in Chapter 3. These include reducing requirements for licences for imports and exports, establishing financial and monetary reform to open the banking sector up to foreign participation and tighten monetary policy to reduce inflation,¹⁰⁷ utilizing ASEAN free trade agreements, liberalizing the telecommunications, transportation and energy sectors and corporatizing SEEs.

103 OECD DAC (2014), 'Investment Policy Review: Myanmar'. <http://www.oecd.org/countries/myanmar/investment-policy-reform-in-myanmar.htm>

104 Interview with Senior Representative, JICA, 7 July 2017.

105 World Bank Doing Business data set. <http://www.doingbusiness.org/data/exploreeconomies/myanmar>

106 Republic of the Union of Myanmar (2016), 'Indicative Private Sector Development Framework and Action Plan'. http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/psd_framework_final_01_apr_englidh.pdf

107 IMF (2016), 'Staff Report for the 2016 Article IV Consultation'.

In addition, legal reforms¹⁰⁸ have contributed to a strengthened business environment.¹⁰⁹ The Foreign Investment Law (2012) was a milestone towards ensuring a more open and more secure legal environment for investment and a level playing field for local and foreign businesses, providing corporate tax reductions for foreign businesses and easing conditions for long-term real estate leases. The introduction of the law has reportedly already resulted in new company registrations and new sources of FDI in telecommunications.¹¹⁰ However, this is only a first step in a long process of legal reform as firms continue to face challenges regarding investor protection, mechanisms for enforcing contracts and settling disputes.¹¹¹

The new Myanmar Investment Law (2016) expands the focus to include both foreign and domestic investment in order to strengthen coordination and open more economic sectors to private investment by reducing confusion amongst investors. It has also taken a number of major steps both to attract private investment and align it with strategies for regional development and strategies that promote poverty reduction explicitly identified under the SDGs. Investment proposals which align with identified sectors that support job creation and technological development are fast-tracked, while tax incentives have been established to promote investment in underdeveloped regions identified by the MoPF. Other initiatives include decentralizing the structure of the MIC to establish regional investment committees and strengthen the autonomy of the private sector at the regional level, and extending the terms for leasing land beyond a one-year period, as this is critical for private sector investment. There are also plans to establish a grievance mechanism over the next two years. These are all positive steps, though it is too early yet to assess their impact.¹¹²

Myanmar's Special Economic Zones Law (2014) set out plans to form SEZs as dedicated enclaves to facilitate imports and exports and attract foreign and domestic investors through tax exemptions, and ultimately drive employment and growth in the manufacturing sector and reduce dependency on agriculture and natural resource production. Three SEZs have thus far been established (although only one—Thilawa, near Yangon—is currently active), and JICA is playing a key role in supporting this initiative. In Thilawa, the first SEZ to be established, investors are producing goods both for export (garments and electrical assembly) and for domestic consumption (agricultural machinery, construction materials and processed food).¹¹³

SEZs have the potential to strengthen economic integration and promote the manufacturing sector, although they are at a very early stage of development and the manufacturing sector is still underperforming compared with those of other countries in the region. Steps need to be taken to

108 Other legal reforms include the Private Industrial Enterprise Law (for attracting greater FDI), Corporate Law (2014–2015), Central Bank of Myanmar Law (2013), Microfinance Business Law (2011), Foreign Exchange Management Law (2012) and Financial Institutions Law (2016).

109 OECD DAC (2014), 'Investment Policy Review: Myanmar'. <http://www.oecd.org/countries/myanmar/investment-policy-reform-in-myanmar.htm>

110 Government of Myanmar (2016), 'Private Sector Development Framework and Action Plan'.

111 OECD DAC (2014), 'Investment Policy Review: Myanmar'. <http://www.oecd.org/countries/myanmar/investment-policy-reform-in-myanmar.htm>

112 Interview with Deputy Director General, DICA, 6 July 2017.

113 World Bank (2016), 'Myanmar Economic Monitor'. <http://www.worldbank.org/en/country/myanmar/publication/myanmar-economic-monitor-reports>

improve the business climate, generate spillovers so that SEZs benefit the rest of the economy—notably the local population—and ensure that business operations within these zones are aligned with efforts to deliver on the SDGs and address the needs of vulnerable people.¹¹⁴ In addition, for SEZs to attract private investment and achieve maximum impact, it is important that the government also invests in their infrastructure.¹¹⁵ In addition, it is currently unclear what impact these SEZs, which benefit only a small proportion of the population, will have on economic development and poverty reduction. Challenges continue to be faced which undermine poverty reduction efforts—including displacement, housing near to SEZs and community compensation.

Restructured institutions are leading the agenda towards a strengthened business environment and private sector development. The Directorate of Investment and Company Administration (DICA) within the newly merged MoPF is a secretariat body responsible for managing company registration processes and collating data. The Myanmar Investment Commission (MIC) within DICA is the main strategic body and centre of policy formulation regarding priorities for economic investment. The MIC is responsible for promoting private sector development, strengthening the national investment climate and establishing tax incentives to promote investment in underdeveloped regions. The Ministry of Commerce is responsible for increasing trade and export volumes, promoting private sector development and supporting trade facilitation. The UMFCCI acts as the bridge between the private sector and government, determines how the private sector engages and encourages alignment between government priorities and private sector activities.

In order to align their priorities and promote dialogue with the private sector, these institutions are brought together by the Private Sector Development Committee. Chaired by the First Vice-President, this committee will address five identified pillars of a private sector development framework, including trade and investment, the legal framework, human capital, reform of PPPs and SEEs and access to finance. The cross-government committee is also responsible for facilitating working committees (each chaired by a deputy minister or permanent secretary), together with bi-monthly meetings between senior government and private sector stakeholders to identify and address challenges faced by the private sector. Ensuring that such dialogue both meets the needs of individual private sector constituencies and serves as a vehicle for the sector to engage in government strategy to maximize its impact in longer-term development could be considered (INFF Building Block 3). It is critical that such public-private dialogue initiatives engage equally with the domestic and international private sectors. The Myanmar Business Forum functioned under the previous government as a platform for structured dialogue between the business community and government, and it is due to continue in this role with its secretariat moving to the UMFCCI.¹¹⁶

A key challenge to effective PPPs and the role of the private sector in the delivery of government plans is the absence of a PPP committee. Technical processes are in place for approving PPPs and a PPP Division sits within the MoPF, but tasks are undertaken independently by government agencies in a largely uncoordinated way. There is no consistent, structured approach to PPPs, nor the oversight

114 IGC (2016), 'Special Economic Zones for Myanmar'.

115 Interview with Senior Representative, JICA, 7 July 2017.

116 *Myanmar Times* (2017), 'UMFCCI takes over Myanmar Business Forum secretariat from IRC'. <http://www.mmmtimes.com/index.php/business/27223-umfcci-takes-over-myanmar-business-forum-secretariat-from-ifc.html>

to ensure that PPPs align with national development outcomes and contribute to reform processes relating to specific types of finance, including PFM, economic reform and development assistance. This makes it difficult to manage spending in relation to PPPs and to develop an overarching framework for coordinating domestic, private and ODA financing flows. A new cross-government PPP committee could be established, with a shared strategy developed as a key component of a new sustainable development vision and an overarching financing strategy (INFF Building Blocks 2 and 3).

As set out in the draft Myanmar Public Private Partnership Policy Document produced by the MoPF, the MIC could play a key role in chairing the PPP committee and the MoPF might also wish to continue its involvement; the Permanent Secretary of the MoPF currently plays a key role in overseeing the PPP Division within the Project Appraisal and Progress Reporting Department.

