

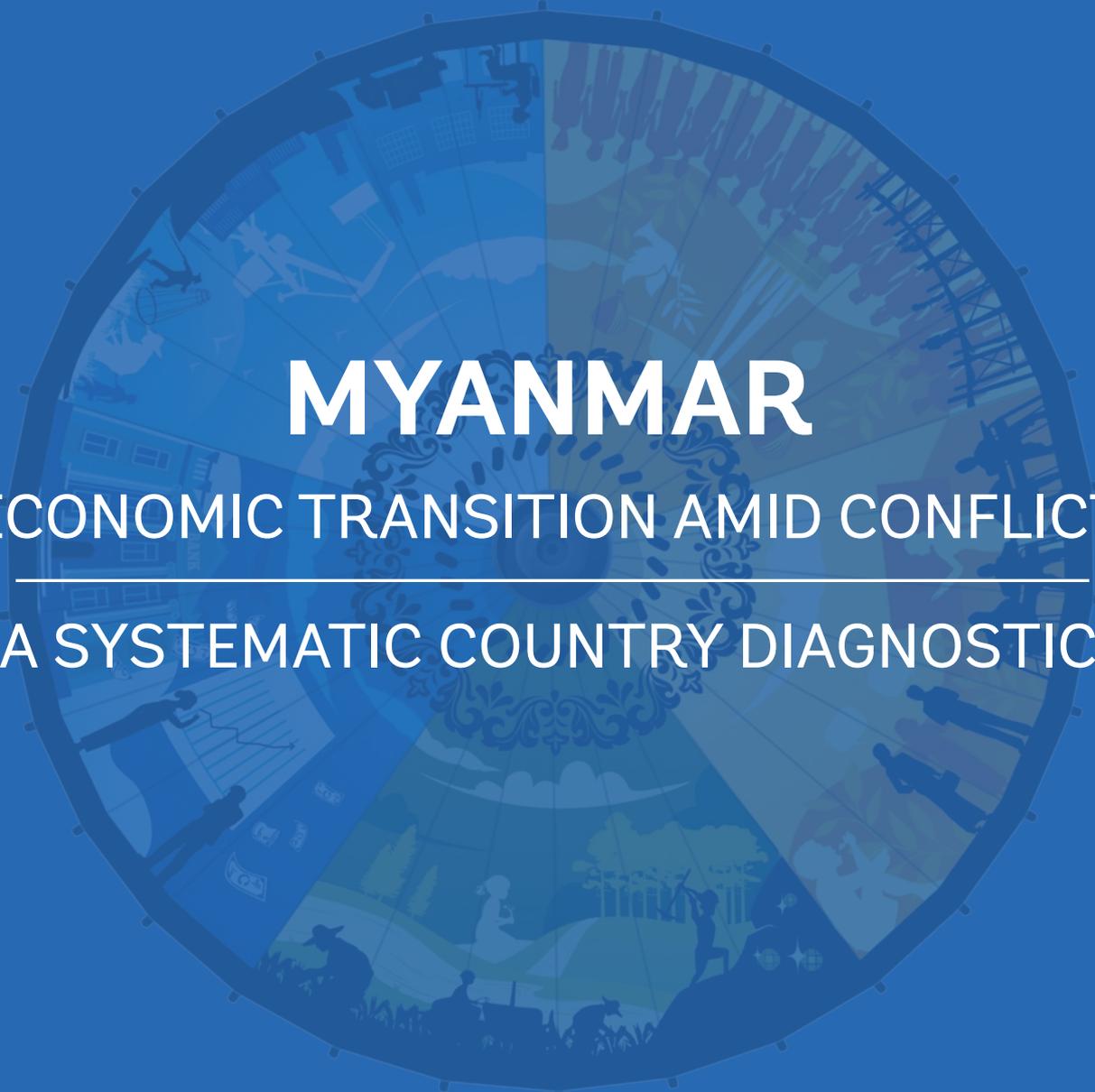
MYANMAR

ECONOMIC TRANSITION AMID CONFLICT



A SYSTEMATIC COUNTRY DIAGNOSTIC

Report Number 143563-MM



MYANMAR

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A SYSTEMATIC COUNTRY DIAGNOSTIC

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Contents

ACKNOWLEDGEMENTS	viii
ABBREVIATIONS	ix
EXECUTIVE SUMMARY	xi
1. THE COUNTRY CONTEXT	1
1.1. An Incomplete Triple Transition	4
1.2. Economic Growth and Its Inclusiveness	8
1.3. A Profile of the Poor in 2015	15
1.4. Social Inclusion: Progress and Challenges	17
2. DRIVERS OF GROWTH AND POVERTY REDUCTION	21
2.1. What Drove Growth in the Early Transition Years?	22
2.2. What Drove Poverty Reduction?	30
3. DEEPENING AND SUSTAINING JOB-CREATING GROWTH	37
3.1. Economic Stability and Strengthened Macroeconomic Management	38
3.2. Job Creation and Private Sector–Led Growth	44
4. SPREADING PROSPERITY TO INCLUDE ALL	61
4.1. Peace and Governance	62
4.2. People: Human Resources and Social Development	69
5. SUSTAINING PROGRESS FOR FUTURE GENERATIONS	81
5.1. Planet: Natural Resources and the Environment	82
6. OVERARCHING CONSTRAINT: STATE CAPABILITY AND EFFECTIVENESS	91
6.1. Structural Impediments to State Capability	92
6.2. Challenges to Effective Implementation of Policy	96
7. PRIORITIES FOR ACCELERATED, INCLUSIVE AND SUSTAINABLE PROGRESS	99
7.1. Pathways for Progress and Priority Areas for Policy	101
7.2. Data and Knowledge Gaps	111
Annex A: Timeline of Political and Economic Developments	112
Annex B: Overview of the First Myanmar SCD (2014)	115
Annex C: Data Sources, Limitations and Gaps	116
Annex D: External Engagement and Consultations	119
Annex E: From Binding Constraints to Priority Areas for Policy	120
Annex F: Priority Areas for Policy and Alignment with MSDP	122
References	125

FIGURES

Figure 1-1: SCD analytical framework	3
Figure 1-2: MSDP pillars and goals, highlighted in color of corresponding SCD analytical area	3
Figure 1-3: Myanmar's interlinked transitions	6
Figure 1-4: Subnational conflict areas, 2016	7
Figure 1-5: Armed groups in Myanmar's subnational conflicts, 2016	7
Figure 1-6: Ranked annual growth in GDP per capita for all countries, ca. 2011–2016	8
Figure 1-7: Ranked annual reduction in poverty rates for all countries (absolute values), ca. 2010–2015	8
Figure 1-8: GDP growth since start of transition, Myanmar and comparators	9
Figure 1-9: Domestic investment since start of transition, Myanmar and comparators	9
Figure 1-10: Foreign direct investment (FDI) as share of GDP since start of transition, Myanmar and comparators	9
Figure 1-11: Merchandise trade as share of GDP since start of transition, Myanmar and comparators	9
Figure 1-12: Percentage of households owning at least one mobile phone, 2005–2017	10
Figure 1-13: Poverty headcount using the national poverty estimate, 2005–2015	11
Figure 1-14: Growth in per capita expenditures, showing top 60 percent, bottom 40 percent, and average, 2005–2015	11
Figure 1-15: Nonmonetary indicators of wellbeing in 2009/2010 and 2015–17	12
Figure 1-16: Infant mortality rates in Myanmar in comparison with regional peers, 2000–2015	12
Figure 1-17: Annualized per capita consumption growth, bottom 40 percent of households and average household	13
Figure 1-18: Poverty headcount by agro-zone, 2015	15
Figure 1-19: Multidimensional Disadvantage Index at the state and region level, 2014	15
Figure 1-20: Selected indicators of social exclusion, by ethno-linguistic group (mother tongue), 2015	19
Figure 1-21: Selected indicators of social exclusion, citizen-card holders vs. nonholders, 2015	19
Figure 2-1: Share of agriculture in GDP and income level, 2011 and 2016	23
Figure 2-2: Share of services in GDP and income level, 2011 and 2016	23
Figure 2-3: Sectoral contribution to growth, 2011–2016	23
Figure 2-4: Agriculture value added per square kilometer of agricultural land, 1990–2015	24
Figure 2-5: Yields of paddy, pulses, and sugar cane, 2001/02–2016/17	24
Figure 2-6: Share of employed, by sector, seven-day recall, 2005 and 2017	25
Figure 2-7: Number of companies registered with DICA, 2006–2016	25
Figure 2-8: Distribution of new permitted investments across key sectors, 2013–2017	25
Figure 2-9: Savings and Investment, 2000–2017	26
Figure 2-10: Contribution to growth, by expenditure, 2011–2017	27
Figure 2-11: Investment as percentage of GDP, 2011 and 2017	27
Figure 2-12: Factor contributions to growth, 2011–2017	27
Figure 2-13: Share of capital spending, 2013/14–2018/19	28
Figure 2-14: Public-sector spending growth in current prices, 2013/14–2018/19	28

Figure 2-15: Foreign Direct Investment, by sector, 2011/12–2016/17	28
Figure 2-16: Take-offs in garment exports, Myanmar and comparators	28
Figure 2-17: Poverty rates, by source of income, separating those working in agriculture by landholding status, 2005 and 2015	30
Figure 2-18: Contribution of income and land groups to poverty reduction, within-sector vs. cross-sector, 2005–2015	31
Figure 2-19: Share of households receiving remittances, 2010 and 2015	34
Figure 2-20: Share of households receiving remittances from migration, 2015	34
Figure 2-21: Age-sex population pyramid, 1983 and 2014	35
Figure 2-22: Female labor force participation, 2005 and 2017 (urban)	35
Figure 3-1: Most firm expansions are financed from internal resources, 2016	39
Figure 3-2: Relatively few firms are still making use of the financial system, 2016	39
Figure 3-3: Tax/GDP vs. GDP/capita, 2010–2016 average	41
Figure 3-4: Tax/GDP across regions, 2000–2016	41
Figure 3-5: Recurrent spending vs. per capita GDP, 2010–2016 average	42
Figure 3-6: Capital spending by Union ministries, 2011/12–2016/17	42
Figure 3-7: Spending growth (index, 2013/14 = 100)	43
Figure 3-8: Functional spending allocations in Myanmar and LMICs, share of GDP, 2015 vs. 2019	43
Figure 3-9: Sectoral spending as share of Union capital spending, 2011/12–2014/15	43
Figure 3-10: Capital-budget execution, by ministry, four-year average 2011/12–2014/15	43
Figure 3-11: Creating fiscal space and resilience	44
Figure 3-12: Distribution of jobs, by type, 2015	46
Figure 3-13: Relationship between size and productivity of manufacturing firms, 2015	46
Figure 3-14: Key obstacles faced by the private sector in Myanmar, share of respondents identifying each constraint, 2014 vs. 2016	47
Figure 3-15: Doing Business 2018 distance to frontier, 2018	48
Figure 3-16: Trade Facilitation Index, 2018	48
Figure 3-17: Number of export lines	49
Figure 3-18: Economic complexity, 1990–2014	49
Figure 3-19: Current gross export value, by category, 2005–2016	49
Figure 3-20: Current gross import value, by category, 2005–2016	49
Figure 3-21: Percentage of firms that are exporting	49
Figure 3-22: Cumulative distribution of Myanmar output per employee in Myanmar export baskets, 2010 vs. 2015	49
Figure 3-23: Distribution of key characteristics of firms in different areas, 2015	50
Figure 3-24: Distribution of age of firms across different sectors, 2015	51
Figure 3-25: Quality of Myanmar transport infrastructure, 2015	52
Figure 3-26: Myanmar logistic performance, 2018	52
Figure 3-27: WEF Digital Readiness Index, 2016	52
Figure 3-28: Quality of electricity infrastructure, 2016	53

Figure 3-29: Electricity sector projected financial deficit, FY17/18 to FY20/21 estimates	53
Figure 3-30: Share of households with access to grid electricity, Myanmar and EAP, 2000–2017	55
Figure 3-31: Main source of electricity, 2005–2017	55
Figure 3-32: Agricultural Transformation of Myanmar, 2005–2015	57
Figure 3-33: Paddy yields 2009–2018, international comparison, 2009–2018	57
Figure 3-34: Paddy exports 2014–2018, top world exporters, 2014–2018	57
Figure 4-1: Conflict deaths by state/region over time, 2010–2018	63
Figure 4-2: Human Capital Index vs. GDP per capita, Myanmar and comparators, 2017	70
Figure 4-3: Myanmar’s performance on the Human Capital Index, by component, 2017	70
Figure 4-4: Stunting rate among children under five, Myanmar and EAP, 2000–2015	71
Figure 4-5: Stunting rates, by gender, mother’s education, and wealth quintile, 2015	71
Figure 4-6: Share of population with access to at least basic drinking water, Myanmar and EAP comparators, 2000–2015	72
Figure 4-7: Share of households reporting “bush/field” or “none” as main toilet facility, by state/region, 2014 vs. 2017	72
Figure 4-8: Total expenditure on health, Myanmar, EAP, and World, 2016	72
Figure 4-9: Public expenditure on health, Myanmar, EAP, and World, 2016	72
Figure 4-10: Enrollment rates, 2010 and 2017	75
Figure 4-11: Grade completion rates among 13- to 18-year-olds, 2015	75
Figure 4-12: Share of students who could not read a single word in grade 2, in different samples and years, and according to wealth	75
Figure 4-13: Literacy rates, by age group, 2017	75
Figure 4-14: Selected indicators of social inclusion: urban/rural divide, 2010 and 2015	77
Figure 4-15: State/region performance on nonmonetary indicators of wellbeing, 2017	77
Figure 4-16: Stunting rates for children under 5 years old, by state/region, 2015	77
Figure 4-17: Multidimensional disadvantage index at the township level, 2014	77
Figure 5-1: Forest cover and loss, 2002–2014	84
Figure 5-2: Soil and marine degradation, latest available year	84
Figure 5-3: Cost of continuing current pattern of use of marine resources	85
Figure 6-1: Civil-service wage bill as a percentage of GDP, 2015	94
Figure 6-2: Civil-service wage bill as a percentage of expenditures, 2015	94
Figure 6-3: 2018 E-Government Development Index	97
Figure 6-4: Public-sector wage premium, 2015	98

