



POLICIES FOR SHARED PROSPERITY IN MYANMAR



WORLD BANK GROUP

Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized
Public Disclosure Authorized

This note was prepared by:
Habib Rab (Senior Country Economist)
under the guidance of:
Ulrich Zachau (Country Director, South East Asia),
Abdoulaye Seck (Country Manager, Myanmar),
Mathew Verghis (Practice Manager, Macro-Fiscal Management),
and Shabih Mohib (Program Leader, Equitable Growth, Finance and Institutions).





INTRODUCTION

The November 8, 2015 elections in Myanmar marked a historic milestone in the country's political and economic transition that began in 2011. Incoming policy makers are preparing to pick up the baton and deliver on the people's strong aspirations for a harmonious and prosperous Myanmar. In this series of policy notes, the World Bank Group seeks to promote dialogue on critical development challenges and on options for policies and reforms that can contribute to shared prosperity for the people of Myanmar.

Myanmar has strong medium-term growth potential.

Efforts to open up and liberalize the economy over the past 4 years have revealed pent up demand, brought in new investments, and increased productivity from a very low base. Between 2011 and 2014 Myanmar's economy grew at an average real rate of 7 percent per year, which is among the fastest in East Asia, and comparable to other high performing countries in their initial phase of liberalization. In the coming years, further removal of economic controls could help Myanmar to maintain a strong pace of growth.

Myanmar has a real opportunity in ensuring that growth is also inclusive.

This not only means sustaining a strong pace of growth, but doing so through a diversified economy that can absorb the labor force into higher productivity sectors. The agriculture sector, which suffers from low productivity, contributing on average only 10-15 percent to annual real GDP growth over the past 4 years, employs over half of the country's labor force. The manufacturing and construction sectors on the other hand, which have the highest value added per unit of labor, employ only 10-15 percent of the labor force.

Policies that can enable a structural shift to more productive and labor intensive activities could make a big dent on poverty and inequality in Myanmar.

These would include expanding access to essential public services. This could enable a bigger share of the population to benefit from the agglomeration of economic activities around Myanmar's growth poles, namely Yangon and Mandalay, which account for roughly 35 percent of national GDP.

The sound governance and use of Myanmar's natural resource wealth are also critical to inclusive growth.

Around 10 percent of Myanmar's official GDP is derived from natural resources, though some estimate unofficial trade in natural resources at more than 20 percent of official GDP. This not only concentrates wealth from non-renewable national assets in the hands of a few, but also finances conflicts, which have created vicious cycles of poverty that are geographically and ethnically concentrated.

Policy reforms since 2011 have started to promote inclusion so that a growing share of Myanmar's people can take advantage of new opportunities and benefit from economic growth.

Higher tax collections from non-agriculture sectors and rising natural resource rents have enabled Myanmar to reprioritize public spending towards critical economic and social service needs. Foreign exchange, trade and investment liberalization have opened up economic opportunities and the space for investment beyond a small group of highly protected sectors. Increased public sector transparency and decentralization have started to gradually bring the state closer to the people.

POLICY OPTIONS FOR SHARED PROSPERITY

Given this context, how can Myanmar advance reforms to close the disparities across its geography, ethnic communities, and income groups; and to promote productivity and competitiveness? This is the question that this series of policy notes, “All aboard! Policies for shared prosperity in Myanmar,” aims to generate debate and ideas. The theme “All aboard” is meant to reflect inclusivity and imminent departure on a positive journey.

The policy notes focus on six interconnected areas that are likely to be high priorities for shared prosperity (figure 1). The first is on *closing the gap in access to social services* for improving Myanmar’s human development outcomes. This could help to strengthen the productivity and employability of Myanmar’s current and future labor force, which is the critical input to inclusive growth and a precondition to success in all the other areas. The second policy note is on *growing together by reducing poverty in rural areas*. Policies to boost agriculture productivity and accelerate the delivery of essential services in rural areas, where they lag the most, could help to supply the much needed labor and food for the rapidly expanding industrial, manufacturing and service sectors.

Investment in higher productivity sectors is also likely to require *breaking business as usual to foster competitiveness and a dynamic environment for private sector growth* across the country, which are discussed in the third policy note. These include policies that are targeted at reducing the costs of doing business and engaging in international trade. The relative impact of these could be enormous in terms of incentivizing private sector investments, expanding access to economic opportunities for rural and urban populations, and diversifying the sources of growth.

Enabling these to drive major structural transformations in the economy is likely to require policy reforms in two important areas. The fourth policy note therefore looks at options to expand Myanmar’s ability for *financing the future through an open, modern, and inclusive financial system*. This is important not only for channeling savings to large private investments, but also to finance public sector operations and service delivery, facilitate the expansion of international trade, and enable the transfer of increased remittances to rural areas. The fifth policy note is on *energizing Myanmar by enhancing access to sustainable energy for all*. Myanmar’s growing economy will need more energy than is currently supplied – not only for productive sectors, but also for the delivery of public services across the country.

Figure 1: All aboard
Policies for shared prosperity in Myanmar





Prioritizing, implementing and adjusting policies across all the above areas could be facilitated by an enabling public sector that is open and adaptable to Myanmar's evolving needs. The sixth policy note is on *participating in change through a public sector that is accountable to all*. The public sector could not only help to implement change directly through service provision, but it can also help remove obstacles for private sector growth. This may require a new mindset in which paying taxes is motivated by greater transparency and participation by the people of Myanmar in prioritizing public policy and services.

The six policy notes cover a selected group of important issues around shared prosperity. They do not offer a comprehensive treatment of the matter. There are clearly other critical areas that are not discussed in these notes. For example, policies around land tenure and property rights, although touched on, is one such area that is being studied separately

by the World Bank Group. The policy notes do not discuss important environmental and natural resource management issues, except for the management natural resource rents, though they are central to Myanmar's development and are being studied in depth through other channels including the Extractive Industries Transparency Initiative. Important issues such as gender and anti-corruption, although not covered as separate topics, are highlighted across the policy notes.

This overview note summarizes the key messages from the six policy notes and policy options. More detail can be found in the individual notes. The note ends with a discussion on possible ways to create the fiscal space needed to implement some of the above policies within a stable macroeconomic environment, which is a precondition to inclusive growth and shared prosperity. Broader macroeconomic stability and inclusive growth, are discussed separately.¹

¹ Please see WBG Myanmar Economic Monitor, October 2015



Closing the gap: Expanding access to social services

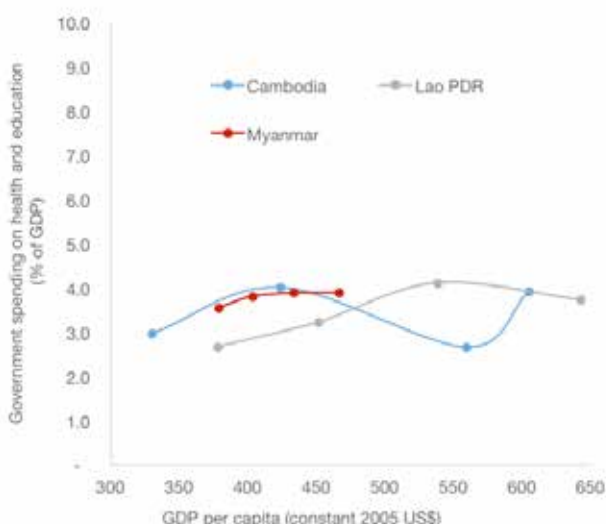
Myanmar's human capital is its greatest asset. Its current population structure holds the promise of a potential “demographic dividend” that increases the supply of productive labor for inclusive growth. Around 29 percent of the population are children (under the age of 15) – the future workforce of the country – and 66 percent are of productive age (15-64 years).² Myanmar therefore has the potential to get rich before it gets old.