Myanmar is a member of WTO and ASEAN, and has begun to utilize ASEAN free trading agreements—important given that most FDI and exports are within the ASEAN region.¹¹⁷ While there have been challenges for Myanmar in benefiting from international trade support measures in the past (e.g. primary producers being on ‘negative lists’¹¹⁸ and excluded from preferential schemes, and cumbersome registration processes), there are now favourable factors for expanding trade and taking advantage of free trade agreements in the ASEAN region to offset possible negative impacts from the country’s changing LDC status in other markets. In the meantime, Myanmar may wish to take advantage of LDC-specific trade agreements to boost economic growth (such as with the WTO), with support from the Enhanced Integrated Framework (EIF), and use this growth to build skills and capacities so that trade can remain sustainable once LDC-specific trading agreements no longer apply.¹¹⁹

Building Block 5: Measuring financing results

A strong system for monitoring, evaluation and learning is critical in terms of enabling the government to plan in a results-oriented manner, to track the role of different types of financing on development outcomes and make progress towards more effective implementation. Monitoring and evaluation (M&E) activities are undertaken by individual line ministries, government departments and parliament, relating to their specific areas of responsibility. For example, the Ministries of Health and Education have developed socio-economic indicators for monitoring which link to medium- and long-term plans. Within the MoPF, the Planning, Budget and Project Appraisal and Progress Reporting Departments are responsible for ensuring that implementation is in line with indicators set out in M&E plans. The Project Appraisal and Progress Reporting Department is also responsible for monitoring planning and budgeting to ensure that it aligns with the SDGs.

While evidence collection and M&E have largely been weak to date, focusing on budget spending against allocation as opposed to performance or impact, the MoPF is taking steps to address this, for example by reinstating the Project Appraisal and Progress Reporting Department. Also, since 2016, the Office of

117 Republic of the Union of Myanmar (2016), ‘Indicative Private Sector Development Framework and Action Plan’. http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/psd_framework_final_01_apr_englidh.pdf

118 In trade policy, a ‘negative list’ refers to a list of items, entities, and products to which an international agreement will not apply, the commitment being to apply the agreement to everything else.

119 UNDP (2016) ‘Assessment of the implications of LDC graduation for Myanmar’.

the Attorney General has started assessing the utilization of government budgets on performance as well as monetary issues.¹²⁰

The Central Statistical Organization (CSO) also plays an important role in enabling a cross-government approach to M&E. A new National Strategy for the Development of Statistics (NSDS) is being developed by the CSO, which is being supported by the World Bank and includes a long-term implementation plan. Once implemented, it will play an important role in strengthening national statistical capacity, which in turn will help to track and monitor the role of different types of financing on development outcomes and the delivery of the SDGs.

However, there is currently no overarching M&E framework for financing for development outcomes in place to connect the monitoring activities undertaken by different ministries or to link these to the national planning or budgeting process. Underpinning this challenge are data constraints: there is no consistency in the data used by different ministries for M&E purposes, making it difficult to make comparisons or join up findings. It would be useful to harmonize methodologies for data collection for M&E purposes used by different ministries, but also at regional and state levels. The new NSDS being developed by the CSO can act as the basis for and play a key role in achieving this. Supporting a culture shift across government towards more results-oriented planning and monitoring is also important. For example, data collected by the Internal Revenue Department following the introduction of a tax audit (as is planned) could feed into this overarching M&E framework.¹²¹

Building Block 6: Accountability and transparency on financing

Strong participatory processes for accountability and dialogue are critical to building the trust that is required to mobilize contributions from stakeholders outside government and to ensure that all actors are consulted and that strategies for financing development are designed and delivered effectively.

Mechanisms for consulting the private sector are stronger. Private sector actors were consulted in the development of the Private Sector Development Framework and Action Plan (2016) and the Myanmar Investment Law (2017). As noted under Building Block 4, the Private Sector Development Central Committee coordinates dialogue between the government and the private sector, and the Myanmar Business Forum will continue to function as a platform for structured dialogue between the business community and government as its Secretariat is due to move to the UMFCCI.

DACU is the main body for consultation between development partners and the government, and FERD within the MoPF also plays a role. While consultations with civil society in the development of national development and sector plans have been limited¹²² and no specific mechanisms are in place for this, a citizen's budget (available since 2015) has strengthened transparency around budget spending.

Mechanisms for consulting with civil society and the private sector at Union, regional and state levels and incorporating feedback into planning processes will be critical for ensuring accountability and

120 Interview with Permanent Secretary and Director General of FERD, MoPF, Secretary to DACU, 3 July 2017.

121 Interview with Resident Representative, IMF Myanmar, 7 July 2017.

122 Interview with representative from civil society (Local Resource Center (LRC)), 6 July 2017.

effectiveness of development and financing strategies. In line with the government's commitment to foster greater transparency regarding fiscal decentralization, existing regional and state Planning and Financial Commissions and Committees are key mechanisms through which such consultations can take place.¹²³ As per the terms of reference for the regional and state Planning and Financial Commissions, citizen and private sector representatives are members.¹²⁴ In addition, as set out in the Ward and Village Tract Administration Law (2012), village tract administrators are elected by 10 household heads to serve as members of the Township Development Support Committees, which provide advisory support to Township Management Committees and Township Planning Formulation and Implementation Committees, thus enabling citizen engagement and feedback.¹²⁵ The delivery of the SDGs also presents a key opportunity through which consultations with civil society and the private sector can be strengthened at the sector level.

A number of steps have also been taken by the government to strengthen transparency relating to investment and tax spending. For example, under the new Myanmar Investment Law (2017), domestic and international companies can report investment data quarterly to DICA (focusing on job creation, size of the investment and machinery imports), and a full data set will be available in 2018. This is a new process and will strengthen transparency and the quality of data on investments and FDI. In addition, investors' proposals are scrutinized by a project team before being passed to the MIC for approval, enabling greater transparency around the process.¹²⁶

The government is also currently undertaking a process to compile data on tax spending in order to respond to demands for greater transparency, with support from the IMF. To achieve greater transparency on tax, tax expenditures could potentially be presented in annual budgets, and an option could be to introduce anti-corruption measures to protect the integrity and reputation of the tax system, while public education on the importance of taxation for economic development could be scaled up.¹²⁷

123 The Asia Foundation et al. (2014), 'Natural Resources and Subnational Governments in Myanmar: Key Considerations for Wealth Sharing'. <https://asiafoundation.org/resources/pdfs/NaturalResourcesandSubnationalGovernmentsinMyanmar.pdf>

124 President's Office (2016), 'Terms of Reference for Formation of National Planning Commission and Terms of Reference for Formation of State and Region Planning Commissions (Notification no 11/2016 and 12/2016)'.

125 The Asia Foundation (2014), 'Administering the State in Myanmar: An Overview of the General Administration Department'. <https://asiafoundation.org/resources/pdfs/GADEnglish.pdf>

126 Interview with Deputy DG, DICA, 6 July 2017.

127 IMF (2016), 'Staff Report for the 2016 Article IV Consultation'.

5. Climate financing in Myanmar

5.1 INFF: Leadership and vision

Recognizing the need for urgent action on climate change (Chapter 2), the Government of Myanmar has recently drafted a new Myanmar Climate Change Strategy and Action Plan (MCCSAP) (2017), led by the Ministry of Natural Resources and Environmental Conservation (MoNREC). The action plan seeks to support the transition to a climate-resilient and low-carbon development pathway in order to deliver social and economic development and to build the adaptive capacities of communities and sectors. However, while the MCCSAP sets out targets for the proportion of GDP that will be required to deliver on the strategy in the long term, it does not provide specific estimates on the scale of financing required to deliver on the objectives, or the likely sources of this finance.