BOXES

Box 1-1:	Myanmar’s conflicts and how they have shaped Myanmar’s development trajectory	6
Box 1-2:	Muslims living in Rakhine are the most socially excluded group in Myanmar	18
Box 4-1:	The origins of a “contested union” and constitutional arrangements since 1947	65
Box 6-1:	Changes to the General Administration Department	93

TABLES

Table 0-1:	Overview of Pathways with Priority Areas and key Policy Actions	xiv
Table 4-1:	Estimated EAO troop numbers, by NCA and non-NCA groups	64
Table 4-2:	Female representation in government	68
Table 6-1:	Public-sector wage premium for various employment characteristics, 2015	98
Table 7-1:	Expected timing and impact of Priority Areas	102
Table 7-2:	Policy Actions for Priority Areas under Pathway 1	104
Table 7-3:	Policy Actions for Priority Areas under Pathway 2	107
Table 7-4:	Policy Actions for Priority Areas under Pathway 3	109
Table 7-5:	Policy Actions for Priority Areas under the Cross-cutting theme of Public Institutions	110
Table a:	Political and economic developments by period	113
Table b:	Priorities of Myanmar’s first SCD (2014)	115
Table c:	Available surveys and censuses	116

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Abbreviations

AA	Arakan Army	GW	Gigawatt
ABSDF	All Burma Students' Democratic Front	HCI	Human Capital Index
ACC	Anti-Corruption Commission	HDI	Human Development Index
ACLED	Armed Conflict Location & Event Data	ICT	Information and Communications Technology
ADB	Asian Development Bank	IDP	Internally Displaced People
ALP	Arakan Liberation Party	IHLCA	Integrated Household Living Conditions Assessment
AFPFL	Anti-Fascist People's Freedom League	ILO	International Labour Organization
ARSA	Arakan Rohingya Salvation Army	IMF	International Monetary Fund
ASEAN	Association of Southeast Asian Nations	IOM	International Organization for Migration
ATM	Average Time to Maturity	IRD	Internal Revenue Department
CBM	Central Bank of Myanmar	IYCF	Infant and Young Child Feeding
CMP	Cut-Make-Pack	KIO	Kachin Independence Organization
CNF	Chin National Front	KNA	Kuki National Army
CSC	Citizenship Scrutiny Cards	KNLA-PC	Karen National Liberation Army Peace Council
CSO	Civil Society Organization	KNPP	Karenni National Progressive Party
DG	Director General	KNU	Karen National Union
DHS	Demographic and Health Survey	LDU	Lahu Democratic Union
DICA	Department of Investment and Company Administration	LIFT	Livelihoods and Food Security Fund
DKBA	Democratic Karen Benevolent Army	LMIC	Lower Middle-Income Countries
DRM	Disaster Risk Management	LPG	Liquefied Petroleum Gas
DSA	Debt Sustainability Assessment	MADB	Myanmar Agriculture Development Bank
EAO	Ethnic Armed Organization	MBS	Myanmar Business Survey
EAP	East Asia and the Pacific	MCCT	Maternal and Child Cash Transfer
EBA	Everything But Arms	MCIL	Myanmar Citizen Investment Law
ECD	Early Childhood Development	MDI	Multidimensional Disadvantage Index
EGRA	Early Grade Reading Assessment	MFI	Microfinance Institutions
EHO	Ethnic Health Organization	MIMU	Myanmar Information Management Unit
EIA	Environmental Impact Assessment	MLCS	Myanmar Living Conditions Survey
EITI	Extractive Industries Transparency Initiative	MMK	Myanmar Kyat
EMDE	Emerging Market and Developing Economy	MMR	Myanmar
EU	European Union	MNDAA	Myanmar National Democratic Alliance Army
FAO	Food and Agriculture Organization of the United Nations	MOALI	Ministry of Agriculture, Livestock and Irrigation
FDI	Foreign Direct Investment	MOE	Ministry of Education
FY	Fiscal Year	MOPF	Ministry of Planning and Finance
GAD	General Administration Department	MOHA	Ministry of Home Affairs
GDP	Gross Domestic Product		
GoM	Government of the Republic of the Union of Myanmar		
GSP	Generalized System of Preferences		

MOHS	Ministry of Health and Sports	SLORC	State Law and Order Restoration Council
MOLIP	Ministry of Labour, Immigration and Population	SME	Small Medium Enterprise
MONREC	Ministry of Natural Resources and Environmental Conservation	SOE	State-Owned Enterprises
MOU	Memorandum of Understanding	SPS	Sanitary and Phytosanitary Services
MP	Member of Parliament	SSA-N	Shan State Army-North
MPLCS	Myanmar Poverty and Living Conditions Survey	SSPP	Shan State Progress Party
MSDP	Myanmar Sustainable Development Plan	TNLA	Ta'ang National Liberation Army
MSF	Médicins Sans Frontières	TDAC	Township Development Affairs Committees
MSME	Micro, Small and Medium Enterprises	TFP	Total Factor Productivity
MTDS	Medium Term Debt Strategy	TVET	Technical and Vocational Education and Training
MTFF	Medium Term Fiscal Framework	UHC	Universal Health Coverage
MTO	Medium Taxpayer Office	UN	United Nations
NCA	Nationwide Ceasefire Agreement	UNCTAD	United Nations Conference on Trade and Development
NCDDP	National Community Driven Development Program	UNDP	United Nations Development Program
NDAAESS	National Democratic Alliance Army Eastern Shan State	UNEP	United Nations Environment Program
NDC	National Determined Contribution	UNFCCC	United Nations Framework Convention on Climate Change
NECC	National Economic Coordination Committee	UNHCR	United Nations High Commissioner for Refugees
NGO	Non-Governmental Organization	UNODC	United Nations Office on Drugs and Crime
NLD	National League for Democracy	UNPF	United Nations Population Fund
NMSP	New Mon State Party	UPC	Union Peace Conference
NRC	National Registration Card	US	United States
NSCN-K	National Socialist Council Nagaland-Khaplang	USAID	United States Agency for International Development
OECD	Organization for Economic Cooperation and Development	US\$	United States Dollar
PAS	Protected Area System	USDA	United States Department of Agriculture
PFE	Permanent Forest Estate	UWSO	United Wa State Army
PNLO	Pa-O National Liberation Organization	VAT	Value-Added Tax
PPF	Protected Public Forest	VFV	Vacant, Fallow and Virgin
PPG	Public and Publicly Guaranteed	VTA	Village Tract Administrators
PPP	Public Private Partnership	WASH	Water Sanitation and Hygiene
PPP	Purchasing Power Parity	WDI	World Development Indicators
PS	Permanent Secretary	WDR	World Development Report
PSLF	Palaung State Liberation Front	WEF	World Economic Forum
RCSS	Restoration Council of Shan State	WGI	Worldwide Governance Indicators
R&D	Research and Development	WHO	World Health Organization
RF	Reserved Forest	YCDC	Yangon City Development Committee
SCD	Systematic Country Diagnostic		
SCI	Statistical Capacity Indicator		
SEE	State Economic Enterprise		
SEZ	Special Economic Zone		

Executive Summary

- i. **Myanmar is endowed with a wealth of natural resources and a strategic location between China and India, surrounded by 40 percent of the world's population.** Adding to its strategic position are 1,200 miles of uninterrupted coastline that stretch from the Bay of Bengal to the Andaman Sea, and a wealth of natural resources. It has enormous potential to translate these assets into progress for its 53 million people.
- ii. **Myanmar is a nation in transition, seeking to break with a past marred by authoritarian rule, economic mismanagement, and multiple conflicts that persist today, driven by social exclusion and predatory natural resource extraction.** The country's opening, in 2011, and the first democratic elections, in 2015, marked critical turning points for Myanmar, generating a wave of optimism. The Nationwide Ceasefire Agreement (NCA) started a new political dialogue on what the future structure of a democratic and inclusive Myanmar state could look like. Reforms led to remarkable progress on economic growth and improved living standards. Progress on economic transition has been substantial, whereas progress on political transition has been moderate, and progress towards peace more modest.
- iii. **The momentum of the transition has slowed recently. Resolute policy action is needed to accelerate growth and share its benefits more widely.** Weak state response to the Rakhine crisis, heightened violence in Kachin, Shan, and Chin, and unsteady progress on harder, second-generation economic reforms until recently have exposed the complexity of the transition process and revealed challenges to inclusive development. The military response in Rakhine State in 2017 against people who self-identify as Rohingya,¹ which led to loss of human lives and the forced displacement of about 725,000 refugees to Bangladesh, exposed the limits of the democratic transition and was met by widespread international condemnation. Global economic uncertainty presents an additional challenge. In 2019, especially after the cut-off point for the analysis presented in this document,² economic reforms have picked up. Reviving and sustaining progress in the three intertwined dimensions of the transition—from a planned to an open market economy, from military to civilian rule, from conflict to peace—will require deeper reforms and greater state institutional capacity.
- iv. **This Systematic Country Diagnostic is the second prepared by the World Bank since it reengaged with Myanmar in 2012.** Building on the much larger body of data and evidence available today, it explores the drivers of Myanmar's growth and poverty-reduction performance since the country's opening, identifies the challenges to maintaining and improving this performance, and defines three pathways to address the challenges that lie ahead. In doing so, it examines government policies up to April 2019, including those set out in the 2018 Myanmar Sustainable Development Plan (MSDP).

Despite a legacy of conflict, poor economic management, and a uniquely complex transition, Myanmar's opening led to strong economic performance

- v. **Decades of civil conflict and tight military rule have marked Myanmar's political, social, and economic life since its independence from British rule in 1948, and they still affect the country**

1 In line with the Report of the Advisory Commission on Rakhine State (2017), the remainder of the document will refer to those who self-identify as Rohingya as "Muslims" or "the Muslim community in Rakhine". This does not include the Kaman Muslims in Rakhine or other Muslims in the country.

2 The analysis presented in the SCD was completed in April 2019. Data released since this date and policies enacted in recent months (e.g. banking sector, electricity tariff reforms) are not reflected in this document.

today. Myanmar is home to some of the longest and most complex civil wars in the world, many dating from independence, when rebellions erupted across the country and numerous ethnic groups took up arms. These conflicts have cost thousands of lives, diverted resources from public services, and threatened the unity of the country. Against this backdrop, Myanmar's military, the Tatmadaw, represented itself as a force for unity and governed the country for half a century. Those decades were marked by brutal repression of dissent and public debate. The Burmese Way to Socialism was launched in 1962: industries were nationalized; trade, currency, fiscal management, and banking were centralized; and the country did not begin to open up to a market economy until the 1990s. Some elements characterizing those decades still affect Myanmar today, and efforts to address them will take time.

- vi. **Since 2011, a triple transition has been underway in Myanmar.** The transition is simultaneously transforming the country's institutional and governance structures, reforming its economic, political, and social spaces, and seeking peaceful solutions to long-running civil conflicts. These shifts are part of a managed, long-term process, in which the military retains one-quarter of the votes in parliament and continues to lead three key ministries. The transition is also contested, as multiple ethnic armed organizations continue to battle for greater autonomy, and groups seek to shape the future of an eventual federal state. This transition is redefining the social contract between the state and its people, and the relationships between different communities living in the country. It is doing so under the stewardship of a civilian administration, long in waiting and gaining new governance experience, charged with bringing progress across multiple policy areas while managing the sensitive relationship with the military.
- vii. **The country's opening—both *inwards* through democratic reforms and *outwards* through trade, investment, and migration—delivered immediate gains, and high expectations of continued progress.** Myanmar's economy grew at the extraordinary rate of 7 percent annually between 2011 and 2017—among the five fastest-growing countries in the world, and second only to China in the region in terms of historical growth acceleration. Capital accumulation, supported by foreign direct investment and, to a lesser extent, productivity improvement, contributed to this development. Growth improved living standards and helped to lift millions out of poverty. Poverty declined from 48 percent in 2005 to 32 percent in 2015, and it is estimated at 25 percent in 2017.³ Basic infrastructure and services expanded. The share of households using candles as their main source of lighting plummeted from nearly 50 percent in 2005 to just 7 percent in 2017, as the public grid expanded and solar technology took off. The country also embraced the ICT transformation: mobile phones became pervasive, with 81.5 percent of households owning a phone, the vast majority internet capable.