Yet, decades of underinvestment in health, education and social protection have negatively impacted on human development outcomes. Only those that could afford social services out of their own incomes could adequately access them, which has widened inequality in both social and economic outcomes across the country.

This has been exacerbated by low levels of social assistance, which reach only 0.1 percent of the population, compared to an average of 39 percent among East Asian and Pacific countries.

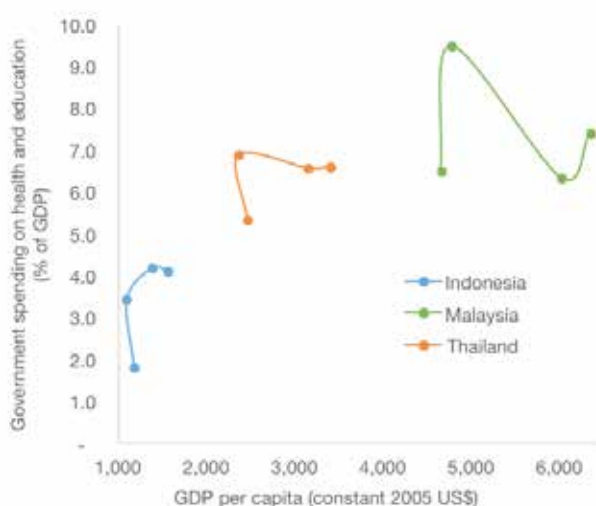
A big increase in public spending on health and education since 2011 (figure 2) has helped to improve access by targeting this spending on areas that help relieve the burden on household budgets.³ There are early signs of results in terms of reduced out-of-pocket spending on health and education. These changes should help to improve the productivity and employability of Myanmar's current and future workforce. Early evidence shows that an additional year of schooling is associated with 6.7 percent higher income.

Figure 2: Government expenditure on education and health
Low Income Countries (% of GDP)



Source: WDI and WB Staff Estimates
(Cambodia and Lao PDR data cover 2000, 2004, 2007 and 2010;
Myanmar data covers 2011-2014)

Figure 3: Government expenditure on education and health –
Middle Income Countries (% of GDP)



Source: WDI and WB Staff Estimates (Indonesia, Malaysia and
Thailand data cover 1996, 2001, 2007 and 2010)

² Republic of the Union of Myanmar, “The 2014 Myanmar Population and Housing Census – Volume 2,” (May 2015)

³ Per capita GDP in constant 2005 US \$ for Myanmar is a highly indicative estimate due reliability of historical national accounts data.



Continued improvement in the quality of spending is likely to be as important as increasing the level of spending in education and health. The policy note provides some options in terms of the targeting and reprioritization of expenditure. It proposes the pooling of resources for social protection against shocks particularly for the most vulnerable. The level of

spending on the social sectors will also likely increase with Myanmar's income (figure 2), though this has to be aligned with human and institutional absorptive capacity. Finally, the ongoing peace process will require special attention to harmonize financing and delivery of social services in conflict-affected areas.

OBJECTIVES	SHORT-TERM OPTIONS (1YEAR)	LONG-TERM OPTIONS (3-5YEARS)
Spending better	Expand coverage of school stipends to disadvantaged children.	Adopt formal targeting system based on household characteristics.
	Use 2014 Census for better targeting.	Develop performance management system for service providers.
Pooling resources	Financing roadmap to achieve Universal health coverage.	Develop financial risk protection system, which prioritizes the poor and vulnerable.
Spending more	Increase Union grants to frontline service delivery units based on fiscal affordability.	Conduct regular expenditure reviews to align budgets with emerging policy priorities.
Harmonizing and converging		Harmonize financing and delivery of social services in conflict-affected areas.



Growing together: Reducing rural poverty in Myanmar

Myanmar's rural communities provide the foundation for major structural transformations in the country. They are home to 70 percent of the country's population, with agriculture employing over half of the labor force. Myanmar's non-agriculture sectors, which on average have contributed to around 80 percent of annual real GDP growth since 2011, are already pulling workers into urban areas. At the same time, rising incomes from higher productivity sectors are rapidly increasing the demand for food.

Boosting agriculture productivity could therefore not only improve the incomes of the rural poor but also contribute to structural transformation. This is evident from the experience of countries in the region where agriculture productivity increased with growing urbanization on the one hand (figure 4), and the falling share of agriculture in GDP on the other (figure 5). There may be a lag between the start of structural transformation and agricultural take off, which itself may be a function of higher productivity in other sectors (e.g. transportation, communications, education services).

Higher agriculture productivity is necessary but not sufficient for sustained structural transformation. Rural communities lag furthest behind in terms of access to economic and social services. This is not only a drag on the rural economy, but also a bottleneck for rural-urban migration and productive employment in urban areas. Recent efforts to help address these issues include increased spending on public services at the local level. This has been complemented by a gradual increase in planning, budgeting and program implementation responsibilities to sub-national authorities through fiscal decentralization, and down to communities through a national community driven development program.

The policy note therefore proposes a mix of options that include measures to boost agriculture productivity, and measures that give rural communities a greater say on public interventions. It also offers ideas on how to further improve the targeting of public resources based on data and evidence, which can help to improve service delivery outcomes.

Figure 4: Structural transformation (rural-urban migration and agriculture productivity)

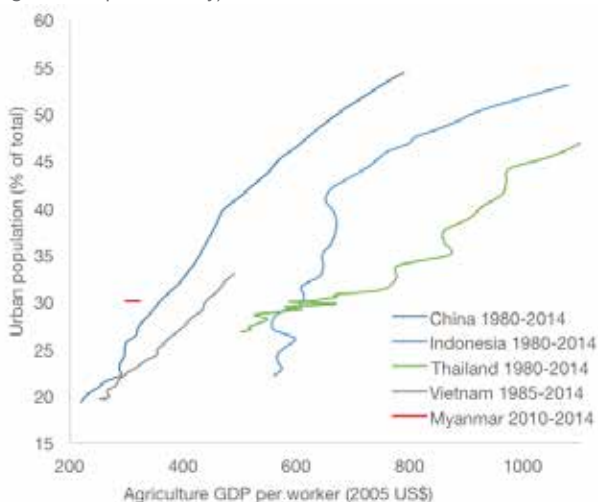
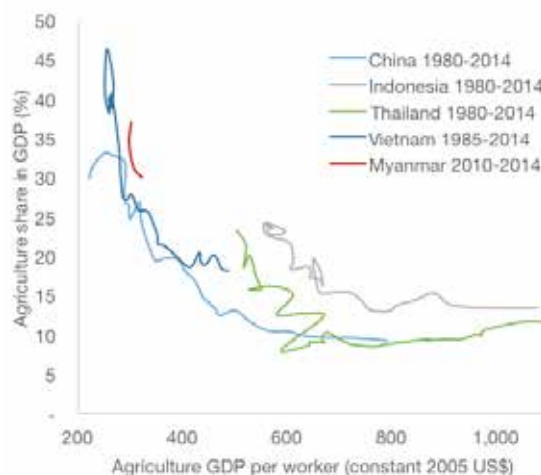


Figure 5: Structural transformation (agriculture as % of GDP and agriculture productivity)



Source: WDI and WB Staff Estimates



OBJECTIVES	SHORT-TERM OPTIONS (1YEAR)	LONG-TERM OPTIONS (3-5YEARS)
Boosting agriculture productivity	Enhance supply of technology, seeds, and agriculture extension programs.	Implement strategic land reform.
	Remove regulatory restrictions to (foreign) private investment in agriculture.	
Increased access to services	Strengthen community planning and budgeting (2012 presidential directive).	Review capital spending priorities for local infrastructure investment.
	Adopt fiscal decentralization strategy.	
Data for better targeting	Conduct updated living conditions surveys.	Integrate regular M&E in rural development programs.