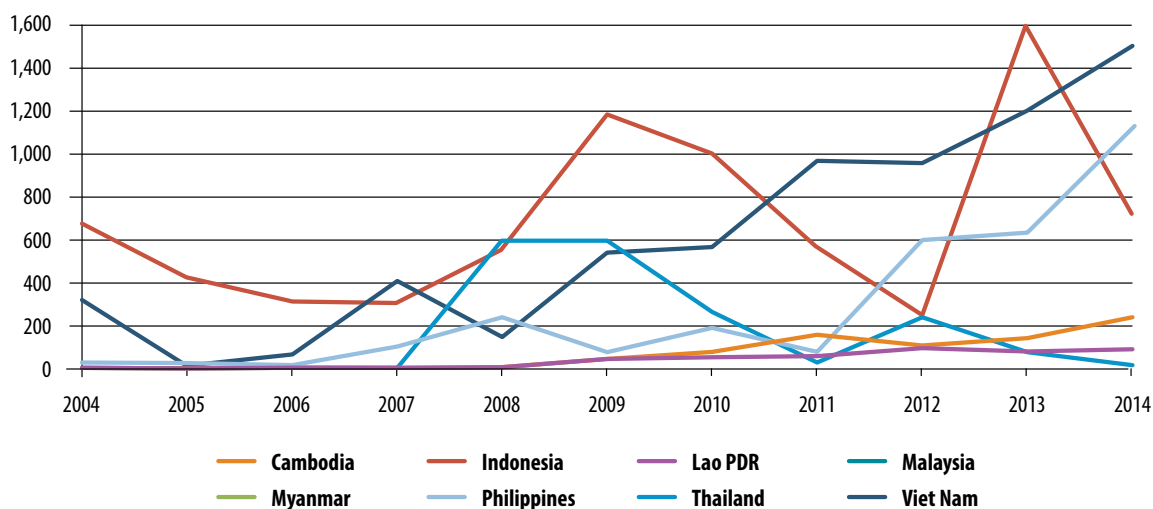
5.2 The climate financing landscape

The action plan recognizes the need to develop an accompanying financing strategy to deliver on objectives, to mobilize a range of financial instruments (grants, guarantees, climate-smart insurance, loans and equity) and establish financial mechanisms to generate and channel climate finance, such as a climate change fund.

It is positive that steps are being taken to identify and broaden sources of finance to address climate change. Climate finance offers Myanmar the opportunity to broaden financing sources (ODA and beyond) and is critical for delivering on the SDGs and achieving development priorities, including delivering on the new MCCSAP. To date, however, Myanmar is only accessing a proportion of the climate funds that it is eligible for, while a range of additional climate funds exist that could be accessed.

In comparison with other countries in the ASEAN region, Myanmar has only recently started accessing climate finance, though there has been a rapid increase since it began doing so—with climate finance rising by 1,494 percent between 2012 (\$33 million) and 2014 (\$526.5 million) (Figure 5).

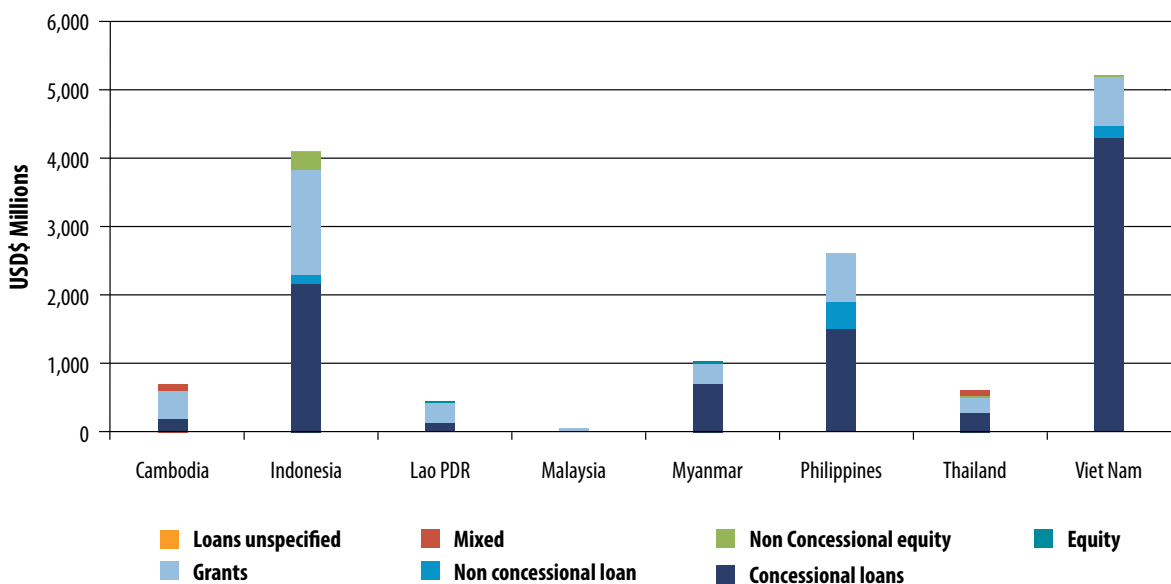
Figure 5: International public climate finance received by ASEAN countries (2004–2014)



Source: OECD DAC CRS and Climate Funds Update (CFU).

The majority of international public climate finance received by Myanmar in 2014 was in the form of concessional loans (83 percent). Comparing the eight ASEAN member states measured in this analysis, Myanmar received slightly above the mean amount of climate finance per capita in 2014 of \$8.70 per person. However, Myanmar's \$9.85 per capita was less than in other countries, such as the Philippines (\$11.20), Lao PDR (\$13.70), Cambodia (\$14.50) and Viet Nam (\$16.60 per capita).

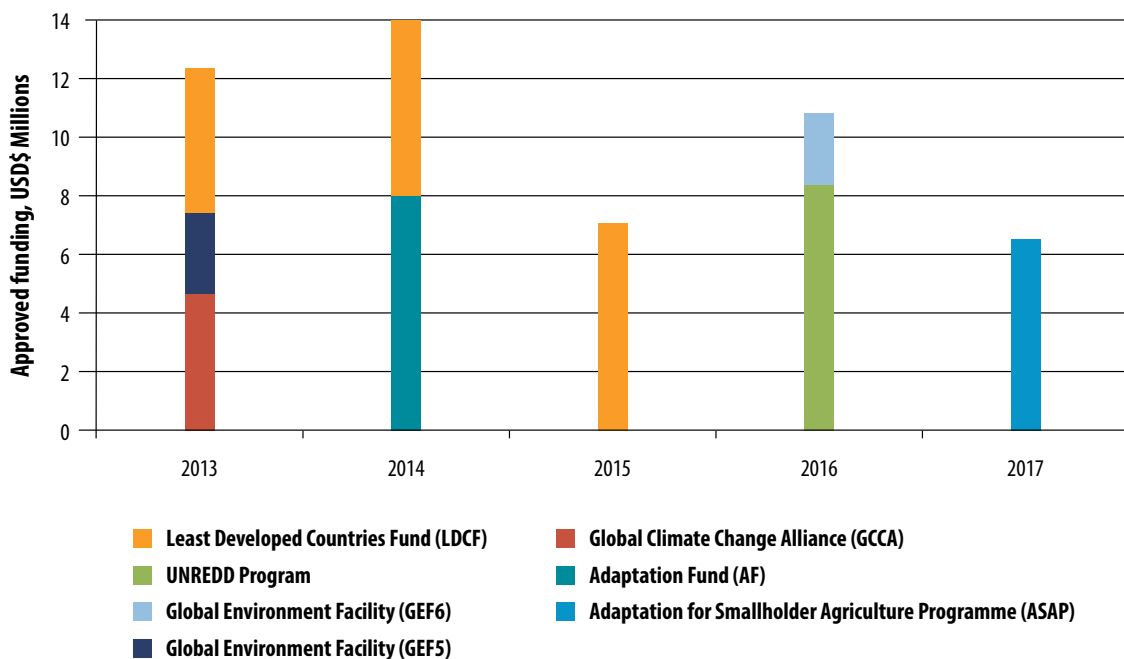
Figure 5.1: International public climate finance to ASEAN countries



Source: OECD DAC CRS and Climate Funds Update (CFU).