Widening disparities, unsteady economic reform momentum, and environmental risks challenge further progress

- viii. **Despite significant progress, growth has not been as pro-poor and inclusive as it could have been.** In contrast to the remarkable economic growth, the rate of poverty reduction, at 6.4 percent annually from 2010 to 2015, was close to the global average, and modest in comparison to Myanmar's peers in East Asia and the Pacific (EAP). Myanmar is one of the few countries in the EAP region where the income of the bottom 40 percent of the population grew more slowly than the national average (2.0 vs. 2.8 percent annualized growth) from 2005 to 2015. Inequality has been rising over the same period, along with steady urbanization. Those with land, capital,

³ The updated poverty headcount for 2017, based on the 2017 Myanmar Living Conditions Survey (MLCS), was released in late June 2019, and is reported here. The poverty analysis presented in this report, however, was completed in April 2019, ahead of the public release of new data. It thus covers the period up to 2015.

and education saw faster improvements following the country's opening. Other inequalities persist, with rural areas, conflict-affected states, and ethnic and religious minorities lagging in most dimensions of welfare—from stunting to educational attainment and access to electricity and basic sanitation. Improvement in these dimensions is fundamental for a fair start in life, and for the opportunity to move out of poverty and vulnerability.

- ix. **The momentum of transition has started to wane, and with it the optimism that had characterized the early transition years.** Economic growth has decelerated from 8 percent in 2014/15 to an estimated 6.2 percent in 2017/18. The exchange rate and inflation are volatile. Fiscal resources remain extremely limited, with a tax-to-GDP ratio among the lowest in the world. Historically, State Economic Enterprises (SEEs) provided the largest share of public revenues, but they have now become net loss-makers, contributing to the fiscal deficit. Efforts towards deepening the decentralization agenda were visible in recent years, for example with initiatives distributing fiscal resources. Decision-making remains, however, rather centralized, and public institutions could better reflect Myanmar's diversity. Progress on the NCA has stalled, and violence has intensified. Little progress has been made in addressing the underlying causes of violence and exclusion in Rakhine, including the lack of freedom of movement or a viable pathway to citizenship for Muslim communities. Exclusion along ethnic, religious and geographic lines has fueled grievances that at times have resulted in violence in many states, underscoring the nation's fragility as it undergoes transition.
- x. **Structural transformation has been slow, impeded by high cost of doing business, especially for small and medium enterprises (SMEs).** According to government data, the number of private firms registered through the Department of Investment and Company Administration (DICA) nearly doubled, from 30,407 in 2012 to 58,789 in 2015. Despite this welcome development, large conglomerates, some with foreign investors, still account for a large part of private sector activity. Decades of isolation from regional markets—despite membership in ASEAN—also have left global value chains underdeveloped, and few firms are innovating. About 85 percent of workers still are employed in informal activities that face considerable challenges (Labour Force Survey 2015). Basic factors of production such as finance, land, and electricity are expensive and difficult to access.
- xi. **The potential for agricultural growth is still unfulfilled, although this sector is key for poverty reduction.** Agriculture accounts for about 70 percent of jobs in rural areas and among poor households. Incomes from agriculture have contributed to at least half of poverty reduction in the last decade. Myanmar's agricultural exports have been highly responsive to the opening of trade opportunities in recent years, but overall productivity is constrained. Agricultural growth is limited by thin input markets, reflecting the broader investment climate, and poor institutional infrastructure such as irrigation, extension, and marketing services. Low-quality physical infrastructure reduces productivity and limits value-chain potential.
- xii. **Infrastructure investment has not followed the pace of development.** Myanmar has one of the lowest electrification rates in Southeast Asia (42 percent in 2018) and the average annual consumption per capita (193 kWh per person in 2016) is 3.5 times lower than the average for developing countries in the EAP region. Regulated tariffs are below costs, which limits private investment in the sector. It is estimated that around 20 million people, or half of the rural population, lack basic road access. Despite a doubling in the number of vehicles since 2012, the current level of investment in transport, from both public and private sources, is estimated at 1–1.5 percent of GDP, compared to 3–4 percent of GDP in other countries at a similar stage of development. The potential to leverage ICT solutions to connect people to services, markets, and institutions is still largely untapped.

- xiii. **Investment in human capital remains insufficient, and Myanmar’s demographic advantage will soon begin to diminish.** The global Human Capital Index (HCI) estimates that children born in Myanmar today can expect to be only 47 percent as productive when they grow up as they would be with access to high-quality health, nutrition, and education services. This is well below the HCI of many of Myanmar’s neighbors. Lack of skilled employees is cited by firms as one of the main constraints to growth, and this is due to dramatic underinvestment by the state in basic service-delivery systems. While public spending on education, health, and social protection has risen rapidly in recent years, and human development outcomes have improved, this only partly reverses the historical neglect of human capital investments. Inadequate efforts to reach the most underserved and disadvantaged have also limited the potential of Myanmar’s human capital to contribute to the economy. Myanmar’s demographic transition from a youthful to an aging population is likely to be short—only about 25 years according to current demographic projections. Ensuring that those who enter the workforce in the future have the appropriate skills and access to health care is a key element of a high-growth scenario.
- xiv. **The current use of natural resources increases risks to sustainable growth.** Reliance on nonrenewable assets and mismanagement of natural resources are depleting natural capital (minerals, fisheries, forests), to the advantage of a small elite and without generating broad gains for the population at large. Deforestation in Myanmar is among the fastest in the world. The current use of natural resources, together with challenges emerging from steady urbanization, is accelerating environmental degradation and affecting water quality, with consequences for livelihoods and health. Disaster risks are also heightened, but preparedness to withstand and mitigate the impact of weather and climate-induced shocks, to which the country is highly exposed, is limited.
- xv. **Recent policy responses have shown a will to tackle challenges.** Recent steps to open the wholesale, retail, insurance, and banking sectors to foreign investment could potentially spur growth and poverty reduction, as did the opening of the telecommunications sector in the early transition period. Stepped-up investments in nutrition, basic education, and social protection systems bear promise. Legal and regulatory frameworks for environmental management have been introduced. Importantly, Myanmar has recently laid out a comprehensive vision for its future as a democratic, peaceful, and prosperous country, in the form of the MSDP.

Reforms need to be deepened and transition benefits shared more widely

- xvi. **Today, building on the deep changes initiated during the early transition, Myanmar may wish to follow three interrelated paths to revive growth momentum, share the benefits of growth more widely, and ensure sustainability for future generations.** Doing so will require bold policies and farsighted and inclusive institutions to drive reforms. Table 0-1 below summarizes prioritized policy areas and actions for progress within the following three pathways:

Pathway 1: Strengthening economic and financial sector management to sustain growth and job creation

- xvii. **Economic reforms now need to go deeper for strong, continuing growth.** Thus far, Myanmar has focused mostly on getting the fundamentals right. This has generated immediate gains. Reducing fiscal deficits and financing less of those deficits from a more independent central bank has lowered inflation and supported the unification of the exchange rate. Opening sectors such as telecommunications and manufacturing to investment, especially from abroad, and

deregulating trade has shrunk the trade deficit, increased employment, and made a wider range of goods and services available at lower prices. But sustaining long-term economic progress requires strengthening these foundations and building on them. Second-generation reforms to support infrastructure and efficient markets will be harder, but the benefits can be longer lasting—reforms such as raising electricity tariffs to cost-recovery levels while protecting low income users; following through on well-regulated foreign investment in the banking, insurance, and retail sectors; and gradually deregulating bank interest rates. These reforms will raise the potential for growth by stimulating the private sector through the power of competition and connecting people to services and markets without discrimination.

Pathway 2: Building inclusive institutions and human capital for all to foster peace and shared prosperity

- xviii. **Myanmar needs a greater focus on inclusion to take full advantage of opportunities to promote peace, build shared prosperity, and reduce poverty.** Sharing the benefits of the transition more widely across geographic areas and income groups will not only be key to reducing poverty but will also increase the potential for peace and sustained growth going forward. A stunting rate of 29 percent, middle school enrollment of just 71 percent, and lack of year-round access to basic water for more than 30 percent of the population will be felt for years to come, as these disadvantages limit the full productive potential of human capital. Inequality in welfare and in access to quality basic services, based on location and identity, fuels grievances that have at times turned violent. Addressing these gaps is even more crucial in the face of a peace process that has lost momentum and the crisis in Rakhine State. More representative institutions and equitable fiscal arrangements that balance power and responsibility between the center and the states and regions, together with cooperation with nonstate providers of services in conflict-affected areas, can help stabilize the country. They can also ensure that service delivery effectively meets differing local needs. This will avoid tensions that might reverse the economic advances of recent years, foster peace, and build investor confidence. At the same time, underlying formal and informal barriers to the inclusion of ethnic and religious minorities will need to be addressed. Effective and equitable investments in improved service-delivery systems will also result in a stronger human capital base, and this will unleash greater productivity and economic growth for decades to come.

Pathway 3: Managing natural endowments sustainably and building resilience for long-term prosperity

- xix. **Enhancing environmental sustainability and managing disaster risks are also critical for long-lasting and inclusive growth.** Growth should not come at the expense of future generations. Nor should it deplete natural resources and damage the environment in a way that negatively impacts livelihoods and risks the safety of the population today, particularly the poorest. Myanmar needs to change the way it manages, monitors, and uses its wealth of natural assets. More equitable legal frameworks are needed for the use of land, forests, and fisheries. Myanmar could also do more to manage environmental degradation and disaster risks linked to steady urbanization—for example, by improving urban planning and waste management. The country can go beyond managing the impact of degradation and attempt to reverse it—for example, by implementing the National Forest Rehabilitation and Restoration Program. Similarly, the country needs to increase its preparedness for weather- and climate-related shocks and other natural disasters such as earthquakes, in addition to mitigating their consequences.

Cross-cutting: Reforming public institutions for effective and equitable policy implementation

- xx. **Strong institutions are needed to effectively pursue this broad and challenging agenda.** Implementing priority reforms highlighted in this SCD and realizing the MSDP vision with which they are aligned will require better performance from public institutions that coordinate and monitor policymaking and implementation. At both the central and local level, old habits and institutions need to be modernized to support forward-looking policies, including policies that can further accelerate economic growth, and promote a healthy private sector, better public service delivery, and enlightened management of natural assets. A more representative, effective, and efficient public sector is within reach. Myanmar has already taken steps, on which it can build, to empower the National Economic Coordination Committee (NECC), create a modern public financial management system, improve data generation and evidence-based policymaking, and realize the potential of digital solutions for governance and service delivery.

Table 0-1 | Overview of Pathways with Priority Areas and key Policy Actions

Pathway	Priority Area	Policy Action 1	Policy Action 2	Policy Action 3	Priority Level
1. Strengthening economic and financial-sector management to sustain growth and job creation.	1.1 Maintain fiscal balance and macroeconomic stability.	Collect more revenues.	Spend more and better.	Manage macro-fiscal risks.	HIGH
	1.2 Develop a sound, efficient, and inclusive financial system.	Maintain financial-sector stability.	Deepen the financial market.	Pursue financial access.	MEDIUM
	1.3 Strengthen the environment for investing and operating businesses.	Improve connectivity and integration with international markets.	Increase coherence in investment policies and investment promotion.	Promote inclusion in developing the private sector.	MEDIUM
	1.4 Close the gap between supply and demand for infrastructure and technology.	Accelerate delivery of quality electricity services to reach all people in Myanmar by 2030.	Expand and improve transport connectivity.	Catalyze growth of the digital economy, for jobs and to prepare for the 4th Industrial Revolution.	HIGH
	1.5 Improve income-generation opportunities and accessibility in rural areas.	Improve productivity and diversification.	Match resources with the needs of rural communities.	Enhance competitiveness.	HIGH

Pathway	Priority Area	Policy Action 1	Policy Action 2	Policy Action 3	Priority Level
2. Building inclusive institutions and human capital for all to foster peace and shared prosperity.	2.1 Foster peace, social cohesion, and more inclusive governance institutions.	Strengthen the inclusiveness and representativeness of institutions, including through decentralization.	Promote social cohesion and social inclusion for durable solutions, including in Rakhine.	Reinvigorate the national peace process under the NCA.	HIGHEST
	2.2 Strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives.	Increase the effective coverage of essential services for those lagging behind.	Improve the quality of basic services.	Address vulnerabilities and prevent reversal of gains in human capital assets.	HIGH
	2.3 Ensure education for all and skills for productive employment.	Expand access to quality basic education, to ensure all children get a fair start.	Foster acquisition of needed skills through higher education and TVET.	Match people to jobs, and secure returns on investments in human capital.	HIGHEST
3. Managing natural endowments sustainably and building resilience for long-term prosperity.	3.1 Manage land and natural resources transparently, equitably, and sustainably.	Improve monitoring of natural resource production and use for better management of stocks and revenues.	Strengthen legal frameworks, and their implementation, for equitable resource use.	Halt and reverse depletion of natural capital and environmental degradation.	HIGH
	3.2 Build resilience to disasters and mitigate the impact of environmental degradation.	Mitigate risks arising from environmental degradation.	Foster disaster and climate resilience.	Strengthen emergency response and recovery.	MEDIUM
Cross-cutting: Reforming public institutions for effective and equitable policy implementation.	4.1 Improve effectiveness, transparency, and accountability of public sector institutions.	Increase the responsiveness and inclusiveness of policymaking.	Strengthen public financial management systems and administrative processes, including by leveraging ICT.	Improve quality and effectiveness of the civil service.	HIGH



1

THE COUNTRY CONTEXT

The Country Context

1 Myanmar is endowed with a wealth of natural resources and a strategic location between China and India, surrounded by 40 percent of the world's population. Adding to its strategic position are 1,200 miles of uninterrupted coastline that stretch from the Bay of Bengal to the Andaman Sea. Its soil is rich in resources—from the world's most precious rubies and jade, to reserves of oil and minerals. About 53 million people live in the country, which is divided administratively into seven regions (predominantly inhabited by Bamar, the largest ethnic group in the country), seven states (mostly inhabited by ethnic minorities), and a Union territory around Nay Pyi Taw, the capital city created just over a decade ago at the center of the country.