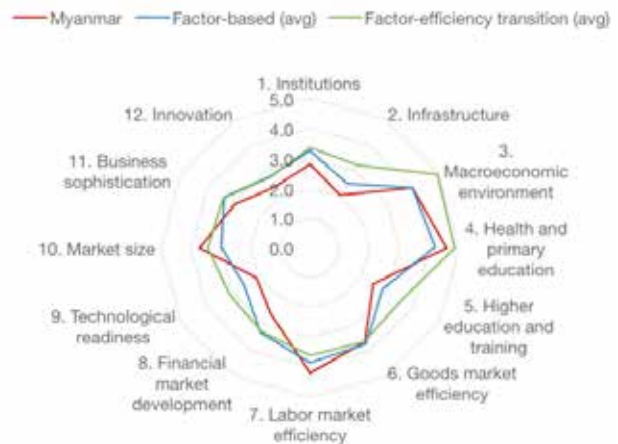
Breaking business as usual:

Fostering competitiveness and a dynamic environment for private sector growth

The positive impact of the gradual lifting of controls over factors of production and trade flows since 2011 reflects Myanmar's strong potential for private sector led growth. The number of registered companies has increased from 30,000 in 2011 to around 58,000 in early 2015. Foreign Direct Investment commitments have increased from US\$ 3.6 billion in 2013 to around US\$ 8 billion in 2014. These have also been facilitated by the expansion of critical infrastructure in telecommunications, transportation and energy.

The efficiency of the business regulatory environment can have a relatively large bearing on the ability of factor driven economies like Myanmar to sustainably promote private sector growth. This, together with public institutions, basic human capital (as discussed above), basic infrastructure, and macroeconomic stability tend to matter relatively more for competitiveness and productivity than for example labor market efficiency and market size, which become relatively more important as countries transition from factor-based to efficiency and innovation driven economies (figure 7).⁴ In Myanmar this is most clearly reflected by the liberalization (efficiency of business regulation) of telecommunications (basic infrastructure), which will have contributed to inclusive growth in the past two years.

Figure 6: Global Competitiveness Index scores (1-7)



Source: World Economic Forum, GCI (2014-2015)

Figure 7: Doing Business Rankings for selected countries in the region (out of 189 countries)



Source: Doing Business indicators

⁴ World Economic Forum, Global Competitiveness Index (2014-2015)



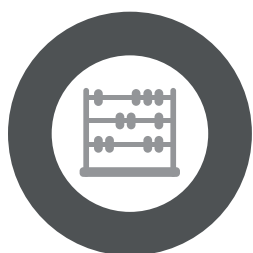
Myanmar's rankings in the Doing Business survey point to a relatively big agenda on tackling the regulatory environment for private sector activity (figure 7). There have been recent improvements including on business registration. But challenges on contract enforcement the protection of minority investors, and resolving insolvency all weigh on the efficiency of existing businesses and on the incentives of potential new entrants into the market.

Enhancing competitiveness in these areas can be critical for attracting investments in Myanmar's tradable sectors, which could otherwise suffer due to the potential offsetting effects of real exchange rate appreciation that affects many resource-rich and newly reengaging economies. The liberalization of Myanmar's foreign exchange regime was an important step in promoting competitiveness. However, the current weaknesses in the institutions of trade

facilitation – including for example, logistics services, customs procedures, freight handling services – are a significant drag on Myanmar's external competitiveness and its ability to engage in global value chains. Myanmar's trade potential is enormous especially when considering that it borders 40 percent of the world's population and over 15 percent of global GDP.

The policy note presents options that could help improve the efficiency of the business regulations and trade facilitation. On business regulations, the adoption of the Investment Law, the Companies Law, and the Arbitration Law could potentially help to address a number of the priorities highlighted in the Doing Business survey. On trade facilitation, improving freight handling at Yangon port, simplification of customs procedures, and simplification of Myanmar's tariff structure could potentially help to reduce the costs of trading across borders.

OBJECTIVES	SHORT-TERM OPTIONS (1YEAR)	LONG-TERM OPTIONS (3-5YEARS)
Effective and efficient business regulations	Adopt Investment, Companies, and Arbitration Laws to promote market reforms.	Implement investment policy reforms. Implement corporate governance reforms.
	Implement DB survey priorities e.g. protection of minority investors, contract enforcement.	Support development of alternative dispute resolution mechanism.
Improved trade facilitation and policy	Approval of telecom Master Plan, e-Government Master Plan, Spectrum roadmap.	Implement trade corridor development to link cross-border trade with local economic activities.
	Freight handling in Yangon; Customs clearance procedures; and reforming tariff structure and non-tariff policies.	Improve access to trade finance instruments.

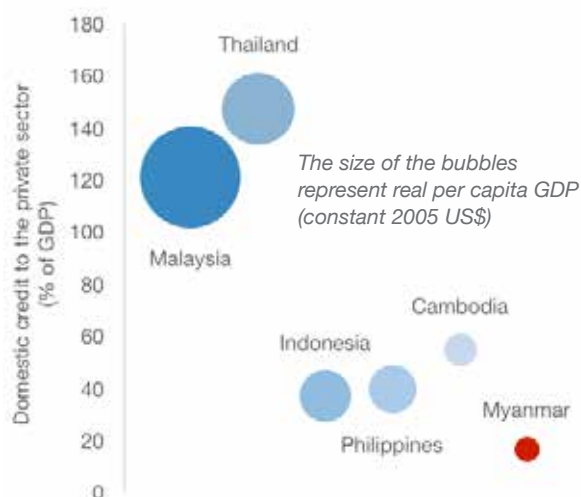


Financing the future: Building an open, modern, and inclusive financial system

The expansion of Myanmar's financial system between 2011 and 2014 has played a critical role in enabling much of the above growth in both domestic and foreign trade. Credit to the private sector has expanded by an average of 50 percent per year and banking sector deposits have grown from 16 percent of GDP to around 33 percent of GDP over this period. Financial sector services have also been critical in facilitating the rapid increase in public sector operations, which expanded from 17 percent of GDP in 2011 to around 29 percent of GDP in 2014.