As illustrated in Figure 5.2, Myanmar is accessing an increasingly diversified mix of climate funds (note that this is not the volume of total funds). Financing through new funds was approved in 2016 (the UN-REDD Programme and the Global Environment Facility) and in 2017 (Adaptation for Smallholder Agriculture Programme) in addition to those approved in previous years (through some of which funding is still being received).

Figure 5.2: Diversification of climate funds being accessed by Myanmar



Source: OECD DAC CRS and Climate Funds Update (CFU).

5.3 INFF: Climate financing strategy

Of the 26 climate-specific bilateral and multilateral funds that exist, Myanmar is eligible for 11 and is currently accessing seven. With assistance from UNDP, a government proposal has been developed for the Green Climate Fund (GCF) and MoNREC is well placed, working with the MoPF, to lead the delivery of this. But other opportunities, such as the Global Environment Facility (GEF), the Global Climate Change Alliance (GCCA) and the International Finance Corporation (IFC)’s climate investment funds also exist.

However, a change in LDC or income group status over the next decade would affect Myanmar’s access to climate finance and would result in greater competition for the climate funds that are not determined by LDC status, calling into question the sustainability of financing from climate funds in the longer term. As such, it is critical that the government puts plans in place to use this time-bound access to LDC-determined climate funds in a way that builds the skills and capacities of communities and institutions

to enable climate adaptation and mitigation work to continue once donor funding declines.¹²⁸

Blended climate finance may also provide key opportunities for scaling up climate financing, especially given that the eligibility criteria for blended climate investment funds are not dependent upon LDC status. 'Blended finance' refers to the use of public and philanthropic inputs (financial or non-financial) to attract investments from private actors. All concessional financing instruments, including grants, debt and equity, can be blended to subsidize private finance by providing either grant elements for loans or subordination in investment structures, with the purpose of reducing perceived risks for investors.

The GCF and IFC's climate investment funds have in some contexts been delivered through blended finance and partnerships with the private sector. While Myanmar is not currently receiving blended climate finance, other ASEAN countries have received such funds, and a number of lessons can be drawn which demonstrate the potential for Myanmar to access similar funds in the future.

For example, to help sustain the solar sector's momentum in Thailand, IFC supported Solar Power Company Group (SPCG) with a concessional loan, comprising \$8 million in non-concessional finance combined with \$4 million in concessional finance from the Clean Technology Fund (CTF). As a result, SPCG secured previously unavailable long-term financing for its solar farms. This investment helped to reduce long-term project finance risks for lenders and sent positive signals to local financial markets for utility-scale solar investments. Once IFC committed its support via blended finance, local lenders Kasikornbank, Bank of Ayudhya and Thanachart Bank agreed to provide the Korat-2 and Loei-1 wind power and solar energy projects with crucial financing to move them towards financial closure. By late 2011, the solar farms had begun supplying clean, renewable power, paving the way for SPCG to expand from a small-scale solar farm developer to the largest in Thailand.

Given Myanmar's vulnerability to natural disasters, more budgetary resources may be allocated to establish reserves to meet contingency spending needs.¹²⁹ Counter-cyclical loans could also be considered by the government to mitigate the impact of large-scale natural disasters on the economy and to build fiscal resilience. Counter-cyclical loans promote a shift from ex-post to ex-ante risk management strategies and focus on the greater utilization of complementary ex-ante shock financing mechanisms. These are loans or debt securities that feature an ex-ante agreement, in which a country's debt service obligations are temporarily allowed to fall in response to an external shock, thereby reducing the government's obligations and freeing up domestic resources to respond to the disaster. The Asian Development Bank (ADB) has provided counter-cyclical loans to other ASEAN countries, such as the Philippines, in the past, and accessing loans through the ADB and other multilateral development banks is a concrete option for Myanmar.

Similarly, climate risk financing could offer a number of opportunities for delivering climate risk management. While currently there are limited climate risk financing opportunities in Myanmar, a number of pilot initiatives which promote PPPs are being trialled in other ASEAN countries, from which key lessons could be drawn. Cambodia, Thailand and Viet Nam have piloted similar schemes for rice

128 UNDP (2016) 'Assessment of the implications of LDC graduation for Myanmar'.

129 IMF (2016), 'Staff Report for the 2016 Article IV Consultation'.

with the involvement of the insurance sector, agricultural banks and donors.¹³⁰ Farmers are required to pay an insurance premium, depending on the degree of risk in their location, and the government makes contributions to match the premium. The insurance coverage offers protection against floods, drought, storms, cold weather, fire and disease. In addition, in 2016 the Thai government proposed a law to make crop insurance mandatory in order to shield farmers from the impact of natural disasters and secure their income.¹³¹ The Myanmar government has expressed a keen interest in drawing lessons from other countries on risk insurance relevant to its own context.¹³²

No mechanism for coordinating climate financing at the national level currently exists, but one is necessary for addressing overlaps, strengthening development effectiveness, coordinating M&E of climate financing and ensuring that Myanmar is accessing all the financing that it is eligible for. As such, the establishment of a national climate finance coordination mechanism may be useful for this purpose. While the Environmental Conservation Department within MoNREC is well placed to lead on the establishment and delivery of such a mechanism, support is needed to assist it with establishing the basic infrastructure and to build its institutional capacities. Learning from the experiences of other countries through UNDP's South–South exchange platform would be valuable. This coordination mechanism could operate within the overarching framework of the national development and financing committee responsible for building a holistic approach to financing development outcomes (see recommendations in Chapter 7).

As a first step, this coordination mechanism may wish to oversee and direct the undertaking of a comprehensive climate finance assessment as the basis for developing a work plan and agreeing its objectives. This assessment could review current trends in climate financing and the various mechanisms and funds being accessed, assessing challenges and progress made, drawing lessons regarding the use of such climate financing mechanisms, identifying priority issues and setting out recommendations for next steps.

130 ADB (2017), 'Risk Financing for Rural Climate Resilience in the Greater Mekong Subregion'.

131 *Middle East insurance Review* (2016), 'Thailand: Reform panel proposing mandatory crop insurance'. <http://www.meinsurancereview.com/News/View-NewsLetter-Article?id=35280&Type=eDaily>

132 Interview with DG of Relief and Resettlement Department, Ministry of Social Welfare, Relief and Resettlement.

6. 'Leave no one behind' and the delivery of the SDGs

As illustrated in Chapter 2, while poverty in Myanmar has decreased, a quarter of the population continue to live below the national poverty line. In order to deliver effectively on the 2030 Agenda and "leave no one behind", it is important to understand other dimensions of poverty beyond income that are being experienced by the poorest people in the population, so that available resources can be targeted effectively towards them.