2 Despite its favorable geography, Myanmar has a complex history of isolation, conflict and underdevelopment, and a challenging legacy. Decades of civil conflict and tight military rule have marked Myanmar's political, social, and economic life since its independence from Britain in 1948, and still affect the country today. Myanmar is home to the longest and one of the most complex civil wars in the world, which began at the time of independence, when rebellions erupted across the country and numerous ethnic and communist groups took up arms. These conflicts have cost thousands of lives, diverted resources from the provision of public services, and threatened the unity of the country—and they continue to do so today. Against this backdrop, the Myanmar military, the *Tatmadaw*, positioned itself as a force for unity, governing the country for half a century. Those decades were marked by brutal suppression of dissent and public debate. In 1962, the government inaugurated the Burmese Way to Socialism, which nationalized industries and mismanaged the economy, leading the country to ruin.

3 In 2011 Myanmar opened up beyond the channels previously reserved for the privileged and powerful—both *inwards*, through democratic reforms, and *outwards*, through trade, investment and the movement of people. This process had an immediate effect on growth and is continuing today, but growth momentum is waning. The early reforms accompanying this new phase in Myanmar's history delivered rapid results in improving living standards.⁴ Per capita income rose by 50 percent, trade flows doubled, and foreign investment quadrupled. Myanmar's economy and trade grew faster than countries such as Vietnam, Lao PDR and Cambodia at the start of their transitions. But sustaining this progress going forward will require bold policies (as recently undertaken in the financial and electricity sectors) and farsighted and inclusive institutions to address structural challenges and a difficult legacy. Spreading prosperity more broadly will be key, especially where recent growth has led to increasing inequalities, and where exclusion dynamics have led to violent crises, as in Rakhine state.

4 At this critical juncture, the time is ripe for Myanmar to redouble its efforts to reduce poverty and promote shared, sustainable prosperity. The Systematic Country Diagnostic (SCD) seeks to inform this endeavor by identifying constraints and opportunities. The economic landscape has changed significantly since the first SCD was produced five years ago (see summary in annex B). This new SCD takes stock of those changes and their impact, up to April 2019.⁵ The data landscape remains constrained, but it is much improved compared to only a few years ago. As the space for transparency and public debate has opened so have possibilities to leverage evidence for effective policy making. The SCD thus aims to provide a comprehensive and integrative analysis, based on the unprecedented body of evidence available today and lessons from the early years of the transition.

5 The diagnostic is guided by five questions, addressed in separate chapters:

- What is the political, socioeconomic, and inclusion **context** of Myanmar, and how does that affect opportunities for progress in improving living standards for all (chapter 1)?
- What were the **drivers** of growth and poverty reduction over the past decade (chapter 2)?

⁴ See annex A for an overview of the key political and economic milestones in Myanmar's recent history.

⁵ The analysis presented in the SCD was completed in April 2019. Data released since this date and policies enacted in recent months (e.g. banking sector, electricity tariff reforms) are not reflected in this document.

- What are the **constraints** to accelerating and deepening economic growth (chapter 3), making progress more inclusive (chapter 4), and ensuring environmental sustainability and resilience (chapter 5) over the next five years?
- What **cross-cutting constraints**, related to state capability, inhibit progress (chapter 6)?
- Based on the above, what are the key **opportunities and policy areas** for sustaining and spreading growth and poverty reduction (chapter 7)?

6 **This SCD provides timely diagnostic of development constraints and opportunities, as the country prioritizes implementation of its Myanmar Sustainable Development Plan (MSDP)—the Government’s ambitious vision for creating a Peaceful, Prosperous and Democratic Myanmar.** Though an independent and candid diagnostic, the SCD provides analysis directly relevant to the policy discussions prominent today. The five Goals of the MSDP are regrouped and embedded within the three pillars of the SCD diagnostic: *growth, inclusion* and *environmental sustainability*. MSDP’s Goal 2, *Economic Stability and Macroeconomic Management*, and Goal 3, *Job Creation and Private-Sector-Led Growth*, are included in the growth pillar of the SCD. MSDP’s Goal 1, *Peace and Governance*, and Goal 4, *Human Resources and Social Development*, are covered in the inclusion pillar. MSDP’s Goal 5, *Natural Resources and the Environment*, matches the environmental sustainability pillar of the SCD. A visual representation of how the SCD analytical framework reflects the goals of the MSDP is provided in figure 1-1 and figure 1-2, by highlighting corresponding themes in the same color.

7 **To complement the analysis of Myanmar’s development challenges, the SCD examines underlying governance dynamics and how these shape policy design and implementation.** Drawing on an analysis of the political settlement in Myanmar, the SCD focuses on identifying core state capability traps that hinder the implementation of bold and effective policies (chapter 6).

8 **Pathways for progress, including concrete priority areas and policy actions within those, emerge from the diagnostic.** After assessing the constraints and risks to inclusive and sustainable growth, this document outlines pathways that could lead to progress over the next five years and beyond. For each of the five themes of analysis, mirroring the five MSDP goals, the document proposes areas for policy intervention, based both on the evidence analyzed and further consultations with technical experts and other stakeholders (see annex D for details). The relative urgency of these interventions, their transformational potential, and their impact on the well-being of various groups are considered, generating a prioritized set of policy areas. For each policy area, the SCD identifies concrete policy actions and outlines critical interventions to foster progress.

Figure 1-1 | SCD analytical framework

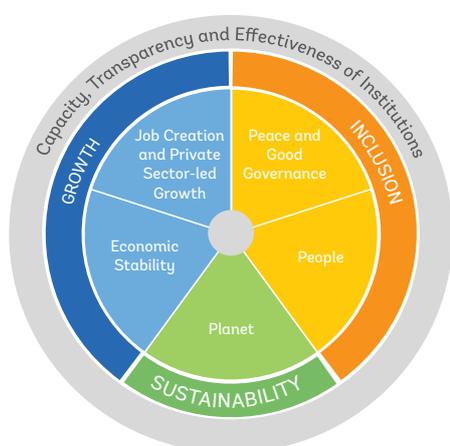
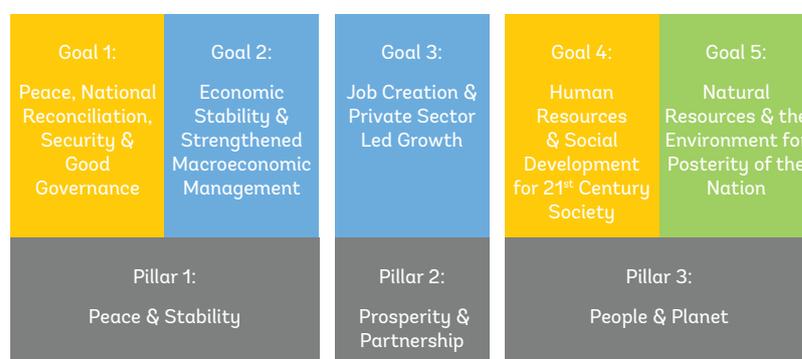


Figure 1-2 | MSDP pillars and goals, highlighted in color of corresponding SCD analytical area



1.1. An Incomplete Triple Transition

The momentous economic and political transition delivered some rapid results, but the transition is far from complete

9 **In 2011, Myanmar embarked on a momentous triple transition: from a planned economy to an open, market economy; from military to civilian rule; and from conflict to peace.** This transition marked a turning point, after five decades of military rule that had been accompanied by political isolation and poor economic management. Subnational conflicts, some dating back to the country's independence, raged in the country's border areas. Considered at the time of independence to be one of the wealthiest countries in Southeast Asia, by 2011 Myanmar lagged behind its neighbors in almost every measure of well-being and civic rights. In January 2011, a new parliament—the first in 23 years—became a key stepping-stone to multiparty democracy. A government led by an elected president was formed shortly thereafter. The opening of the two-chamber parliament meant the dissolution of the junta that had ruled Myanmar since 1988. While it was not the dawn of unfettered democracy—a quarter of the seats in parliament were still reserved for the military—the beginning of the transition brought a wave of economic reforms and newly invigorated efforts to find a resolution to the country's conflicts.

10 **This triple transition led to significant progress on many fronts.** The country has averaged 7 percent annual growth, and poverty declined from 48 percent in 2005 to 42 percent in 2010 and 32 percent in 2015; in 2017, poverty is estimated at 25 percent.⁶ The proportion of people using candles and kerosene for lighting fell from 40 percent in 2010 to 7 percent in 2017, and mobile phone ownership increased from 4.8 percent to 81.5 percent in the same period, with the majority of these phones being internet-connected smart phones. The political transition has seen the country's first free, fair, and open elections, with a peaceful transition of power to a new civilian government. Media censorship was scrapped in 2011, social media has played an increasingly active role in public debate, and a blossoming civil society has amplified the public voice and bolstered accountability mechanisms. More modest progress has occurred on the third transition. A Nationwide Ceasefire Agreement (NCA) has been signed by 10 out of 20 ethnic armed groups and has led to the start of a political dialogue on the future structure of a democratic, federal Myanmar.

11 **Yet the transitions are far from complete.** The political system is now a hybrid rather than fully civilian. The military is guaranteed one-quarter of seats in both houses of parliament and the 14 provincial assemblies, enough to block amendments to the constitution. It also controls three key ministries and is not under civilian oversight. While both governments since 2011 have made peace a top priority, clashes continue to occur in several states, especially Kachin and Shan. After a brief window of rapid liberalization and openness after 2011, the media and private citizens are increasingly fettered by strong anti-defamation clauses in the 2013 Telecommunications Law. The transition to a market economy has a way to go: Myanmar has one of the most difficult business environments in the world; there is still considerable government discretion in investment and operations; and key inputs for economic activity, such as finance, land, electricity, and skilled labor, are in short supply. Euphoria over the country's democratization and early political and economic reforms masked just how challenging it would be to address structural problems and deliver lasting development where institutional capabilities are still limited. Despite these challenges, reform efforts have again picked up as evidenced in recent moves to liberalize the insurance sector and carefully raise electricity tariffs.

12 **The violent forced exodus from Rakhine State of hundreds of thousands of people who self-identify as Rohingya exposed the limits to progress on democratization and peacebuilding in the country.** Military responses to attacks by the insurgent Arakan Rohingya Salvation Army in August 2017 drove around 725,000 people who self-identify as Rohingya⁷ to flee the state, ending up in refugee camps in Bangladesh,⁸ and

6 The updated poverty headcount for 2017, based on the 2017 Myanmar Living Conditions Survey (MLCS), was released in late June 2019, and is reported here. The poverty analysis presented in this report, however, was completed in April 2019, ahead of the public release of new data. It thus covers the period up to 2015.

7 In line with the Report of the Advisory Commission on Rakhine State (2017), the remainder of the document will refer to those who self-identify as Rohingya as "Muslims" or "the Muslim community in Rakhine". This does not include the Kaman Muslims in Rakhine or other Muslims in the country.

8 Report of the Independent International Fact-finding Mission on Myanmar, September 12, 2018, <https://documents-dds-ny.un.org/doc/UNDOC/GEN/G18/274/54/PDF/G1827454.pdf?OpenElement>.

thousands lost their lives. Another 300,000 people were already in Bangladesh camps after previous rounds of violence, and 130,000 have been confined to Internally Displaced People (IDP) camps in Central Rakhine since 2012. Myanmar has declared its commitment to the return of the displaced population, but it is not clear how a voluntary and dignified return meeting international standards will take place. Little progress has been made on addressing the underlying causes of the conflict in Rakhine, which include restrictions on freedom of movement and lack of a viable pathway to citizenship for the Muslim communities in Rakhine. Remaining Muslims continue to live segregated from Buddhists, and intergroup trust is low. The complexity of social dynamics and peace prospects in Rakhine were further exposed starting in January 2019, when the Arakan Army, a Buddhist group, attacked police forces, leading to an intensification of conflict in the state. Relations between Nay Pyi Taw and an increasingly nationalist Rakhine are strained and have recently worsened.

The *managed* and *contested* nature of the transition makes second generation reforms harder to implement

13 **Myanmar is experiencing a *managed* (or “*pacted*”) transition, which facilitated a rapid first wave of reforms, but which also exposes the country to challenges in adopting and implementing deeper reforms.** Myanmar’s opening was not the direct consequence of violent unrest or a failing state. Rather, the ruling elite chose to embark on the transitions, believing that it was in their own and the country’s interest. The transition was also long planned (Taylor 2012 and Egretau 2016). In 2003, the military announced a seven-step roadmap to a “discipline-flourishing democracy,” with parliamentary elections and an elected government the final step. This has resulted in a guided or managed transition, with rapid reform in some areas and continuity in others. Experience has shown that such “pacted” transitions, where a ruling elite makes a pact with other elites on the nature and speed of reform, can be more stable and lasting than revolutions from below (Lintz et al. 1996). However, in such transitions it is often more difficult to achieve deeper, second-generation reforms that may face opposition from vested interests, such as removing the military from politics, dealing with elite capture of resources, and creating a more inclusive political settlement. Myanmar is now facing such challenges.