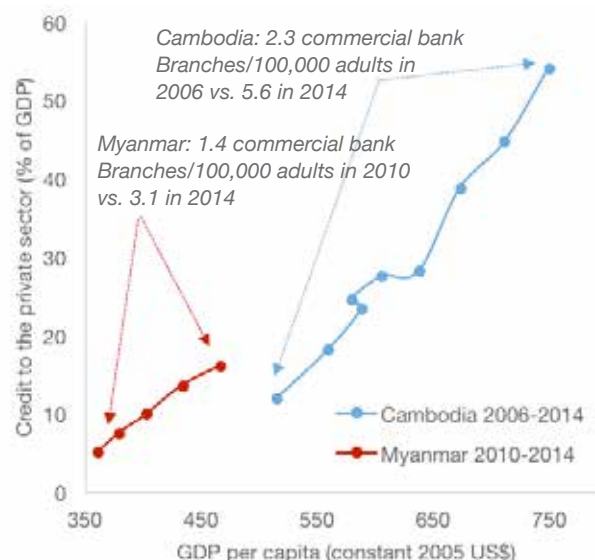
The ability of the financial sector to expand both the scale and range of products and services available to private businesses, the public sector and households could play a determining role for inclusive growth in Myanmar. Despite the rapid growth, private sector credit to GDP in Myanmar is still relatively low at around 16 percent of GDP, which is partly linked to the country's overall level of economic development (figure 8). These services can be critical not only for directing savings to investments but also public service delivery and remittance of migrant income to poor rural areas.

Figure 8: Credit to the private sector (% of GDP) across selected countries in the region (2014)



Source: WDI, IMF Article IV reports, and WB Staff Estimates

Figure 9: Access to finance in Myanmar and Cambodia



Source: WDI, IMF Article IV reports, and WB Staff Estimates



Expanding the financial sector in a way that also promotes financial inclusion in Myanmar could be aided by a number of structural reforms.

Cambodia in 2006 was at a similar level of income and credit to GDP ratio as Myanmar today. Within 8 years, credit to GDP increased fivefold and the number of commercial bank branches per 100,000 adults more than doubled (figure 9). It is however important to note that overly rapid expansion of credit can fuel a build up of macro-financial risks.⁵ It is therefore important that credit expansion goes hand in hand with policies that promote competition; avoid distortionary policies such as subsidized credits to specific sectors or enterprises; establish a modern legal and regulatory framework that helps prevent the accumulation of bad assets and other risks in the financial system; and help develop a modernized payments system that reduces the dependence on cash transactions. Each of these factors could play a critical role ensuring that the system expands in a stable and inclusive manner.

Based on this, the policy note proposes options to phase reforms in a way that could help to put the system on a solid footing to effectively and efficiently finance inclusive growth in Myanmar.

This includes the strengthening of the financial sector legal and regulatory framework; establishing a modern, electronic National Payments System; reforming state-owned banks, which can otherwise thwart competition; and expanding the depth of the financial sector through the development of new products.

OBJECTIVES	SHORT-TERM OPTIONS (1YEAR)	LONG-TERM OPTIONS (3-5YEARS)
Legal and regulatory framework	Implement the Banking and Financial Institutions Law.	Develop the legal and regulatory framework in debt collections and creditors' rights. Establish crisis management system.
Modern financial infrastructure	Adopt the legal and regulatory basis for National Payments System including mobile financial services.	Implement the National Payments System.
Reformed State Owned Banks	Conduct due diligence on restructuring of two largest State Owned Banks (MADB and MEB).	Develop and implement strategic reform plans for MEB and MADB.
Expanded depth of financial sector	Strengthen microfinance and insurance regulatory capacity.	Develop consumer protection policies. Promote market development initiatives for the non-bank sector.

⁵ WBG, "Cambodia Economic Update: Resilience Amidst a Challenging Environment," (September 2013).

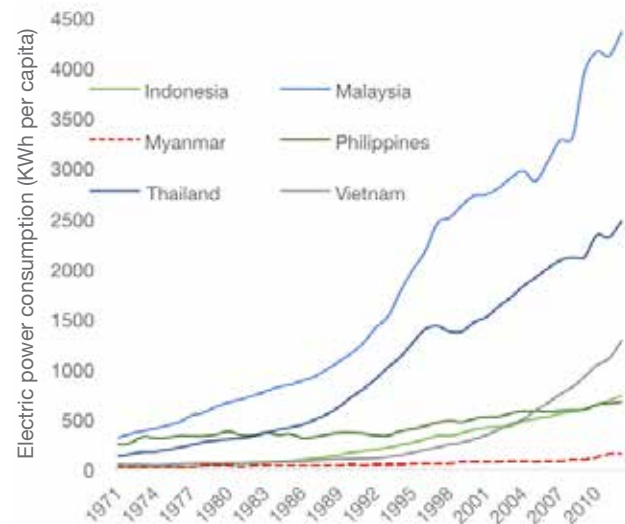


Energizing Myanmar: Enhancing access to sustainable energy for all

The relative impact of increasing access to energy on productivity, competitiveness and inclusive growth in Myanmar could be very significant. Access to affordable power is not only critical for the expansion of productive sectors, but is also vital for the delivery of public services in urban and rural areas. Electricity consumption (kWh per capita) in fast growing countries in the East Asia region has expanded rapidly in the past 40 years, whilst it has remained depressed in Myanmar, falling to among the lowest levels in the world (figure 10). The experience from other countries demonstrates how, with the right policies, access to energy could be expanded quite rapidly within a relatively short period of time (figure 11).

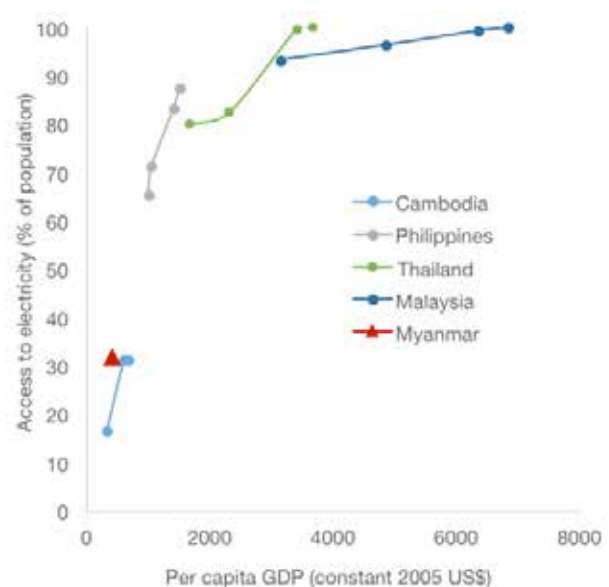
For these reasons, access to energy policies have taken center stage in Myanmar since 2011. Efforts have focused on strengthening the institutional and policy environment in the energy sector, which remains somewhat fragmented, affecting policy coordination and the speed of decision-making. Institutional reform is likely to be critical for establishing a strong platform for reforming this large sector, which is likely to require US\$ 2 billion per year over the next 15 years for investment in power generation, transmission and distribution. Public resources, including concessional and donor support, will not be sufficient to foot such a large bill. On the other hand, private investments in the energy sector is likely to require, among other things, energy pricing policies that are aligned with the financial viability of the sector.