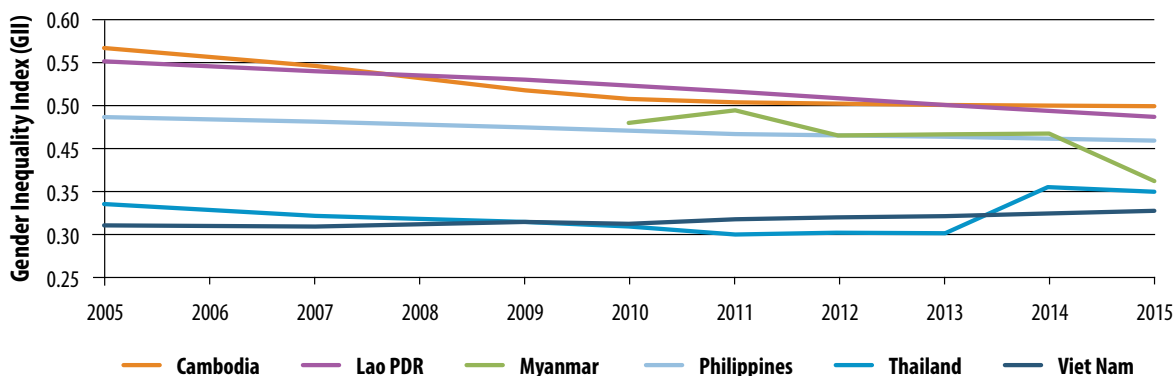
6.1 Data on the poorest 20 percent of people in Myanmar

Focusing on education and health indicators, as priority social sectors identified by the government, data from the Demographic and Health Survey for Myanmar (2015) show that education levels are much lower and stunting levels much higher for the poorest 20 percent of the population. For example, two thirds (64 percent) of those falling within the poorest 20 percent have no education, compared with 50 percent for the rest of the population, and no one in the poorest 20 percent has a secondary education, compared with 15 percent for the rest of the population. Without education, prospects for employment are limited, and this undermines economic growth.

A similar pattern emerges with regards to stunting, where 38.5 percent of those falling within the poorest 20 percent of children in Myanmar experience stunting compared with 15 percent for the rest of the population.

Regarding gender equality, as outlined in Chapter 2, Myanmar has made significant progress in reducing inequality over recent years (from 2011, as the year that data are most recently available). As demonstrated in Figure 6, most ASEAN countries have witnessed a decline in gender inequality (as per the Gender Inequality Index) since 2010, but the rate at which gender inequality has decreased in Myanmar outpaces other countries, with the greatest drop in scores between 2010 and 2015.

Figure 6: Gender Inequality Index score comparisons



Source: Gender Inequality Index.

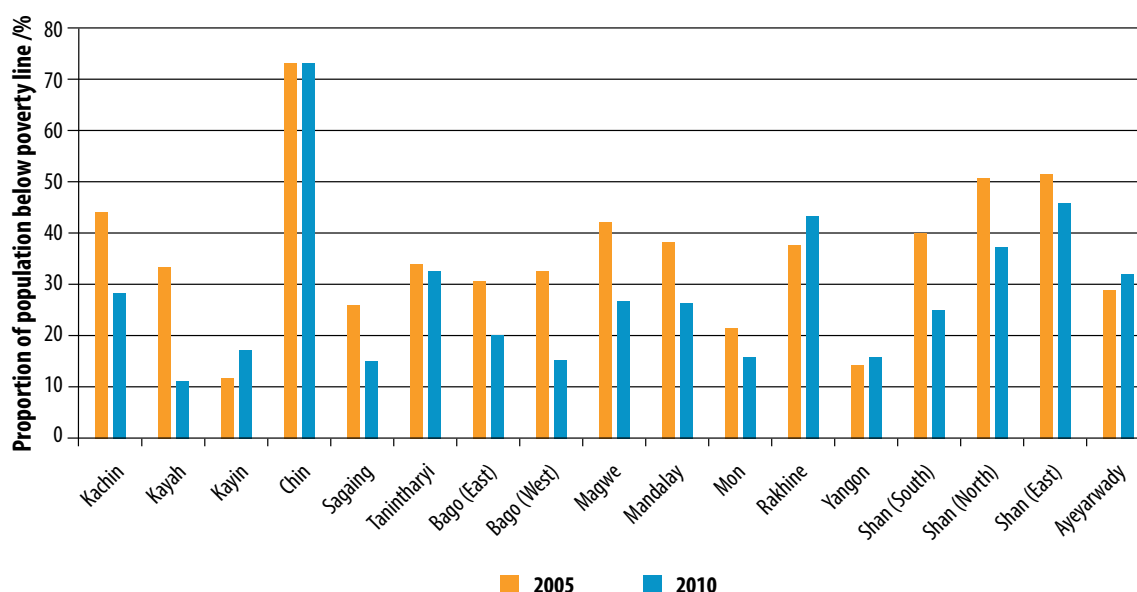
Decades of conflict and displacement in Myanmar have also worsened poverty levels and exacerbated vulnerability. In 2017, approximately 218,000 people¹³³ remain internally displaced in camps and host villages in Kachin, Shan and Rakhine states as a result of conflict, violence and inter-communal tensions.¹³⁴

The impact of conflict on poverty in Myanmar is apparent when assessing changes in poverty rates between 2005 and 2010 (the years for which data are available using the national poverty line) in conflict-affected regions in comparison with regions less affected by conflict. For example, as demonstrated in Figure 6.1, in many of the states and regions affected by conflict, poverty rates rose, remained the same or fell at a slower rate than in other states during this time-frame. For example, in Rakhine state poverty rates increased from 38.1 percent to 43.5 percent, while they remained at the highest level in Chin state (73.3 percent). In contrast, in Sagaing region poverty rates fell from 26.6 percent to 15.1 percent.

133 These figures do not include the numbers of Internally Displaced Persons resulting from the recent displacement crisis in Rakhine State from August 2017.

134 UN OCHA (2017), 'Myanmar Humanitarian Response Plan': <http://reliefweb.int/report/myanmar/2017-myanmar-humanitarian-response-plan-january-december-2017>

Figure 6.1: Poverty levels across regions and states in Myanmar



Source: Integrated Household Living Conditions Survey in Myanmar, 2005 and 2010.

Higher levels of stunting and lower education rates are also evident in states and regions that experienced conflict over this five-year period (Kachin, Kayah, Kayin, Shan and Rakhine) as opposed to those that did not. For example, 35 percent of children under five were stunted in these conflict-affected areas, as opposed to 27 percent in other states. Over a third (64 percent) of adults over the age of 25 in these conflict-affected states/regions had no education, as opposed to 46 percent in all other states.¹³⁵

6.2 INFF: Leadership and vision for the integration of the SDGs

To address the needs of the poorest and most vulnerable people in Myanmar and “leave no one behind”, it is critical that institutional structures and policies are in place for delivering on the SDGs. The Government of Myanmar has confirmed its commitment to the 2030 Agenda and supporting the achievement of the SDGs. In a statement at the 71st session of the United Nations General Assembly in New York in September 2016, State Counsellor Daw Aung San Suu Kyi stated: ‘Myanmar’s 2016 Economic Policy of the Union of Myanmar is designed to meet many of the [SDGs], including the enhancement of infrastructure investment, agriculture, private sector, SMEs and, in particular, poverty alleviation. National reconciliation, job creation and preservation of natural resources, capacity building and creating opportunities for the young are the key objectives of Myanmar’s people-centered and inclusive policy.’¹³⁶

135 Republic of the Union of Myanmar (2015), ‘Demographic and Health Survey’. <https://dhsprogram.com/pubs/pdf/FR324/FR324.pdf>

136 ‘Statement by H.E. Daw Aung San Suu Kyi, State Counsellor of the Republic of the Union of Myanmar at the General Debate of the 71st session of the United [Nations] General Assembly, New York, 21 September 2016’. <http://yangon.sites.unicnetwork.org/files/2016/09/Statement-by-H.E.-Daw-Aung-San-Suu-Kyi-State-Counsellor-of-the-Republic-of-the-Union-of-Myanmar-at-the-General-Debate-of-the-71st-session-of-the-United-National-General-Assembly.pdf>

Since the adoption of the SDGs in September 2015, the Government of Myanmar has accelerated its efforts to implement them on various fronts, including the development of a 'Baseline Data Report for the SDGs: Measuring Myanmar's Starting Point for Sustainable Development', thematic SDG discussions such as on education, children and environment and various SDG trainings targeting government officials with statistical, planning and budgeting functions. Currently, CSO is developing a discussion paper to propose options for integrating the SDGs and the principles of the 2030 Agenda into its planning, budgeting and monitoring frameworks.