14 **Vested interests and elite capture continue to hinder reforms and effective and equitable policies.** Resistance by the military to constitutional and policy reforms such as federalism and the decentralization of power, have stalled peace talks. In the banking sector, resistance has emerged to accelerated regulatory reforms, possibly from those with privileged access to banking services and related enterprises. In the telecom market, the most recent entry of a mobile phone provider, one connected to the military, tested the regulator’s willingness and ability to enforce anti-price-gouging rules.

15 **While the transitions have been managed, they have also been deeply *contested*, making future directions unpredictable.** Different groups in Myanmar have different, competing visions for how the transition should unfold. First, they differ on the best pace for strengthening the civilian nature of the state, the role the military should play, the scope of the market economy, and the extent to which vested economic interests should be dismantled or transformed. Second, they disagree on the degree of decentralization of political authority and what federalism should look like. Third, they differ on the nature of citizenship and the rights it affords, and how to manage the country’s ethnic and religious diversity.

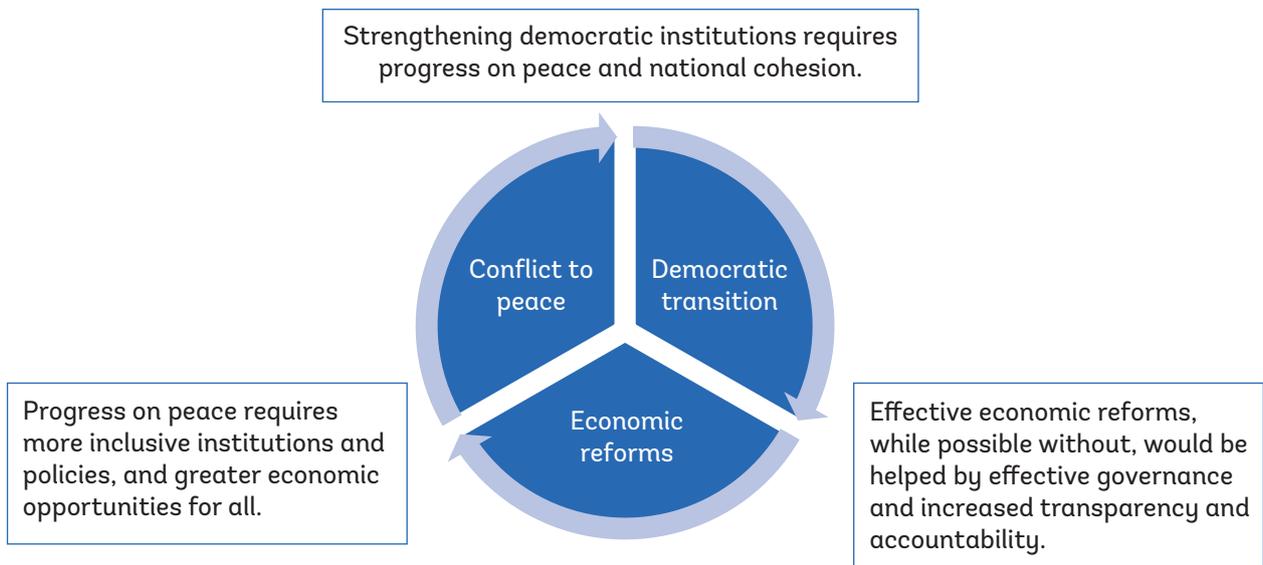
16 **Contestation in these three areas has fueled subnational conflicts and communal violence.** Subnational conflict affects one-third of the country’s townships (figure 1-4). While ceasefires have lowered levels of violence in many areas, clashes continue in others. More than six hundred people were killed in Shan and Kachin States from 2014 to mid-2017; there were over 1,000 clashes between government and ethnic armed groups in 2015 and 2016 (ACLED data). A wider return to conflict is a possibility. From 2012, incidents of anti-Muslim violence—from fleeting episodes to large-scale riots to the protracted violence in Rakhine—have occurred in most of the states and regions in the country, including the major urban areas of Yangon and Mandalay. Contestation has also led to limited progress in the political dialogue involving the government and ethnic armed groups and on constitutional reform.

17 **The three transitions are tightly interlinked: progress on each depends on progress on the others.** Deepening economic reform in ways that reduce poverty and increase shared prosperity requires stronger

political institutions and better governance, which in turn require further democratization. Strengthening democratic institutions also requires progress on peace. Continuing subnational conflicts and ethno-religious tensions have provided justification for the military’s role in politics and will continue to do so. Progress on peace also requires more representative and inclusive institutions, and policies that deliver tangible benefits to people in conflict-affected areas (figure 1-3).

18 **The recent Rakhine crisis exposed the risks to the economy linked to the other transitions.** Immediate effects of the crisis included slowing foreign direct investments (FDI) commitments and tourism growth. FDI commitments between April and September 2018 were half the level of the same period in 2017, and growth in tourist arrivals slowed from 7 percent in 2017 to 0.7 percent in 2018 (up to September). In the longer term, economic volatility and diminished prospects for foreign and domestic investment may lower Myanmar’s economic potential. The international community’s condemnation of the violence against Muslims and the persisting cross-border humanitarian crisis altered Myanmar’s international relations, with consequences that may include, for example, the repeal of preferential trade access to the European Union market. Domestically, lasting impacts on the triple transition are also possible. In the face of international pressure, the press has reported growing support for more nationalistic and isolationist positions and for the military, threatening the civilian government’s willingness and ability to advance the political and peace transitions.

Figure 1-3 | Myanmar’s interlinked transitions



Box 1-1: Myanmar’s conflicts and how they have shaped Myanmar’s development trajectory

Myanmar has been more deeply affected by subnational conflict—armed conflict over control of a subnational territory within a sovereign state—than any other country in Asia. In 2016, active or latent subnational conflict was present in over one-third of the country’s townships and 11 of Myanmar’s 14 regions and states. This is clearly displayed in figure 1-4 and figure 1-5, below. Across the country there are at least 20 nonstate ethnic armed organizations (EAOs), as well as hundreds of smaller splinter groups and government-affiliated militias. In many of these areas, EAOs hold territory that has never been fully controlled by the central government and operate parallel, state-like agencies that build roads, educate children, and provide healthcare.

The roots of the country’s subnational conflicts stretch back to the precolonial period. Wars between ethnic groups were common, yet peaceful interaction was also widespread, as was intermarriage between groups. Under British rule, ethnic identities hardened. Developing different governing structures for different groups, the British locked in what had often been fluid local identities, conducting censuses to map out the different “ethnic

“races” in the country. This politicization of ethnicity persisted in the structure of relations between groups after Burma gained independence in 1948.

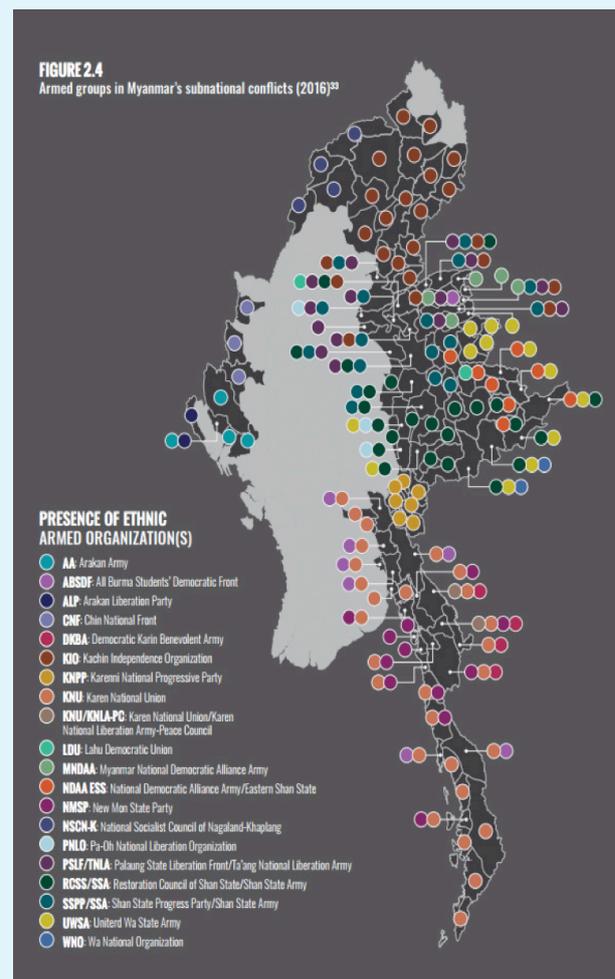
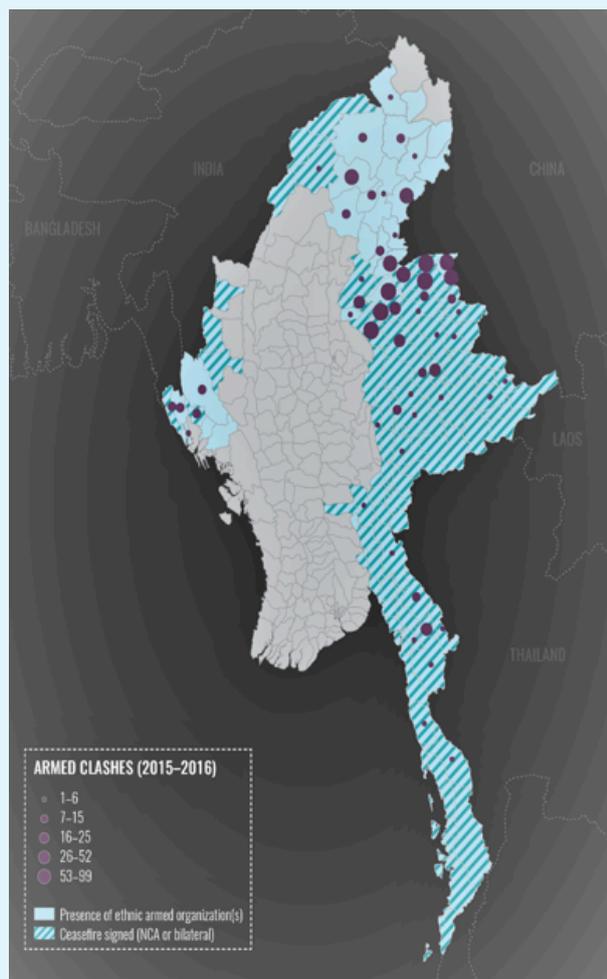
Following independence, several ethnic groups, including the Karen, Mon, and Rakhine, took up arms to struggle for sovereignty. The fight of the Karen National Union against the Myanmar state, which began in 1949, is possibly the longest-lasting civil war in the world. Other groups originally aligned with the government, such as the Shan, Kachin, and Chin, were in revolt by the 1960s. Repressive counterinsurgency responses by the military junta further fueled the revolts.

The persistence of conflict has shaped Myanmar’s institutional and development trajectory. The real or perceived threat of fragmentation of the country led the military to take a dominant role in politics. Fears about disintegration led to a coup in 1962, inaugurating five decades of military rule. Conflict further entrenched military power, with growing portions of the state budget flowing to the military. Deeper democratization and transformative institutional reform will not be possible without progress on the country’s multiple conflicts.

Ongoing conflicts have also blunted economic progress. Despite the prevalence of conflict, the economy has enjoyed substantial growth in recent years (see section 1.2, below). Yet, conflict also restricts Myanmar’s growth potential by limiting factor accumulation and productivity and creating risks and uncertainty. The diversion of funds to the security sector also limits progress.

Figure 1-4 | Subnational conflict areas, 2016

Figure 1-5 | Armed groups in Myanmar’s subnational conflicts, 2016



Source: Burke et al. 2017.

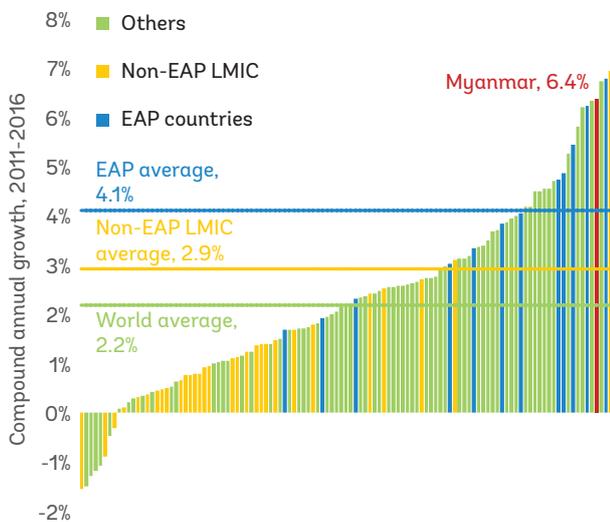
1.2. Economic Growth and Its Inclusiveness

The country’s opening led to strong growth and improved living standards

19 **Myanmar’s economic transition has similar characteristics to other transition economies.** While there are many approaches to economic transition (e.g., gradualism vs. “big-bang”), and historical conditions and external constraints vary, some common aspects of transition economics also apply to Myanmar. First, transitions tend to be accompanied by a rapid increase in exposure to trade. This occurs because the main effect of most transitions is to lower trade barriers on both the import and the export side. Second, transitions tend to have effect over long timeframes, and in some cases growth tends to accelerate only 5 to 10 years into the transition to market economy. Thus, it is important to remain patient and “stay the course” on reforms. Finally, transitions are often correlated with a slow investment build-up, or a rapid investment increase that only materializes several years into the transition.