Figure 10: Access to energy – Electric power consumption (kWh per capita)



Source: WDI and WB Staff Estimates

Figure 11: Access to electricity (% of population) in selected countries 1990-2012



Source: WDI and WB Staff Estimates; all countries cover the periods 1990, 2000, 2010 and 2012, except Cambodia, which does not cover 1990 and Myanmar, which covers only 2012.

Policy reforms over the past four years have shown early signs of progress. Electricity tariff reforms have enabled power generators and suppliers to cover the cost of service, whilst protecting households from energy price hikes through cross-subsidies from commercial customers. Restructuring and corporatization of power distributors in Yangon and Mandalay have helped to reduce distribution losses to 16 percent and 14 percent respectively in 2014, down from an estimated 23 percent in 2009. A newly enacted Electricity Law has contributed to a significant increase in private sector participation in power generation, with IPPs reaching around 10 percent of installed generation capacity by 2015.

The policy note proposes a mix of options to accelerate the implementation of the National Electrification Plan in a way that can achieve at least 500,000 connections per year through improved policy coordination and increased efficiency in power distribution. It proposes to enable this under a strong regulatory framework that improves transparency and competition in the electricity market, and mobilizes private sector investments, whilst ensuring the protection of vulnerable consumers. To meet the longer term energy demands of Myanmar, the policy note proposes to develop strategic plans for the effective and efficient development of gas and hydropower resources.

OBJECTIVES	SHORT-TERM OPTIONS (1YEAR)	LONG-TERM OPTIONS (3-5YEARS)
At least 500,000 connections per year by 2020	Maintain a strong National Electrification Executive Committee accountable for implementation of National Electrification Plan. Strengthened project management offices in MOEP and MLFRD for country-wide electrification program.	Strengthen institutional capacity across value chain, including utilities, contractors, and sector institutions. Adopt grid codes and introduce modern technologies and low cost solutions for rural power.
Transparency, competition; private investment; protection of consumers	Adopt secondary legislation for Electricity Law. Establish Electricity Regulatory Agency. Adopt pricing policy based on full cost recovery of the economic cost of gas and electricity supply. Targeted subsidies to vulnerable groups.	Merger of MOEP and MOE. Private participation by leveraging of public resources through PPP and IPPs.
Efficiency through corporatization and commercialization	Restructuring of MEPE and hydropower enterprises and establish Myanmar Electric Power Generation Corporation.	Divestment in the power sector focusing on YESC and MESOC. Restructuring program for ESE and create Rural Electrification Agency. Establish Myanmar Transmission System Operator.
Strategic planning with environmental and social sustainability	Gas sector masterplan. Hydropower plan. Guidelines for environmental and social safeguards, including public consultations on formulation of energy master plans.	Resource mapping and GIS-based maps of renewable energy resources. System studies for integration of renewable energy in power grid. Integrated generation and transmission expansion plan based on gas and hydropower plans.

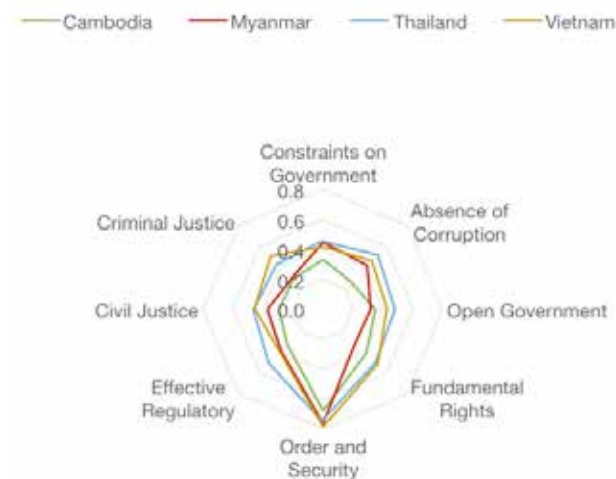


Participating in change: Public sector accountability to all

The transparency and accountability of the public sector could be a determining factor in how well and quickly Myanmar can take forward policies for shared prosperity. The trajectory from policy reforms to shared prosperity is multi-dimensional. Progress in one area (e.g. closing the gap) can impact on progress in another (e.g. growing together). Progress within policy areas is also subject to learning by doing and factors that are beyond policy makers' control. Engaging those affected by policy reforms and promoting adaptability in the public sector could be important for course corrections that help Myanmar to remain on target for inclusive growth and shared prosperity.

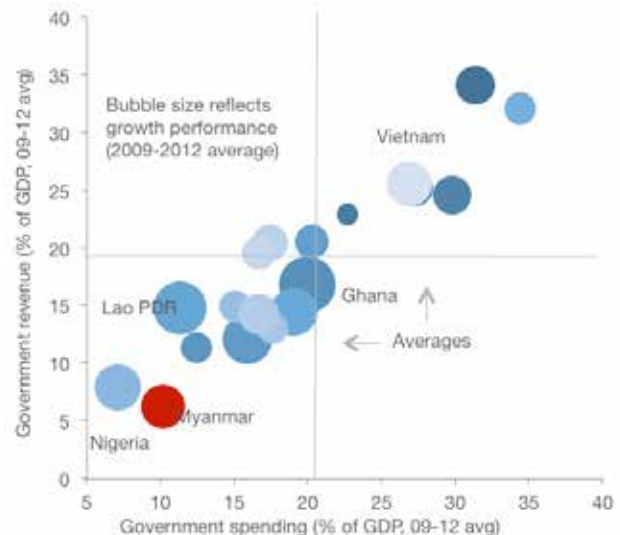
Evidence from other countries demonstrates that active citizen participation in public policy can have a positive developmental impact. In Myanmar, a lack of transparency and public engagement have bred corruption and a loss of trust in the public sector (figure 12).⁶ Since 2011, there has been a gradual transformation with more transparency in public policy making. Seizing the opportunity to further improve public sector accountability could be critical in the context of high public expectations for change.

Figure 12: The World Justice Project, Rule of Law Index (2014)



Source: The World Justice Project, Rule of Law Index (2014), score 0=weakest and score 1=strongest

Figure 13: Size of general government (% of GDP) and economic growth (real % change)



Source: WDI and WB Staff Estimates

⁶ <http://worldjusticeproject.org/>: The World Justice Project Rule of Law Index measures rule of law (as measured by 8 factors: constraints on government powers, absence of corruption, open government, fundamental rights, order and security, regulatory enforcement, civil justice, and criminal justice) based on the experiences and perceptions of the general public and in-country experts. Scores range from 0 to 1 (with 1 indicating strongest adherence to rule of law). Scoring is based on answers drawn from a representative sample of 1,000 respondents in the three largest cities and a set of in-country legal practitioners and academics.

The size of general government in Myanmar has historically been small (figure 13) relative to the country's large service delivery needs. Recent efforts to reprioritize government spending away from general administration towards the delivery of health and education services in particular have been complemented by more public availability of information on the budget. Tax collections have improved, though remain constrained by an official system for tax declarations that is susceptible to corruption. This is compounded by large undeclared natural resource rents that prevent the people of Myanmar from reaping the benefits of these vast national assets.

