

Public Disclosure Authorized

OFFICIAL DOCUMENTS

CREDIT NUMBER 6066-MM

Financing Agreement

(Development Policy Operation)

between

Public Disclosure Authorized

REPUBLIC OF THE UNION OF MYANMAR

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 18 August, 2017

FINANCING AGREEMENT

AGREEMENT dated 18 August, 2017, entered into between the REPUBLIC OF THE UNION OF MYANMAR (“Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II—FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred forty seven million and eight hundred thousand Special Drawing Rights (SDR 147,800,000) (variously, “Credit” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Commitment Charge payable by the Recipient on the Unwithdrawn Financing Balance is at present zero. If, pursuant to decision of the Association’s Board of Directors, a Commitment Charge shall be payable in the future, the Maximum Commitment Charge Rate shall be notified by the Association to the Recipient and shall not exceed one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.

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- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is United States Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension is that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness is that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

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ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its Union Minister at the time responsible for finance.

6.02. The Recipient's Address is:

Ministry of Planning and Finance
Building No. 26
Nay Pyi Taw
Myanmar

Facsimile:
95-67-410-198

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Facsimile:
1-202-477-6391

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AGREED at Nay Pyi Taw, Republic of the Union of Myanmar, as of the day and year first above written.

REPUBLIC OF THE UNION OF MYANMAR

By




Authorized Representative

Name: Daw Nwe Nwe Win

Title: Director General

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Ms Ellen A. Goldstein

Title: Country Director

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SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has centralized public debt management functions in the MOPF, precluding any public sector body, including ministries and state-owned economic enterprises from independently contracting debt, as evidenced through the adoption of the Public Debt Management Law (Pyidaungsu Hluttaw Law No. 2/2016).
2. The Recipient has: (a) instructed that the Central Bank of Myanmar charges market interest rates on CBM financing of the Union budget deficit from fiscal year 2016/17 onwards, as evidenced through the letter from the Union Cabinet to CBM dated July 7, 2016; (b) submitted a debt strategy to Parliament that sets out the government's borrowing plan for the 2017/18 fiscal year and limits CBM financing of the 2017/18 budget deficit to 30 percent of deficit financing requirement, as evidenced through the copy of the strategy, the Union Minister of Planning and Finance's speech to the Parliament uploaded on the MOPF website, and the letter from the Treasury Department of MOPF to the Association, dated March 23, 2017; and (c) launched treasury-bond auctions, as evidenced through the treasury bonds offering memorandum and the auction results uploaded on the CBM website.
3. The Recipient has: (a) required state-owned economic enterprises with sufficient own account balances to cover all their recurrent expenditures out of their own accounts in fiscal year 2017/18, as evidenced through a section on the state-owned economic enterprises' revenues and expenditures in the draft Union budget law submitted to Parliament and uploaded on the MOPF website, and the letter issued by the Union Minister of Finance and Planning to all Union Government agencies dated November 22, 2016; and (b) consolidated the audits of own accounts of all state-owned economic enterprises for fiscal year 2015/16 to determine carry over, as evidenced through the summary statement of audit results submitted by the Union Minister of Planning and Finance to the Economic Committee under the Union Cabinet dated February 7, 2017.
4. The Recipient has: (a) submitted to Parliament the consolidated Union budget for fiscal year 2017/18 based on the Recipient's rolling medium-term fiscal framework with medium-term revenue projections, expenditure estimates and deficit targets, as evidenced through the draft Union budget law and the Union Minister of Planning and Finance's speech to Parliament uploaded on the MOPF website; and (b) publicly released prior to Parliamentary approval the 2017/18

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executive budget proposal submitted to Parliament and the 2017/18 Union budget summary book, as evidenced through the publication of these documents on the MOPF website.

5. The Recipient has: (a) achieved compliance rates of at least 90 percent for income tax filing under the self-assessment system for fiscal year 2015/16, as evidenced through the report submitted by the Large Taxpayers' Office to the Internal Revenue Department Headquarter dated October 11, 2016; (b) adopted the Special Goods Tax Law, as evidenced through the copy of Pyidaungsu Hluttaw Law No. 11/2016; and (c) reorganized the internal structure of the Headquarter and Self - Assessment Offices of the Internal Revenue Department from a tax instrument-based structure into a function-based one, as evidenced through the letter, dated January 27, 2016, from the Internal Revenue Department to the Union Minister of Planning and Finance.
6. The Recipient has furnished a financial viability plan for the electric power sector to completely eliminate over 5 years, the gap in operating revenue and expenditure of government-owned electric power utilities in Myanmar, as evidenced through the letter, dated March 13, 2017, from the Ministry of Electricity and Energy to the Association, appending the plan.
7. The Recipient has: (a) pre-approved an updated Myanmar Financial Management Regulation that simplifies financial management procedures to facilitate more efficient public service delivery, as evidenced through the copy of the said regulation and the letter from MOPF to the Association, dated March 30, 2017; (b) reestablished the Public Procurement Rules and Regulation Supervision Committee to lead procurement, as evidenced through order notification No. 138/2016 from MOPF dated August 31, 2016; and (c) pre-approved updated Procurement Directives to harmonize procurement practices among spending agencies, as evidenced through the copy of the said directives and the letter from MOPF to the Association, dated March 30, 2017.

Section II. Availability of Financing Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

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Allocations	Amount of the Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	147,800,000
TOTAL AMOUNT	147,800,000

C. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient's macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into a Foreign Currency Deposit Account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

E. Audit. Upon the Association's request, the Recipient shall:

1. have the Foreign Currency Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and
3. furnish to the Association such other information concerning the Foreign Currency Deposit Account and its audit as the Association shall reasonably request.

F. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to

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the Association. Amounts refunded to the Association upon such request shall be cancelled.

G. Closing Date. The Closing Date is December 31, 2017.

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SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15, commencing June 15, 2023 to and including December 15, 2054	1.5625%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

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APPENDIX

Section I. Definitions

1. "CBM" means the Central Bank of Myanmar, and any successor thereto.
2. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or

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		silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party);
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
3. "Foreign Currency Deposit Account" means the account referred to in Section II.D.1 of Schedule 1 to this Agreement.
 4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
 5. "MOPF" means the Recipient's Ministry of Planning and Finance, and any successor thereto.
 6. "Myanmar Financial Management Regulation" means the Myanmar Financial Management Regulation which has been pre-approved by MOPF and the Economic Committee under the Recipient's Cabinet, and which is subject to final approval by the Recipient's Cabinet.
 7. "Procurement Directives" means the Tender Procedure for Procurement of Civil Works, Goods, Services, Rental and Sale of Public Properties for Government Departments and Organizations which have been pre-approved by the MOPF and the Economic Committee under the Recipient's Cabinet, and which are subject to final approval by the Recipient's Cabinet.

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8. "Program" means the program of actions, objectives and policies designed to sustain macroeconomic stability with enhanced fiscal resilience and set forth or referred to in the letter dated March 17, 2017 from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
9. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Section II.B of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*) and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

6. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.07. *Program Monitoring and Evaluation*

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... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

““Eligible Expenditure” means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

““Program” means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

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