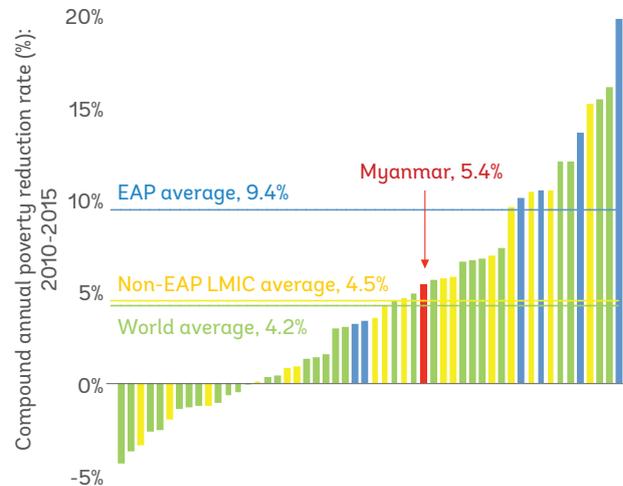
20 **However, Myanmar’s pace of growth in recent years has been exceptional compared to its past and its peers.** Between 2011 and 2016, GDP grew by an average of 7.3 percent per year, or 6.4 percent in per capita terms.⁹ This puts Myanmar among the five fastest-growing countries in the world,¹⁰ well above the average for lower-middle-income countries (3.3 percent in per capita terms) or for the East Asia and the Pacific (EAP) region (4.8 percent when excluding high-income countries) (figure 1-6). Myanmar’s post-transition growth performance has also been stronger than other post-transition economies in Asia.

Figure 1-6 | Ranked annual growth in GDP per capita for all countries, ca. 2011–2016



Source: World Development Indicators. Excludes oil producers and countries with population below one million.

Figure 1-7 | Ranked annual reduction in poverty rates for all countries (absolute values), ca. 2010–2015



Source: World Development Indicators. The figure uses national poverty rates. Survey periods are mostly five years, depending on data availability, covering ca. 2010–2015.

9 Official GDP data likely overestimates growth in the decade up to 2010, creating the perception of a growth deceleration after 2011 (see annex C on data sources).

10 Excluding oil exporters and small countries.

21 **Myanmar also stands out in relation to other transition economies with respect to when its investment acceleration began, and its pace.** While the data is limited, it appears that investment began to pick up in 2003, rising from 10 percent of GDP that year to 16 percent in 2010, well before the market transition started in earnest. This was probably due, however, to the capital expenditure for offshore gas production and the construction of the new capital, Nay Pyi Taw, which was an element of the political transition. In contrast to overall capital formation growth, foreign direct investment remained stable from 2006 to 2011, at about 3 percent of GDP, and increased to 7 percent of GDP in 2015. In Vietnam and China, and to some extent in Cambodia, strong FDI inflows occurred later in the transition.

Figure 1-8 | GDP growth since start of transition, Myanmar and comparators

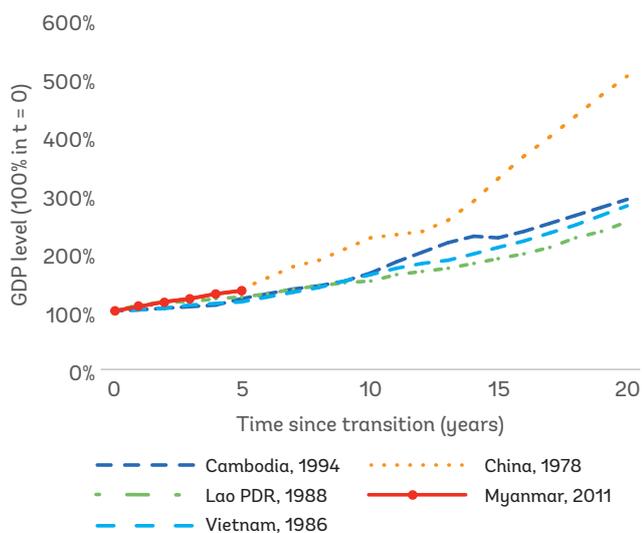


Figure 1-9 | Domestic investment since start of transition, Myanmar and comparators

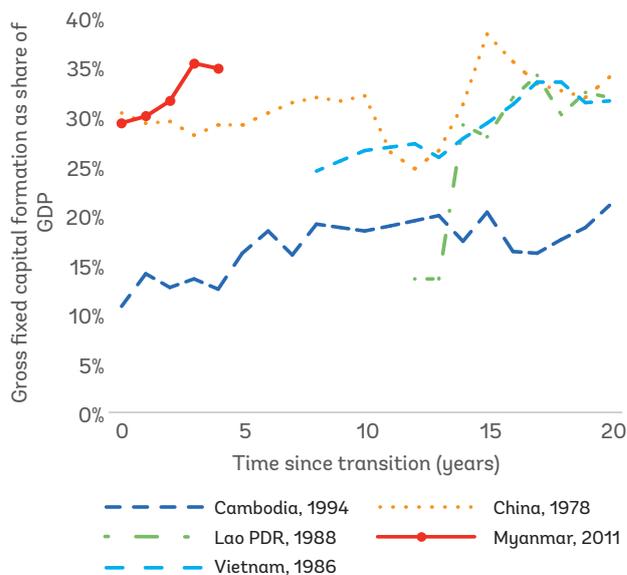


Figure 1-10 | Foreign direct investment (FDI) as share of GDP since start of transition, Myanmar and comparators

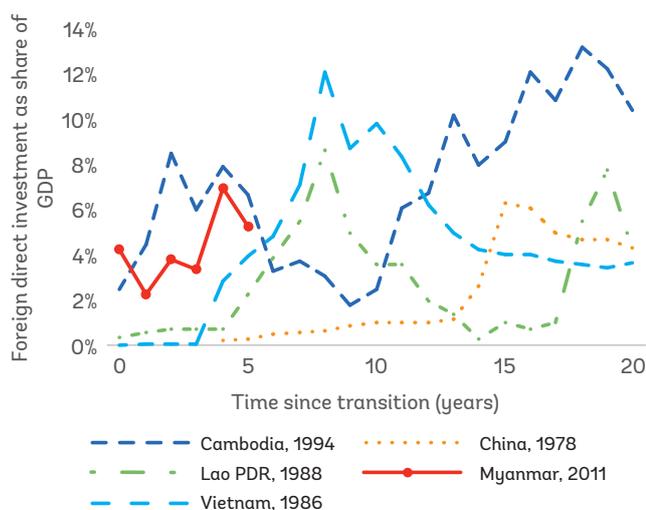
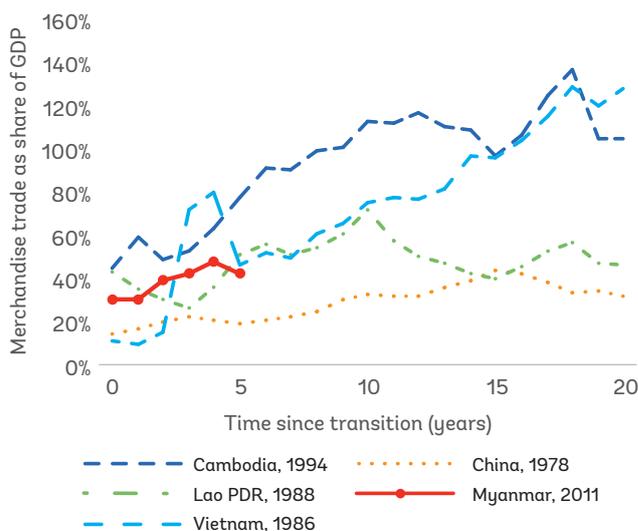


Figure 1-11 | Merchandise trade as share of GDP since start of transition, Myanmar and comparators



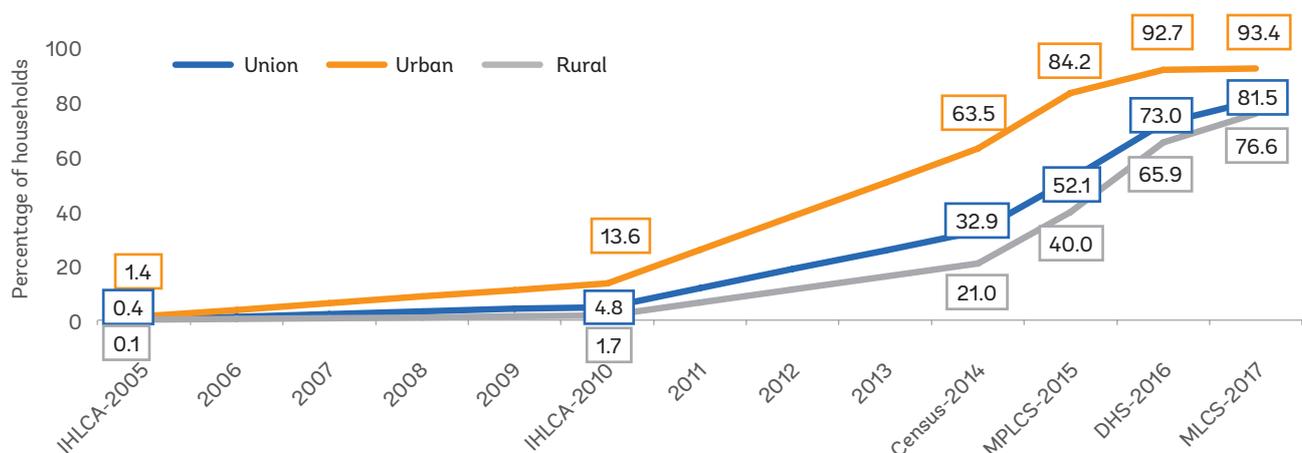
Source: World Development Indicators (WDI) and World Bank staff calculations.

22 **Since 2011, Myanmar’s return to the global marketplace, from a very low base, has both followed and facilitated foreign direct investment.** Sanctions were lifted, and policies such as the removal of trade-license requirements opened the economy to trade and investment. Export and import trade increased, and approved foreign direct investment soared, from a very low base, before moderating more recently. Global apparel buyers stepped up purchases from Myanmar’s textile industry, bringing expansion to this labor-intensive sector, although this sector is now at risk from a possible repeal of EU trade preferences following the Rakhine crisis. After decades of debilitating restraints, Myanmar’s determined business owners and operators are pushing to overcome bureaucratic and technological obstacles, emboldened by the spirit of social change and economic reform. Nevertheless, while Myanmar’s small private sector is growing rapidly, the foundations for private-sector-led growth are still being laid.

23 **Early economic reforms were not easy, but they included areas where policy change had a quick impact, and opened key sectors such as telecommunications.** Three sets of early policies were key. First, the unification of the exchange rate both stabilized a chronically unstable macroeconomic environment and fostered trade integration. Second, making the Central Bank of Myanmar an autonomous institution lowered barriers to trade and investment and opened specific sectors. Third, reform in the telecommunication sector, where the government broke the monopoly of state economic enterprises (SEEs) and awarded three mobile licenses to foreign operators, caused remarkable growth in mobile ownership (figure 1-12). By 2017, 82 percent of the population, or 40 million people, lived in households with at least one phone, and 90 percent of these people lived in households with smartphones. The transformative outcomes go beyond mobile phone ownership. People are becoming more active on social media platforms and digital services, with mobile financial services breaking down traditional barriers to financial sector access. Thirty-four percent of people in Myanmar used Facebook in 2018, and over 70 percent of the population used mobile broadband.¹¹

24 **A range of traditional “second-generation” reforms are now needed to sustain the momentum of economic transition and growth.** These are discussed in chapter 3 of this document. They include: opening sectors such as insurance and liberalizing interest rates for banking-sector profitability and better transmission of monetary policy; rationalizing tax exemptions to increase government resources for infrastructure and essential services; raising electricity tariffs to cover more of the cost of service provision; and restructuring economically nonviable state economic enterprises. Government efforts in this direction are underway. Such second-generation reforms are also closely linked to strengthening state institutions and capacity, as outlined in chapter 6.

Figure 1-12 | Percentage of households owning at least one mobile phone, 2005–2017



Note: This figure illustrates whether a household owns a mobile phone, and is weighted using household weights. In the IHLCA, the census, the MPLCS, and the DHS, households were asked if they owned a mobile phone. Data from IHLCA-I 2005 uses round 1, and data from IHLCA-2 2010 draws on round 2. In the MLCS 2017 survey, households were asked if they owned a smart phone or a nonsmart phone. The ownership rates between survey years are based on linear growth patterns. It is likely that the growth pattern between 2010 and 2014 was nonlinear.

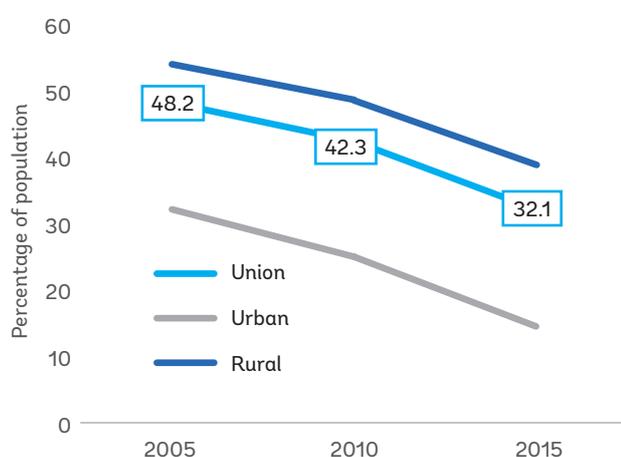
11 Statista website, “Active social media users as percentage of the total population in Myanmar from 2016 to 2019,” accessed June 10, 2019, <https://www.statista.com/statistics/883751/myanmar-social-media-penetration>.