The policy note proposes to build on Myanmar's step-by-step progress over the past four years in gradually introducing more transparency and accountability throughout the public sector, including in revenue collection, the management of public expenditure, public policy making, and service provision. On management of public finances, this could include on the revenue side the implementation of the self-assessment system for tax declarations beyond its current coverage of large taxpayers and greater transparency through EITI; and on the spending side it could include publication of more detailed and



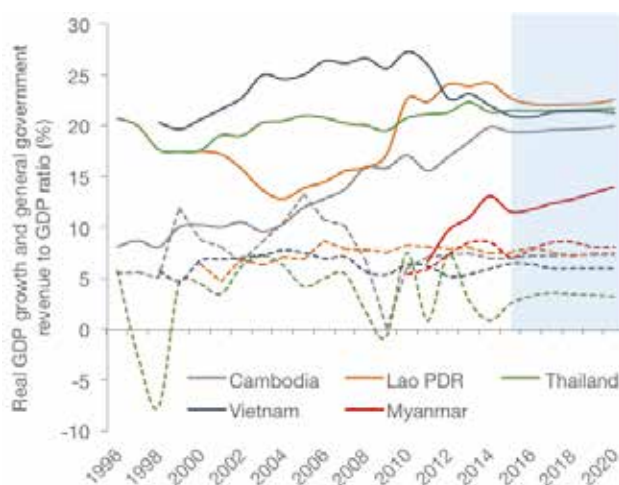
regular information on public expenditures. Beyond public finances, however, the policy note also proposes options to institutionalize public engagement in policy reforms, and improve the responsiveness of local authorities, including by setting standards for public service delivery.

OBJECTIVES	SHORT-TERM OPTIONS (1YEAR)	LONG-TERM OPTIONS (3-5YEARS)
Fair and transparent tax system	Self-assessment system for tax declarations. Annual EITI Reconciliation report including increased coverage of jade and gems.	Publish tax expenditure and compliance rates.
Transparent public expenditures	Publish key fiscal reports: Citizens' Budget MTF statement, budget proposal to parliament. Publish database on public finances (BOOST).	Publish quarterly budget execution data, annual audit report, and more information on Union and sub-national level spending.
Empowering local authorities to meet local needs	Establish secretariat function for technical advice on implementation of fiscal decentralization.	Public administration reforms to promote accountability for results.
Public engagement in policy reform	Public consultations on all legislative instruments relating to public finances.	Law on Regulating Issuance of Legal Documents.
Minimum standards for public services	Publish performance on service delivery by municipal authorities.	Minimum standards on response time for selected municipal services.

Implementing these recommendations while maintaining macroeconomic stability will require a mix of additional resources, reallocation of resources, and more efficient spending. Improved revenue collection and more diversified sources of financing since 2009 have helped to substantially increase spending on public services, whilst maintaining a relatively prudent fiscal stance.⁷ Between 2009 and 2014, general government spending as a share of GDP went from 7 to 15 percent. General government revenue over the same period went from 6 to 11 percent of GDP, thanks to a combination of one off measures (e.g. exchange rate devaluation, one-off receipts from telecom licenses) and policies that helped to expand the tax base.

Myanmar has strong potential to further increase public sector revenues over the coming years. Other countries in the region have been able to increase their general government revenue to GDP ratio by 3-4 percentage points of GDP over a 5-year period (figure 14). This includes the late 1990s and early 2000s in Cambodia when per capita GDP in constant 2005 US\$ was lower than Myanmar today, or the mid-2000s in Lao PDR when per capita GDP in constant 2005 US\$ was similar to what it is today in Myanmar. It also includes the early 2000s in Thailand when the country was recovering from a major economic crisis that also caused a sharp drop in government revenue. Part of the recovery in Thailand's revenue was aided by the establishment of a Large Taxpayers' Office, similar to Myanmar's efforts today.

Figure 14: Real GDP growth and general government revenue to GDP, 1996-2014 (2015-2020 projected) (%)



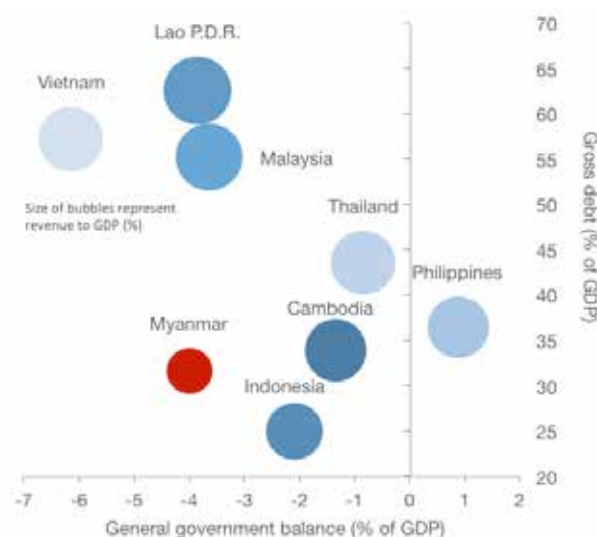
Source: IMF WEO and WB Staff Estimates

⁷ WBG, "Realigning the Union Budget to Myanmar's Development Priorities: Myanmar Public Expenditure Review 2015," Chapter 3, (September 2015)

Continued economic growth and implementation of tax administration reforms could help to improve the efficiency of Myanmar's tax system and enable the government to collect more for each percentage point of tax rate. Some of these tax administration reform options, including the expansion of the self-assessment system, are discussed in more detail in the note on participating in change.

There are also important revenue policy reforms that could impact positively on general government receipts.⁸ One important option could be the consolidation of all hydrocarbon rents in the general government budget. Currently the Myanmar Oil and Gas Enterprise is able to retain more than half of after tax profits, though given the current context, it may make more sense to channel these to the Union Budget. Another option could be to rationalize tax incentives. At the moment, tax incentives are provided with little understanding of their net impact on government revenues, whereas experience from other countries illustrate that tax incentives are not necessarily the determining factor in investment decisions. With a combination of above administration and policy reforms, Myanmar could potentially target an average of 0.5-0.6 percent of GDP of additional general government receipts per year over the next 5 years (figure 14).⁹

Figure 15: General government balance, revenue and debt, 2014 (% of GDP)

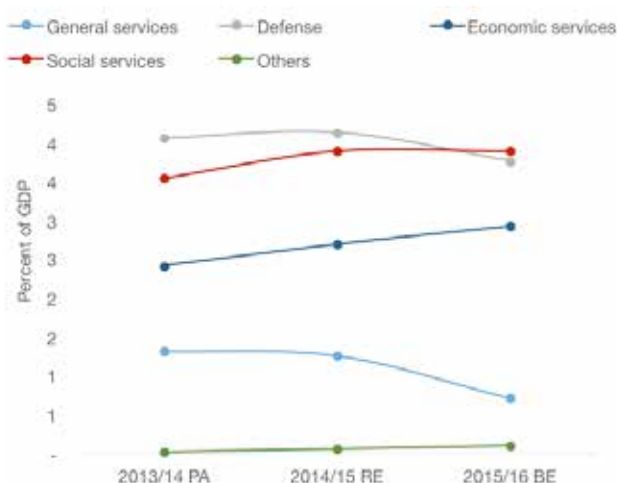


Source: IMF WEO and WB Staff Estimates

⁸ WBG, "Realigning the Union Budget to Myanmar's Development Priorities: Myanmar Public Expenditure Review 2015," Chapter 2, (September 2015)

⁹ Subject to review based on more accurate information on the potential impact of consolidating hydrocarbon rents in the Union Budget.