In addition, the new development assistance policy currently being drafted by DACU will enhance the effectiveness and efficiency of development cooperation in meeting national development priorities and the SDGs. UNDP and the broader UN Country Team are playing a key support role with objectives on capacity building, assessments, strategy and policy support integrated into the proposed UN Development Assistance Framework (2018–2022), which is under development.

Work on the SDGs is being led by the MoPF, which also serves as the secretary of the President-led Planning Commission and Finance Commission, as well as the newly formed DACU. Implementation of the SDGs has been initiated in sectors such as social welfare, relief and resettlement, education, health and environment, among many others.

The CSO is the focal point for monitoring and reporting on the SDGs within government, and has established a cross-government committee to coordinate this. The CSO is committed to identifying local data sources to monitor progress against the SDGs.¹³⁷ The government, through the CSO and with support from UNDP, has also produced a report on the 'Readiness of Myanmar's Official Statistics for the Sustainable Development Goals',¹³⁸ and is finalizing the 'Baseline Data Report for the SDGs' mentioned above. The CSO is also currently developing a National Strategy for the Development of Statistics (NSDS) (Chapter 4).

The newly formed Sector Coordination Groups (announced in July 2017) are tasked with aligning their priorities with the SDGs and a number of ministries have made progress in this area, particularly in education, health and social welfare. A significant degree of alignment already exists, even though explicit reference to it is often absent from sector plans.¹³⁹ For example, the new National Health Plan (2017–2021)¹⁴⁰ developed by the Ministry of Health, which promotes universal health care, aligns closely with SDG 3, while the new National Education Strategic Plan (2016–2021)¹⁴¹ developed by the Ministry of Education, which explicitly references the SDGs, aligns closely with SDG 4. In addition, the Myanmar

137 *Myanmar Times* (2017), 'Myanmar becomes fastest growing aid recipient in the region'. <http://www.mmtimes.com/index.php/business/26487-myanmar-becomes-fastest-growing-aid-recipient-in-the-region.html>; and UNDP (2017), 'Assignment: Towards an SDG Discussion Paper for Myanmar' (unpublished).

138 Government of Myanmar and UNDP (2016), 'Readiness Of Myanmar's Official Statistics for the Sustainable Development Goals: Joint Data Assessment by the Central Statistics Office and UNDP'. <http://www.mm.undp.org/content/myanmar/en/home/library/SDGs/official-statistics-for-sdgs-eng.html>

139 Interview with Permanent Secretary and Director General of FERD, MoPF, Secretary to DACU, 3 July 2017.

140 Republic of the Union of Myanmar (2016), 'Myanmar National Health Plan (2017–2021)'. <http://www.themimu.info/node/50048>

141 Republic of the Union of Myanmar (2016), 'Myanmar Education Strategic Plan (2016–21)'. http://planipolis.iiep.unesco.org/sites/planipolis/files/ressources/myanmar_nesp-english.pdf

National Social Protection Strategic Plan sets out goals to deliver universal health care and universal pension and child benefit, which aligns with SDG 1 on poverty reduction while at the same time offering a strategic response to projected changing demographic trends and an ageing population.¹⁴² The Ministry of Social Welfare, Relief and Resettlement has also undertaken an exercise to align its strategic objectives with the SDGs.¹⁴³

In addition, the government has taken a number of recent steps to diversify foreign investment and exports beyond oil and gas and towards more labour-intensive industries through the National Export Strategy (2016) and Myanmar Investment Law (2017) (Chapter 4). The priority sectors for investment outlined in the new Investment Law developed by the MIC are based on three criteria, one of which is alignment with the SDGs (with agriculture, livestock production, manufacturing, construction, power generation and telecommunications as top priorities¹⁴⁴).¹⁴⁵ Investors in these sectors and in underdeveloped regions (as defined by the MoPF) will be offered income tax exemptions as an incentive. This is a critical step towards strengthening employment, reducing poverty and, in turn, delivering on SDG 1.

Given the decentralized governance system in Myanmar, the integration of the SDGs into planning processes at the region/state level will also be critical. A questionnaire has been undertaken by UNDP to better understand subnational decision-making and application of the 2030 Agenda, and a draft analysis of findings is currently being developed.

Despite this progress, there are some challenges regarding integration of the SDGs into government development planning and budgeting processes. Firstly, there is sometimes a lack of awareness amongst government officials about the SDGs and, secondly, where greater engagement on integration of the SDGs has been led by line ministries as part of sector strategies, high-level coordination across Union government structures has sometimes been constrained.

6.3 INFF: Financing strategy

Development partners are supporting the Government of Myanmar through the PFM programme to develop an intergovernmental fiscal transfer formula in order to determine how the budget is distributed to states and regions based on a set of criteria.¹⁴⁶ Allocating the budget to regions and states on the basis of poverty and needs will be critical to delivering on the SDGs and “leaving no one behind”.

142 Republic of the Union of Myanmar (2014), ‘Myanmar National Social Protection Strategic Plan’. <http://www.social-protection.org/gimi/gess/RessourcePDF.action?ressource.ressourceId=50377>

143 Interview with DG of Relief and Resettlement Department, Ministry of Social Welfare, Relief and Resettlement.

144 Myanmar Investment Committee (2017), ‘Notification No. 13 /2017, 1378 ME Classification of Promoted Sector’. http://www.dica.gov.mm/sites/dica.gov.mm/files/document-files/promotedsector_notification032017eng_1.pdf

145 Interview with Deputy Director General, DICA, 6 July 2017.

146 Interview with Senior Public Sector Specialist, World Bank, 7 July 2017.

6.4 INFF: M&E and accountability

Data are regarded as critical to integrating the SDGs in Myanmar. Recognizing the challenges of prioritizing, delivering, targeting and monitoring the SDGs without adequate data, the government (via the CSO) has worked with UNDP to undertake a joint assessment through a consultative process on the country's statistical monitoring capacities (the 'Readiness of Myanmar's Official Statistics for the Sustainable Development Goals' report mentioned above). The assessment found that 15 percent of the SDG indicators are already produced by Myanmar's statistical system and an additional 34 percent can be computed from existing data sources. The report points out the need for greater capacity building of ministries and improved data collection.¹⁴⁷ The process of undertaking an inclusive assessment has contributed to the establishment of an informal network among these actors, which can be drawn upon in future monitoring of the SDGs.

Drawing upon this network, the CSO and UNDP have developed Myanmar's first 'Baseline Data Report for the SDGs: Measuring Myanmar's Starting Point for Sustainable Development'¹⁴⁸ through a consultative process that engaged with government departments. This report provides the baseline from which indicators for monitoring the SDGs can be developed.

147 Government of Myanmar and UNDP (2016), 'Readiness Of Myanmar's Official Statistics for the Sustainable Development Goals: Joint Data Assessment by the Central Statistics Office and UNDP': <http://www.mm.undp.org/content/myanmar/en/home/library/SDGs/official-statistics-for-sdgs-eng.html>

148 Government of Myanmar and UNDP (2017), 'Baseline Data Report for the SDGs: Measuring Myanmar's Starting Point for Sustainable Development'. Not yet published.

7. Conclusions

7.1 Key findings

The reform process commenced under the previous government in 2011 and has continued with the new government (appointed in April 2016), and significant progress has been made in areas such as economic reform, strengthening the investment and business environment, subnational governance, establishing a medium-term expenditure framework, achieving macro-economic stability, public financial management and strengthening the tax system. Though progress is being made, Myanmar is in a time of transition and there is still much to be done to lay the foundations for an INFF which can guide the country's financing strategy for its long-term sustainable development future.