Growth supported poverty reduction

25 **The nature of growth to date explains Myanmar's progress in reducing poverty.** Growth was driven by tackling macroeconomic instability, mobilizing investment, and increasing exports of labor-intensive manufactured goods—garments in particular. But despite this emphasis, total factor productivity growth remained low, reflecting the difficulties of selecting, financing, and implementing investment projects in both the public and private sectors. Production grew more slowly in agriculture than in nonagricultural sectors, but due to agriculture's large initial share of GDP, the growth that did occur produced a substantial reduction in poverty. In contrast, the early liberalization and reforms unleashed a faster take off in the manufacturing and services sectors, where educated and better-off households are more likely to work, making it more challenging to keep inequality in check.

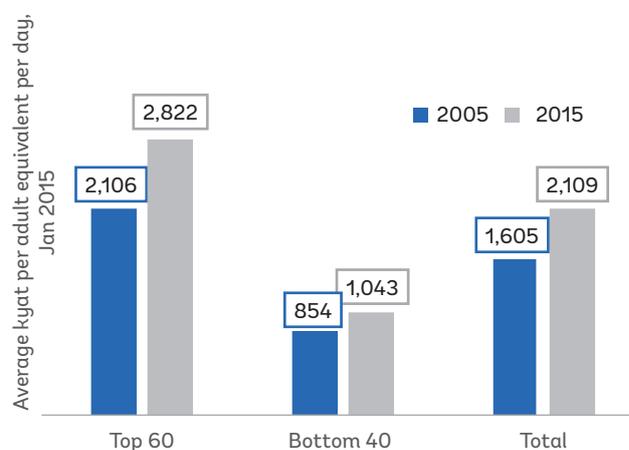
26 **Economic growth has translated into progress in poverty reduction and rising private expenditures.** This performance was about average by global standards. The poverty rate dropped by one-third between 2005 and 2015, from 48 to 32 percent,¹² and it is estimated at 25 percent in 2017 according to the Poverty Report (CSO, UNDP, and World Bank 2019) released after completion of SCD analysis.¹³ The poverty reduction seen during 2005–2015 places Myanmar above the global average, but below the average of EAP lower- and upper-middle income countries (figure 1-7, above). Based on the international poverty line (US\$ 1.90 per day in 2011 PPP), 6.2 percent of people in Myanmar were poor in 2015—a figure lower than Indonesia or Lao PDR, but higher than Cambodia. Average household expenditures increased by 31 percent over the decade, or by 2.8 percent per year (figure 1-14). Urban areas have seen faster growth in private expenditures and a sharper percentage-point decline in poverty, but both rural and urban areas have seen strong progress (figure 1-13).

Figure 1-13 | Poverty headcount using the national poverty estimate, 2005–2015



Source: MOPF and World Bank 2017a.

Figure 1-14 | Growth in per capita expenditures, showing top 60 percent, bottom 40 percent, and average, 2005–2015



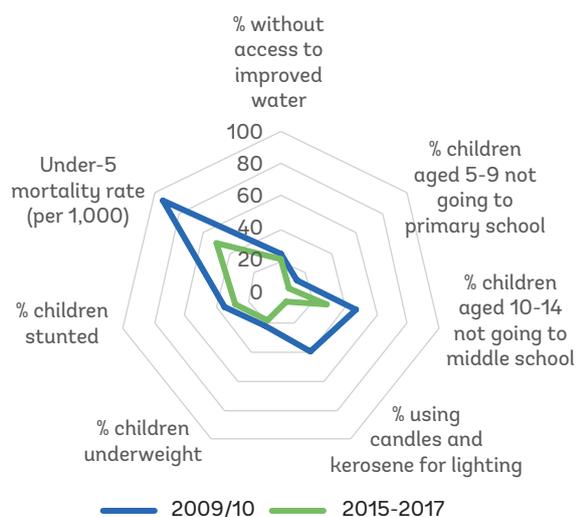
Source: World Bank staff estimates using IHLCA-I 2005 and MPLCS 2015.

12 Based on a national definition as opposed to international definitions of poverty. These figures are based on a revised poverty method released in late 2017 (MOPF and World Bank 2017b). Earlier estimates of poverty in Myanmar benchmarked living conditions in 2004/05 (MNPED et al. 2007). Regardless of the method used, Myanmar has seen substantial poverty reduction over the last decade using nationally benchmarked measures of poverty. Poverty trends are produced using multiple imputation methods used to build comparable estimates across surveys when incomparable consumption aggregates were collected. As such, the poverty analysis in this SCD needs to rely upon multiple-imputation techniques to conduct key overtime analysis. See annex C for details.

13 See footnote 6.

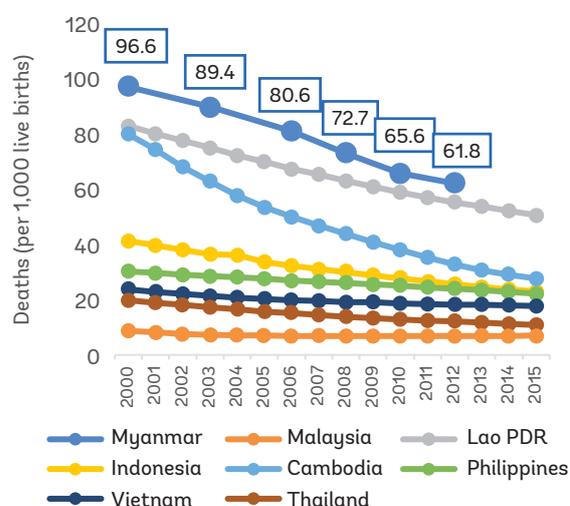
27 **The strong economic performance has also been accompanied by improvements in multiple nonmonetary indicators, though basic service provision remains at low levels.** Progress can be seen in a number of dimensions (figure 1-15). Net total middle school enrollment went from 52 percent to 71 percent between 2010 and 2017 (CSO, UNDP, and World Bank 2018). Gaps in enrollment between boys and girls have historically been small, but they have grown recently as the drop-out rate for boys has increased at higher levels of schooling. The infant mortality rate fell from 96.6 deaths per 1,000 live births to 61.8 between 2000 and 2012 (figure 1-16). The share of the population with access to public grid electricity rose from 23 percent in 2005 to 42 percent in 2017, and solar has been advancing since 2014 as an off-grid solution, particularly in rural areas where grid access remains low. This is a notable improvement, though Myanmar continues to be far behind its neighbors. Myanmar’s Human Development Index (HDI) score in 2018 was 0.578, well below the average for East Asia and the Pacific (0.733), giving Myanmar a ranking of 147 out of 188 countries (UNDP 2018).

Figure 1-15 | Nonmonetary indicators of well-being in 2009/2010 and 2015–17



Source: IHLCA-II 2009/2010, MPLCS 2015, MLCS 2017.

Figure 1-16 | Infant mortality rates in Myanmar in comparison with regional peers, 2000–2015



Source: For Myanmar, MOLIP 2016b. For others, WDI.

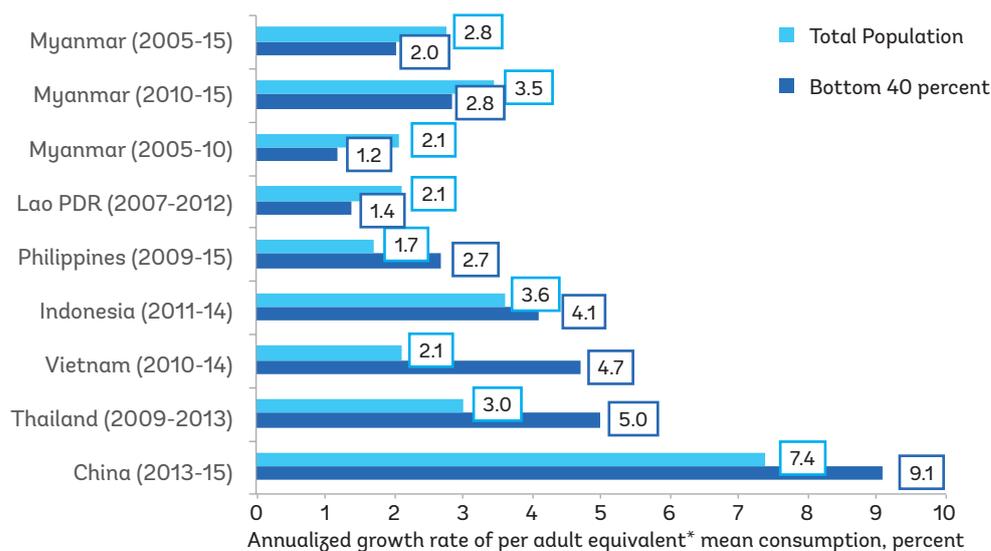
Growth has not been highly inclusive

28 **Myanmar’s five-year growth in household expenditure places it in the top half of countries globally; however, the bottom 40 percent and the poor have seen slower consumption growth than average households.** Average expenditures grew at 3.5 percent per year in the five years between 2010 and 2015, compared to a median among all countries of 1.4 percent per year and an average of 2.8 percent in EAP countries.¹⁴ This places Myanmar’s private-expenditure growth in the top half of countries globally, but in the bottom half of its neighbors. Growth could have been more inclusive and pro-poor. This can be seen in three ways. First, growth in expenditures among the bottom 40 percent was lower than growth for average and top-60-percent households in Myanmar (figure 1-17). Second, Myanmar’s record of translating economic growth into poverty reduction has also been relatively weak: Myanmar’s growth elasticity of poverty reduction between 2005 and 2015 lies just below the average elasticity found in other countries with a substantial fraction of the population living in absolute poverty.¹⁵ Third, Myanmar is one of the few countries in the EAP region where the income of the bottom 40 percent of the population grew more slowly than the national average (2.0 percent vs. 2.8 percent annualized growth) during 2005–2015 (figure 1-17). This reflects slower growth in agriculture, where 70 percent of workers from poor households work, and limited growth in good nonfarm jobs for poor households.

14 These average growth figures are country population weighted. The EAP figures would be substantially higher if population weighted, given the higher than country-average growth seen in China and Indonesia.

15 The growth elasticity of poverty captures how effectively growth has translated into poverty reduction. The total growth elasticity of poverty reduction is the percent change in poverty with respect to a 1 percent change in per capita GDP (or mean expenditure per capita). Across these countries, a 1 percent increase in mean per capita expenditures or GDP has been found to contribute an average of three percent to poverty reduction (Ravallion and Chen 1997)—although the median elasticity is closer to 2 percent (Bourguignon 2002)—compared to 1.1 percent in Myanmar. This is particularly the case when you look at the relationship between GDP growth and poverty reduction (MOPF and World Bank 2017a).

Figure 1-17 | Annualized per capita consumption growth, bottom 40 percent of households and average household



Source: World Bank staff estimates using household survey data.

Note: *The figures for Myanmar reflect per adult equivalent consumption, while the harmonized data for other countries reflect per capita consumption.

29 Inequality in Myanmar has risen over 2005–2015, as better-off and predominantly urban households have seen faster progress than average and poorer, mostly rural, households. The share of expenditures of the poorest 20 percent and bottom 40 percent of the population went down between 2009/10 and 2015, while the share of the best-off 10 percent went up. The rise in inequality in the early transition period is noteworthy but unsurprising, as individuals with better education and more capital to invest benefited more from the early liberalizations and reforms. While living standards in rural areas have improved, the changes have been more limited than in Myanmar’s cities and towns. The rise in inequality replicates the experience of transition economies and reform periods in other countries in the region and elsewhere. While current inequality levels in Myanmar do not stand out from a regional or global perspective—the Gini coefficient of inequality was estimated to be 0.35 in 2015 (MOPF and World Bank 2017b)—it will be important to monitor reform efforts to ensure that they result in growth that reaches the entire population.

30 This dynamic is associated with rising income inequality between rural and urban households. Per capita annual income differs substantially among the states and regions in Myanmar, ranging from MMK 1.7 million (US\$ 1,420) in Yangon to MMK 400,000 (US\$ 335) in Chin. These differences are, however, typical of countries with major urban growth poles.¹⁶ Yangon’s role as a growth pole is apparent both in terms of GDP per capita and private expenditure growth, and in terms of its broader population movements. However, Yangon didn’t see a change in poverty rates between 2005 and 2010 (Ministry of National Planning and Economic Development 2011), which partially reflects labor-related migration of well-off as well as poor households. While numbers on population growth in Yangon over time are currently unavailable, satellite imagery of urban Yangon suggests an expansion of residential areas between 2000 and 2015. While internal migration has likely cushioned the effect of geographically imbalanced growth, it has limitations in fragmented countries. This divergence may continue (and worsen) in the future. It should be noted that aggregate indicators of growth and welfare in urban areas mask the severe deprivations faced by those living in slums.