Figure 16: Shifts in functional spending 2013-2015

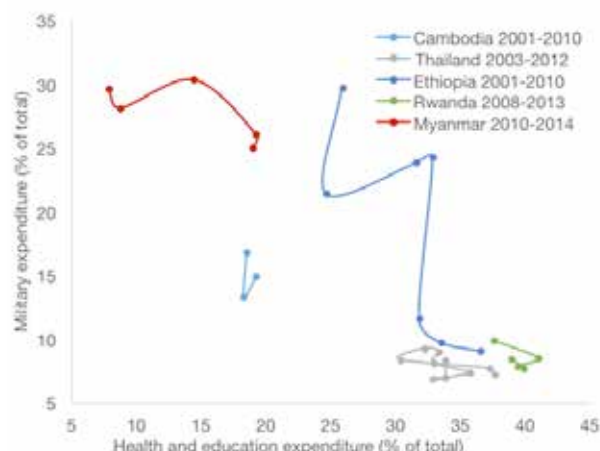


Source: MOF and WB Staff Estimates

Even with this, the growth in general government revenue could be outpaced by Myanmar's spending needs for critical public services, notwithstanding absorptive capacity constraints. The elimination of Myanmar's external debt arrears in 2013 has created some fiscal space that could enable additional borrowing to meet those needs. The current level of public debt stock, which stood at around 31 percent of GDP in 2014 (figure 15), falls within thresholds of debt sustainability.¹⁰ Debt service payments also do not pose a major issue for short to medium-term liquidity.

At the same time, Myanmar's additional borrowing space could be constrained by its access to low-cost, long-term financing. Myanmar has rightly started to move away from short-term Central Bank financing, which historically has contributed to macroeconomic instability. But financing options are also limited due to small domestic debt markets, and the country's early reengagement with external concessional lenders. Any potential new borrowing could be usefully informed by its impact on the overall level of public debt stock and on the composition of the public debt portfolio, which affect debt sustainability. Within these constraints, Myanmar could potentially target an average of 2 percent of GDP in additional net, long-term, concessional borrowing per year over the next 5 years (figure 15).

Figure 17: Military vs. health and education expenditure (% of general government expenditure)



Source: WDI and WB Staff Estimates

Fiscal space from a growing spending envelope has to be consistent with macroeconomic stability objectives if it is to be effective in implementing policies for shared prosperity. For example, more spending out of costly short-term borrowing could affect debt sustainability and displace spending on policy options for closing the gap and growing together; and it could thwart efforts at financing the future by crowding out credit to the private sector. It could fuel inflation, thereby offsetting the competitiveness gains from policy options for breaking business as usual; and disincentivizing much needed private investments for policy options in energizing Myanmar.

Reprioritizing resources across sectors in the Union Budget can therefore be an important source of fiscal space for implementing policy priorities. This is already evident in some of the recent shifts in the Union Budget. For example military and general services expenditure declined by an estimated 0.8 percent point of GDP between 2013 and the 2015 Union Budget, whereas spending on the social sectors and economic services is expected to have increased by roughly this amount over the same period (figure 16).

Beyond such reallocations, options for an increase in public spending in education, health, or social protection deserve careful consideration. On the one hand, increased spending on programs such as school stipends, basic healthcare packages, and social assistance has the potential to improve education and health outcomes significantly and effectively. On the

10 IMF-WB Debt Sustainability Analysis for Myanmar in: IMF, "Myanmar – Staff Report for the 2015 Article IV Consultations," August 14, 2015

other hand, a more sudden increase in the financing of other programs may be less effective and may not achieve the intended public service gains. For example, more resources for building health facilities in rural areas could be constrained by public investment management capacity in the public sector; or increased spending for teacher recruitment could be constrained by the availability of qualified instructors that are currently available to join the workforce.

It is therefore not necessarily a matter of reallocating spending in the Union Budget to the social sectors.

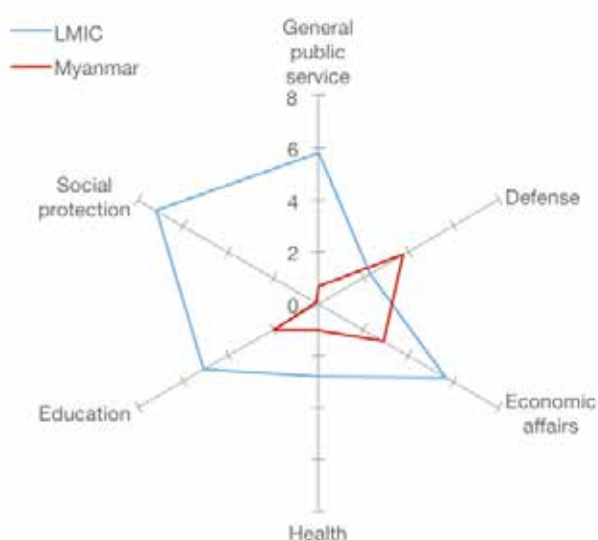
For example, some other countries with initially high levels of military spending, reallocated funds gradually towards health and education over several years (figure 17). The pace of such reallocations will depend greatly on country-specific economic, institutional, and social factors.

With the above in mind, if Myanmar wishes to achieve spending levels across government functions that are closer to the average for Lower Middle Income Countries, then it could potentially target 0.3 and 0.4 percent of GDP per year in fiscal space from reallocations in expenditure across sectors over the next 5 years (figure 18).

Reallocations within sectors could usefully complement the above measures in redirecting resources to areas that are likely to have a relatively bigger impact on shared prosperity e.g. from curative to preventive healthcare, or from tertiary to basic education. These could be further complemented by efficiency gains within sectors. The 2015 Myanmar Public Expenditure Review identified for example more strategic procurement of pharmaceuticals to generate savings; and better quality textbooks to reduce their replacement rate (and associated costs) from annual to every three years. Subject to more detailed analysis, Myanmar could potentially target an average of 0.5 percent of GDP of additional fiscal space per year over the next 5 years from reallocations and efficiency gains within sectors.

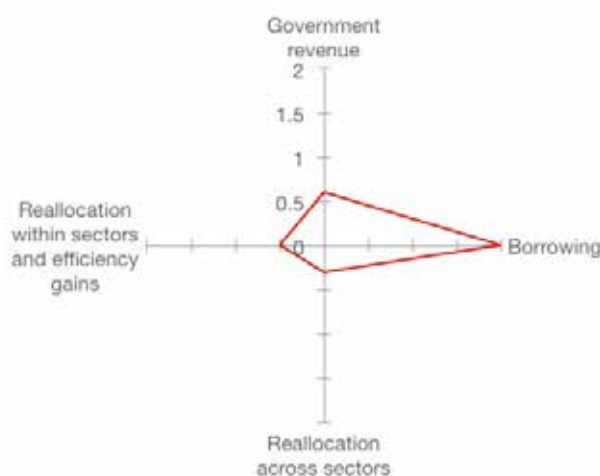
Combining all the above measures could potentially enable Myanmar to target an average of 3.4 percent of GDP in additional fiscal space per year over the next 5 years (figure 19). On the other hand, bringing Myanmar's spending across government functions to similar levels as that of other Lower Middle Income Countries, could require an average of 4 percent of GDP in fiscal space per year over the next 5 years. These numbers are indicative and subject to more detailed analysis, including costing of specific options proposed in the policy notes and broader macroeconomic impact. The numbers are used more to illustrate the potential sources of fiscal space and their trade-offs.