The country faces a number of financing challenges resulting from a recent decline in FDI,¹⁴⁹ a decrease in revenues from natural resources due to falling commodity prices (and also a risk that reserves could decline over the next decade and beyond unless new oil/gas blocks are identified), growing domestic demand for imports, a widening trade deficit and time limits on concessional finance. This highlights the needs to diversify exports and investments, continue to strengthen the investment environment for private actors and at the same time strengthen domestic revenues. With SEEs being privatized or closed, the focus will shift to increasing tax revenues. Without this, Myanmar could enter into a time of extreme fiscal instability that would undermine its ability to finance development outcomes. The country is at a crossroads, but with the right decisions it can foster a stable financing environment.

7.2 Recommendations to strengthen Myanmar's INFF and follow-up actions

Given that the current government is relatively new (formed in April 2016), the establishment of the INFF building blocks is only at an initial stage in Myanmar. Hence, the recommendations outlined in this chapter focus on laying the foundations for an INFF, and how to connect existing efforts for reform regarding specific types of financing (e.g. PFM, tax reform, private investment, economic reform and development assistance) into an overarching strategy for long-term financing. Recommendations are also outlined for strengthening the management of specific types of financing. These recommendations are options presented for consideration by the government. They have been designed to be owned and led by the government, with support from partners.

Integrated National Financing Framework

Consider establishing a committee with an overarching view over sustainable development and financing across government. Mechanisms exist within government to coordinate specific

¹⁴⁹ The government has reported a rise in FDI during 2016–2017 although, at the time of writing, this is not reflected in data available from DICA

types of finance. A cross-governmental committee with the specific responsibility of synchronizing these different development and financing priorities would be helpful and also a prerequisite for the effective delivery of development outcomes. While coordination takes place through Planning and Finance Commissions at the national, regional and state levels, supported by Planning and Finance Committees, these do not have responsibility for overseeing and coordinating all types of financing (with their focus being on domestic financing). Therefore, a cross-governmental development and finance committee could be established for this purpose—either as a new committee comprised of representatives from across government who oversee different types of finance and chaired by the MoPF and Central Bank, or by expanding and building the capacities of existing national, regional and state-level planning and financial commissions and committees to oversee all types of finance. The Foreign Economic Relations Department (FERD) within the MoPF (as the Secretariat for DACU) might wish to work with DACU to scope out the priorities and feasible governance and institutional structure of this new committee. The development and financing committee could be responsible for delivering the following recommendations.

Consider developing a new shared sustainable development vision involving consultations across government and society. While the National Economic and Development Policy presents an existing vision for the country, further clarity and detail are needed for this to become a mid- to long-term development plan encompassing a financing strategy for development. Such a vision is important in terms of laying the foundations for long-term development outcomes, maintaining the longer-term engagement of development partners and ensuring coordination between key actors (within government, the private sector, development partners and civil society). Such a vision could include all aspects of development, including the peace process and social, environmental and economic outcomes, as well as statistical capacities. As such, it would be advisable to undertake a process to expand on and clarify the overarching vision for development set out in the National Economic and Development Policy and generate widespread buy-in through a consultative multi-stakeholder process.

Explore the option of developing an overarching long-term financing strategy that is underpinned by the new vision of sustainable development and provides guidance on the type of resource mobilization needed. An ideal solution could be an overarching framework that brings together overlapping priorities and strategies for different types of financing strategy under one coherent plan. Without this, it is difficult for the government to gauge the level of resources needed to deliver on development outcomes and how they should be sequenced, and to overcome longer-term blockages in realizing these resources. The MoPF, working jointly with DACU, could continue to scope the potential of a public investment programme (PIP) to bring together government resources, development assistance and domestic and foreign private investment and identify financing sources to form the basis of this broader long-term financing strategy. In addition, financing strategies attached to sector plans—including costing exercises being led by Sector Working (soon to be Coordination) Groups—could be integrated into this overarching strategy.

Consider establishing an overarching monitoring framework for development and financing outcomes. While M&E activities are undertaken by separate ministries, there is no shared framework for monitoring development and financing outcomes. Without this, it is difficult to monitor progress on the SDGs or to link the outcomes of individual ministries or investments of different resources to national development outcomes. As such, it would be useful to develop harmonized methodologies for data collection and to use these at Union, regional and state levels. The new National Strategy for

Development Statistics that is being developed by the CSO could form the basis of this and help to achieve it.

Explore the option of strengthening understanding of, and data on, all resource flows at Union, state and regional levels. The absence of current data on different resource flows (beyond ODA) makes it difficult for the government and its partners to target available resources effectively in line with delivering on development priorities and the SDGs. Joined-up data on resource flows at Union, regional and state levels could be published regularly and integrated into existing open data portals, such as the Mohinga aid tracking system. In parallel with efforts to strengthen data, efforts to build the capacity of government officials on the different resource flows and mechanisms could be considered, so that they can use these data effectively to inform decisions around targeting. A capacity-building programme in this area would prove beneficial if it were developed and rolled out to all government departments. The MoPF and DACU may be the appropriate bodies to take a lead in designing and coordinating this programme within the parameters of the development and financing coordination committee.

Specific areas of financing

Private sector

Consider establishing a cross-governmental PPP Committee. While technical processes are in place for approving PPPs, and a PPP Division sits within the MoPF, there is little coordination between government agencies and there is no committee in place for coordinating these decisions and ensuring that PPPs align with national development outcomes and contribute to reform processes relating to specific types of finance, including PFM, economic reform and development assistance. This makes it difficult to manage spending regarding PPPs and to develop an overarching framework for coordinating domestic, private and ODA financing flows. The MIC and the MoPF could consider establishing a PPP Committee, potentially within the parameters of a new development and financing committee and as an integral component of delivery of the Private Sector Development Framework and Action Plan 2016

Climate finance

Explore the option of establishing a national climate financing coordination mechanism. Such a mechanism does not currently exist but would be ideal for strengthening effectiveness, coordinating M&E of climate finance and ensuring that Myanmar is coherently accessing all the financing that it is eligible for. The Environmental Conservation Department within MoNREC may be the appropriate body to lead on the establishment and delivery of such a mechanism. Support from development partners will be critical to the establishment of basic infrastructure and building institutional capacities. An option would be to position this coordination mechanism within the overall framework of the new national development and financing committee. The national climate financing coordination mechanism could potentially be responsible for delivering the following initiatives.

Consider undertaking a comprehensive climate finance assessment as the basis for developing a work plan and agreeing the objectives of the coordination committee. This assessment could review current trends in climate financing and the mechanisms and funds being accessed, assess challenges and progress made, draw lessons and identify priority issues.

Consider accessing all climate funds that Myanmar is eligible for, but use these funds in a way that builds foundations and technical capacity. Given that Myanmar's LDC status may change following 2024, it is critical that it plans to access climate funds in a way that enables the initiatives funded to continue to be sustainable once the funds have closed for the country. MoNREC (specifically the Environmental Conservation Department) could be considered to lead the implementation of this, with support from the MoPF.

Explore options for accessing blended climate finance. Myanmar could explore its long-term options for accessing blended climate financing options available from the World Bank's climate investment funds and the Green Climate Fund (GCF), and financing that is not determined by LDC status. As blended finance is based on the model that public funds will leverage private investment, ongoing efforts to strengthen the business and investment environment will be critical to realizing the benefits of such funds. MoNREC may be the appropriate body to lead on the delivery of this, with support from the MoPF and other relevant ministries and departments, such as the Department of Rural Development.