Figure 18: Functional spending in Myanmar vs. Lower Middle Income Countries (% of GDP)



Source: IMF GFS and WB Staff Estimates

Figure 19: Potential targets for sources of fiscal space (% of GDP)



Source: WB Staff Estimates

CONCLUSION

At the turn of the 20th Century, Myanmar was one of the richest countries in South East Asia. This instills in the people of Myanmar a strong ambition to succeed in reinstating the country's rightful position in one of the most dynamic regions in the world and in the global economic community. It also provides a strong foundation for Myanmar's ability to stay the course on its bold agenda for change.

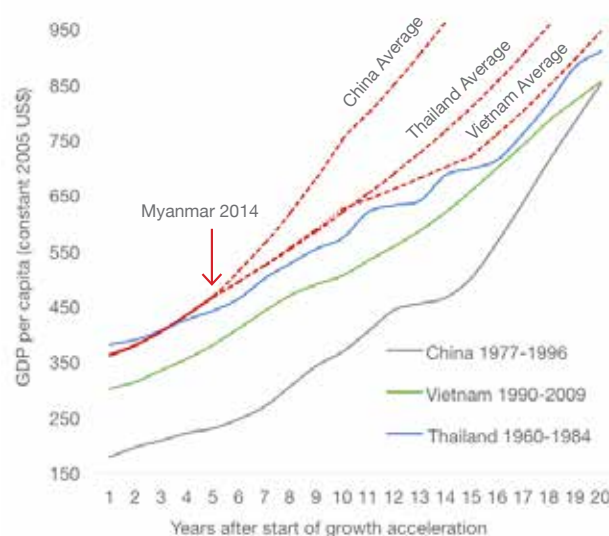
Myanmar has the potential to follow the same path of inclusive growth as other high performing countries in the region (figure 20), and also catch up at a faster rate with the help of technology and knowledge transfer. China, for example, had a lower per capita GDP at the start of its growth acceleration in 1977 than Myanmar in 2011 (US\$ 177 vs. US\$ 361 in constant 2005 US\$) and was able to increase per capita GDP nearly 5-fold within 20 years (figure 20). Over this period, the poverty headcount ratio in China (at \$1.90 a day, 2011 PPP) fell from around 90 percent to roughly 60 percent, falling further to 11 percent by 2011 (figure 21). In Vietnam, per capita GDP increased nearly 3 fold (US\$ 300 to US\$ 855 in constant 2005 US\$) in the first 20 years since the start of its growth acceleration (1990), whilst the poverty headcount fell dramatically from 50 percent to around 3 percent over the same period (figure 21).

Although the above policy options could help Myanmar to get onto a similar track, there are many other issues that will affect progress.¹¹ Myanmar is working to bring an end to longstanding conflicts and bridge social divisions across the country's ethnic and religious groups. Whilst the above policy options aim to support these efforts, much more would be needed to foster national unity under a strong leadership that can provide a common vision for Myanmar's development. These are preconditions to and determinants of Myanmar's progress towards shared prosperity.

The ultimate success of policy reforms will also depend on their degree of ownership in Myanmar. The people of Myanmar should decide on the best course of action. This may involve extensive debate, which the policy notes aim to promote, and building consensus across a wide range of stakeholders. This could generate significant benefits in terms of building trust and generating the drive to implement reforms.

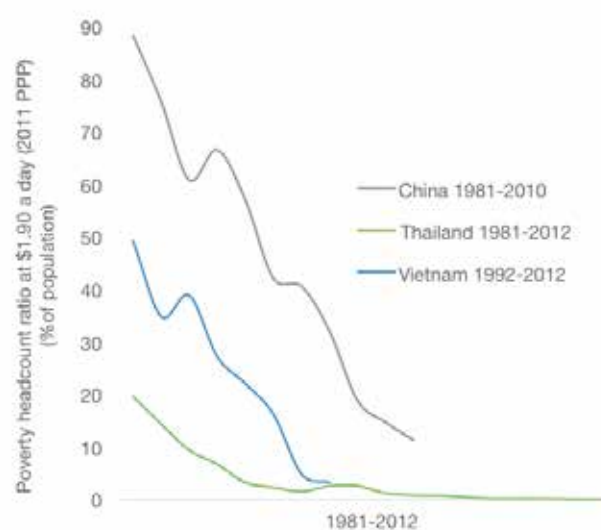
The above does not substitute for visionary and decisive leadership, which, to the contrary, has been a big part of other countries' inclusive growth stories.¹² Choosing not to pursue a particular policy option is not necessarily a missed opportunity, particularly if such a choice is borne out of consensus. It may open the door to think even more creatively about ways to achieve shared prosperity in Myanmar.

Figure 20: GDP per capita (constant 2005 US\$)



Source: WDI and WB Staff Estimates

Figure 21: Poverty headcount ratio at \$1.90 a day (2011 PPP) (% of population)



Source: WDI and WB Staff Estimates

11 WBG, "Myanmar – Ending poverty and boosting shared prosperity in a time of transition: A Systematic Country Diagnostic," November 2014

12 WB and the Commission on Growth and Development, "The Growth Report – Strategies for Sustained Growth and Inclusive Development," (2008)

REFERENCES

- IMF, “Myanmar - Staff Report for the 2015 Article IV Consultations,” August 14, 2015
- Republic of the Union of Myanmar, “The 2014 Myanmar Population and Housing Census - Volume 2,” (May 2015)
- The World Justice Project Rule of Law Index
- WB and the Commission on Growth and Development, “The Growth Report - Strategies for Sustained Growth and Inclusive Development,” (2008)
- WBG, “Cambodia Economic Update: Resilience Amidst a Challenging Environment,” (September 2013)
- WBG, “Myanmar Economic Monitor,” (October 2015)
- WBG, “Myanmar - Ending poverty and boosting shared prosperity in a time of transition: A Systematic Country Diagnostic,” November 2014
- WBG, “Realigning the Union Budget to Myanmar’s Development Priorities: Myanmar Public Expenditure Review 2015,” (September 2015)
- World Economic Forum, Global Competitiveness Index (2014-2015)



“This Policy Note is part of a series entitled All Aboard! Policies for shared prosperity in Myanmar”



CLOSING THE GAP
Expanding access to
social services



GROWING TOGETHER
Reducing rural poverty
in Myanmar



BREAKING BUSINESS AS USUAL
Fostering competitiveness and a dynamic
environment for private sector growth



FINANCING THE FUTURE
Building an open, modern and
inclusive financial system



ENERGIZING MYANMAR
Enhancing access to
sustainable energy for all



PARTICIPATING IN CHANGE
Promoting public sector
accountability to all



WORLD BANK GROUP



WORLD BANK GROUP

The World Bank Myanmar

No.57, Pyay Road
61/2 Mile, Hlaing Township, Yangon,
Republic of the Union of Myanmar.
www.worldbank.org/myanmar
www.facebook.com/WorldBankMyanmar
myanmar@worldbank.org