Consider allocating more resources to meet contingency spending needs. Consider accessing counter-cyclical loans through multilateral development banks, which would enable Myanmar's debt service obligations to be allowed to fall temporarily in response to an external shock. This would reduce the government's obligations and free up domestic resources to respond to disasters. The government could explore the possibility of drawing lessons from other countries that have accessed such loans (e.g. the Philippines). The MoPF may be the appropriate body to lead this process and manage applications to multilateral development banks for this purpose, potentially within the parameters of a new development and financing coordination committee.

Consider establishing climate risk financing mechanisms to reduce risks for farmers and strengthen agricultural production. Drawing upon lessons from other countries in the region, Myanmar could pilot crop insurance schemes for farmers through partnerships with the insurance sector, agricultural banks and donors. A process for generating evidence on similar schemes in other contexts could inform the design and piloting of a scheme. The Ministry of Agriculture, Livestock and Irrigation may be the appropriate body to lead this within the parameters of a new development and financing committee.

Development assistance

Consider focusing efforts at the top level on the mobilization and coordination of all resources. DACU's primary responsibilities are focused on strengthening the effectiveness of development assistance, and the unit has taken a number of successful steps towards achieving this since its establishment in 2016. Beyond DACU's core role on aid coherence, it could, once further established and in the future, play a more strategic role in coordinating efforts relating to wider resource flows (e.g. domestic and private), and play a strategic top-level role in supporting the government to develop an overarching long-term strategy on development finance and guidance on resource mobilization. Working at this level is where DACU adds greatest value, as opposed to focusing its energies at the level of project approval.

Develop a concise, clear development vision as the primary vehicle to align development partners with national priorities.

Consider establishing a Climate Financing Workstream, given that climate finance forms an important component of ODA, to work jointly with the government in strengthening access to climate finance and delivering on the recommendations outlined above.

Management of revenue from natural resources

Consider establishing a Natural Resource Revenue Management Fund. Such a fund would minimize the risks of falling commodity prices for oil and gas destabilizing public expenditure in the future and the risk that a large influx of foreign currency could have a negative impact on inflation levels. This is particularly important given that future global commodity prices are uncertain. This fund would also help to manage the issue of wealth distribution from natural resources as a key component of the peace process. While it is unclear whether current efforts to scope new onshore and offshore reserves will result in new fields being located, revenues from oil and gas remain an important source of revenue and extraction levels look set to remain constant over the coming decade. The MoPF, working with DICA, may be the appropriate body to lead in establishing this fund, potentially within the parameters of a new development and financing coordination committee.

Domestic resource mobilization

Explore the option of increasing tax revenues and sustainability. With FDI falling, revenues from natural resources uncertain in a context of falling commodity prices and access to concessional finance being time-bound, increasing the mobilization of domestic revenues will be critical to maintaining fiscal stability and delivering on development outcomes. SEEs are raising less revenue as a result of closures and privatisation, and so it is important that this loss of revenue is compensated for by a rapid rise in tax revenue. To achieve this, options include strengthening tax administration and revenue processes; expanding current efforts to broaden the tax base (to include VAT, income tax and extractives); strengthening citizen education on tax as a public good and on what tax is to be paid by different actors to improve tax compliance; improving transparency on how taxes are spent; and setting actual revenue targets through tax. Initial steps have been undertaken to broaden the tax base, but more could be done to achieve tax revenue volumes and sustainability similar to those in other ASEAN countries. The Internal Revenue Department within the MoPF may be the appropriate body to lead this process, within the parameters of a new development and financing coordination committee.

Develop an overarching plan for tax reform as an inherent component of the long-term financing strategy. While there are a number of individual efforts under way to reform particular aspects of the tax system, an overarching plan that brings together all of these initiatives and outlines the tax system that the government wants to develop would be ideal. This is critical in terms of strengthening coordination across government and ensuring that tax reform efforts provide resources that will be needed to fund services and public investment into the future and align with the objectives of national development plans—for example, by ensuring that distributional impacts on the poorest people are managed in line with the SDGs. This plan could form one key component of the broader long-term financing strategy (see above). The Internal Revenue Department within the MoPF may be the appropriate body to lead this process, within the parameters of a new development and financing committee.

7.3 Next steps for the Development Finance Assessment (DFA)

Consider commissioning a second phase of research to develop a strategy for implementing the INFF. Building upon this report, further analysis could be undertaken to expand the findings and data analysis it captures and to provide more in-depth guidance on how to action the recommendations outlined—in particular, how to structure a long-term holistic financing strategy within existing institutional processes. To ensure that there is buy-in on the DFA among key stakeholders (the government, development partners, civil society and the private sector), a multi-stakeholder consultation process could be considered. This could be initiated with a round table that gathers together all key stakeholders. The MoPF and development partners (e.g. UNDP, the World Bank and ADB) may be well placed to lead this process. The climate change assessment identified above could comprise one component of this broader assessment.

Annex 1: Definition of different financing flows

Domestic private finance: Investments and financing from domestic sources. Domestic commercial investments, particularly from small, medium and micro-enterprises, are the main focus in this report, though the definition also includes domestic philanthropy, activities by NGOs and civil society, domestic remittances and household expenditure.

Domestic public finance: The resources mobilized and used by governments, including tax revenue and other forms of government revenue. Unless specified otherwise, this excludes grants received by government from international sources.

International private finance: Finance flows to countries from international private sources. This type of financing includes commercial investments such as FDI, portfolio equity and debt from private sources, as well as flows from individual or non-governmental sources, including remittances and private development assistance.

International public finance: Finance flows to countries from international public sources. This type of financing includes official development assistance, other official flows, South–South cooperation and international public debt.

Annex 2: Methodology notes

Analysis of financing flows has been undertaken from the country perspective; thus national data sources were preferred over international data sets, where adequate coverage and metadata were provided. Across the 10 country papers and the regional report included in this project, all financing data and analysis are in constant 2015 US\$ unless otherwise specified. Data from national sources reported in national currencies were converted into constant US\$ using exchange rates and GDP-based deflators, following normal practice.

Domestic public finance

Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received, to avoid double-counting with international resources) and government borrowing from domestic sources (i.e. domestic financing). Both series were sourced from national budget documents where available, with data from IMF Article IV Reports used to fill gaps, where needed.

Domestic private finance

Domestic private finance refers to investment by the domestic private sector in the country. Few countries produce data on domestic commercial investments directly, so gross fixed capital formation (GFCF) is used as a proxy, with capital expenditure and FDI deducted in order to obtain a figure for domestic private investment alone. GFCF data exclude certain types of investment such as land sales and purchases and all kinds of financial assets, and no deductions are made for depreciation of fixed assets. These estimates should therefore be treated as estimates of the general trends and scale of this financing.

International public finance

International public finance includes official development assistance (ODA), other official flows (OOFs) and government borrowing from international sources. ODA is sourced from OECD Development Assistance Committee (DAC) data. OOFs data are sourced from OECD DAC Table 2B for all countries, as comprehensive data on this type of finance are not readily available from national sources. Government borrowing refers to lending from bilateral and multilateral institutions and private entities received or guaranteed by the state. For consistency across country papers and to ensure that overlaps with ODA loans and OOFs could be accounted for, data for this flow were also sourced from international data sets for all countries.

International private finance

International private finance includes FDI, portfolio equity, private borrowing from international sources and remittances. FDI data are based on national sources for all countries. Portfolio equity

and remittances are based on national sources for countries with enough coverage, or on World Bank data otherwise. Portfolio equity data based on national sources were sourced from the liabilities line of portfolio investments (equity component) in balance of payments (BOP) tables. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank International Debt Statistics for all countries; this was done for consistency across the country papers and due to patchy coverage and availability of data on this type of finance in national sources.