31 The country is indeed urbanizing steadily, generating new challenges for inclusive and sustainable development. Currently, approximately 30 percent of the country’s population lives in cities. The rate of urban population growth, 1.7 percent per year in 2017, is lower than other countries in the region. However, with continuous economic growth, the country is expected to urbanize further: projections suggest that an additional 7.1 million rural residents will move to cities by 2050. The stress of urbanization is starting to manifest itself in problems of congestion, provision of services, affordable housing, pollution, social cohesion, and livable urban environments.

¹⁶ According to Gennaioli et al. 2014, the average dispersion of the (log of) GDP per capita across regions in developing countries is 0.4, which is exactly the case in Myanmar.

Informal settlements have emerged in large numbers. In Yangon, 270 of the city's 423 informal settlements developed between 2010 and 2017 (ADB 2018). While there is no national-level statistic on urban populations living in informal settlements, it is estimated that slum residents account for at least 10–15 percent of Myanmar's population (International Growth Centre 2016). They face severe deprivations in housing quality and basic services, and severe health and other risks (YCDC and Save the Children 2016).

32 More broadly, states and regions with low per capita incomes have not been catching up as quickly with higher-income regions such as Yangon and Mandalay, although more information on subnational economic indicators is needed. As of 2015, geographic inequality between subnational units, as measured by the standard deviation of GDP per capita, was close to the global average: Myanmar's states and regions do not seem much more unequal than the rest of the world (World Bank 2017). But that could be changing: depending on assumptions, some small (but not always statistically significant) divergence in GDP per capita can be seen among the states and regions between 2012 and 2016. Relatively high GDP-per-capita states, first and foremost Yangon and Mandalay, have experienced faster growth rates, while Shan, Kachin, and Rakhine, in particular, have seen lower-than-average growth. This difference seems to be mainly driven by the industrial sector. These findings need to be viewed with caution: incomes and even population size at the subnational level remain subject to uncertainty, and collecting more precise data on labor force, production, and population would help strengthen the diagnostic.

Poverty and vulnerability to shocks persist, with wide geographic variation

33 Within this growth pattern, poverty remains a predominantly rural phenomenon, with 87 percent of the poor living on farms and in villages in 2015—a figure that continues through 2017. Supporting stronger growth in Myanmar's farms and villages will thus be vital both for reducing poverty and for keeping inequality in check. The majority of people and the majority of the poor in Myanmar are found in rural areas. Here, poverty affects 38.8 percent of the population, compared to 14.5 percent of urban residents (2015). The agriculture sector continues to hold the key to progress in rural Myanmar, as it accounts for about 70 percent of jobs in rural areas and among poor households.

34 The nature of growth also means poverty remains more concentrated in some states and regions than in others. Poverty is more frequent and more severe in the hilly, mountainous, and coastal parts of Myanmar. However, the majority of the poor, 65 percent, live in the more populous delta and central dry zones. Food poverty is also substantial in these areas. At the time of this writing, estimates of poverty are possible at the agro-zone level,¹⁷ as shown in figure 1-18, but not at the state or region level.¹⁸ Nonmonetary indicators available at the subnational level confirm a highly uneven landscape of socioeconomic well-being (see chapter 4).

35 Myanmar is highly vulnerable to natural disasters, which presents a further challenge to progress in poverty reduction. These risks are substantial and will be further exacerbated by climate change and urbanization. Myanmar is among the three countries most affected by weather-related loss events between 1998 and 2017 according to the Global Climate Risk Index 2019 (Eckstein et al. 2018), including cyclones, floods, and others. In the past decade, Myanmar has also experienced two major earthquakes. The likelihood of a medium- to large-scale disaster every few years is high. The country suffered 38 disaster events from 1998 to 2017, affecting a total of 6.2 million people and causing US\$ 4.7 billion in damages.¹⁹ Those living in hazardous areas, lacking access to basic services, and having limited assets and financial resources feel the brunt of disaster effects on their livelihoods and well-being (Hallegatte et al. 2017). Two years after Cyclone Nargis (2008), indebtedness among laborers, small farmers, and fishermen had more than doubled. Half of the 40 townships most affected by the 2015 floods and landslides are in the two poorest states, Rakhine and Chin.²⁰ The most severely affected areas were estimated to have a 50 percent higher poverty rate than the national average in 2010 (Government of Myanmar 2015). Nargis severely weakened the capacity of villages to absorb further external shocks (World Bank, EMR and GFDRR 2014).

¹⁷ The hills and mountains agro-zone includes Kayah, Kayin, Shan, Kachin, and Chin. The delta includes Bago, Mon, and Ayeyarwady. The dry zone includes Sagaing, Magway, Mandalay, and Nay Pyi Taw. The coastal zone includes Rakhine and Tanintharyi.

¹⁸ Poverty estimates at the state and region level, based on the MLCS 2017, were released in June 2019, after completion of this analysis.

¹⁹ World Bank staff analysis based on data from EM-DAT database, 2018.

²⁰ In 2010, these states had the highest poverty rates in the country: 78 percent and 71 percent, respectively (IHLCA-II). The recently released MLCS 2017 data confirm that Rakhine and Chin continue to be the poorest states in Myanmar.

Figure 1-18 | Poverty headcount by agro-zone, 2015

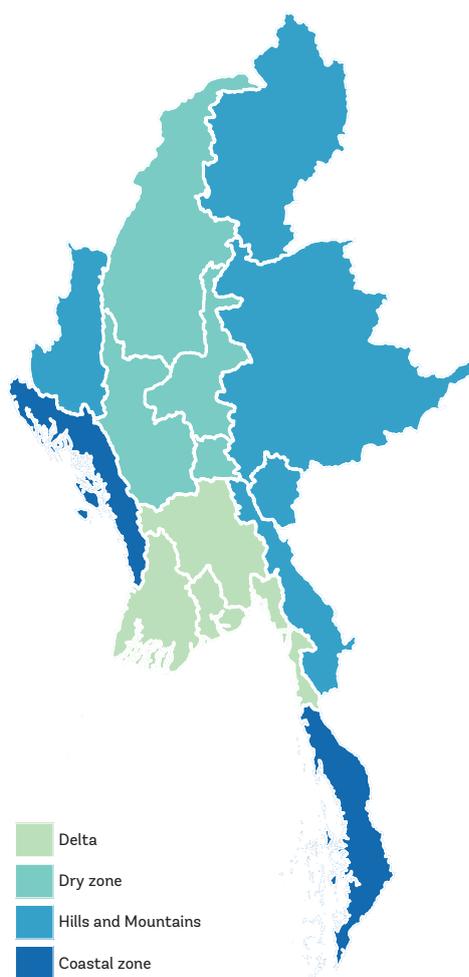
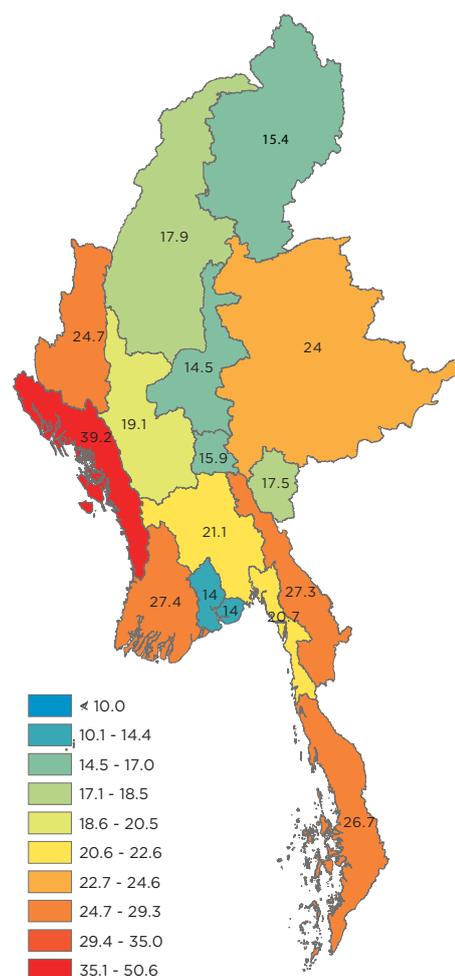


Figure 1-19 | Multidimensional Disadvantage Index at the state and region level, 2014



		Poor		Food poor	
	Myanmar	15.8m	32.1%	4.8m	9.7%
	Delta	5.5m	26.2%	1.5m	6.9%
	Dry zone	4.7m	32.1%	1.1m	7.4%
	Hills and Mountains	3.5m	40.0%	1.4m	15.9%
	Coastal zone	2.0m	43.9%	0.9m	19.1%

Source: MOPF and World Bank 2017a.

Source: MOLIP and World Bank 2018.

Note: The MDI share indicated for each state/region can be interpreted as the share of weighted indicators that an average household is disadvantaged in.

1.3. A Profile of the Poor in 2015

Poor households have a smaller share of people of working age, but are not less likely to work

36 The demographic structure of a household is closely associated with poverty. Poorer households have fewer working-age individuals, age 15 to 64, for each dependent, driven by having more children. Elderly individuals are more likely to be found in better-off households, where they are able to achieve longevity. Larger households with a higher proportion of children are associated with poverty in many lower-income countries (Lipton 1995), and this is so in Myanmar. Households with more children under the age of 15 are more likely to be in rural areas and to have younger and less-educated household heads.

37 **One in ten children aged 10 to 14 are working. Children in poor households are twice as likely to be working as those in nonpoor households.** There is a clear tradeoff between education and child labor for older children: 70 percent of the children aged 10 to 14 who worked for at least one hour in the previous year are not in school, and of the 30 percent who remain in school, approximately half are falling behind the adequate level given their age.

38 **Better- and worse-off households are not distinguished by whether or not they participate in the labor force, but by the consistency of this participation throughout the year and the kinds of jobs they do.** At 63 percent, labor-force participation among those 15 and older is high in Myanmar compared to other developing countries worldwide, in line with the 64 percent average for Southeast Asia.²¹ The rate does not vary significantly between those in the bottom quintile (62 percent) and the better off (64.4 percent). Neither urban nor rural poverty is correlated with labor-force participation over the year, average hours worked, or underemployment. Instead, poorer workers, and in particular women, appear to be most affected by seasonality. Seasonal employment is more prevalent in rural areas, where shifts from agricultural work to inactivity during the dry season are common.²² Both female and male workers in poor rural households, who are highly engaged in agriculture, often as casual labor, are disproportionately affected by seasonality.

Poorer households rely more on agriculture, particularly as casual and landless laborers

39 **One in three households in Myanmar and nearly half of all poor households worked exclusively in the agricultural sector in 2015, making growth in this sector pivotal for poverty reduction.** Agriculture is the dominant source of employment and income in rural Myanmar, and slightly more so for the rural poor. This sector accounted for 53 percent of main jobs in 2015, and 70 percent of jobs in rural areas and in poor households. Among poor rural households, agriculture accounted for 63 percent of total income, compared to 50 percent for the average rural household.

40 **Poor households are substantially more likely to have lower quality work in agriculture and to experience fluctuating demand for their labor.** They are more often landless laborers than farmers, unlike better-off rural households. Farmers tend to have more control over their time and income than agricultural laborers, whose daily incomes depend on demand in local labor markets. These workers are also more likely to experience seasonal fluctuations, with higher demand for their time in the wet season²³ and lower demand in times of adverse weather conditions or pests.

41 **There is a close link between land markets and the share of agricultural households engaged in agricultural labor (as opposed to cultivation), resulting in regional variation in the importance of this activity in the income basket of poor households.** Thin rental markets may limit the livelihood choices of landless households. Landlessness is highest in the delta, dry zone, and coastal parts of rural Myanmar, and lowest in the hills and mountains. It is nearly universal among agricultural households who are engaged solely in agricultural labor activities.²⁴ Without active land markets, landless rural households cannot rent land and engage in farming. Although rental markets appear to be thin everywhere, they are more active in the hills and mountains than in the delta.

21 See MOPF and World Bank 2017a for details on labor force participation definitions. The figure for Myanmar reported here is based on last 7-day activity.

22 Seasonality in construction work may also affect urban poor households.

23 Agricultural work is heavily clustered in the wet season for both family and hired labor, with 68 percent of all agricultural days worked occurring during that time. Among hired laborers, the clustering of agricultural work is even more severe: 71 percent of days worked by casual laborers in agriculture are during the wet season, compared to 66.5 percent for family workers.

24 Agricultural labor is more prevalent in the dry zone, the delta, and coastal areas than in the hills and mountains. For example, in the delta, 54 percent of those working exclusively in agriculture cultivated land, while in the hills and mountains 81 percent of all those in agriculture did so. The difference among regions in the structure of the agricultural labor market appears to partly reflect the structure of land markets. Just over a fifth (23 percent) of those working in agriculture in the hills and mountains come from households that do not own their own farmland, while, in the delta and coastal areas, 48 and 53 percent, respectively, of those working in agriculture are from landless households. Rental markets are more active in the hills and mountains, where 19 percent of farmers rented land, compared to 10 percent of farmers in the delta.

Income sources of the poor are less diversified, increasing their vulnerability to shocks

42 **While agriculture is an important source of income, substantial labor and income diversification exists: the majority of agricultural households have a foot in both the agricultural and nonagricultural sectors.** In 2015, 40 percent of all households in Myanmar, or 55 percent of agricultural households, had both agricultural and nonagricultural sources of income, the latter including nonfarm labor, nonfarm businesses, and remittances from nonagricultural occupations.²⁵ In urban areas, nonfarm businesses and nonfarm wages account for nearly 85 percent of incomes, while in rural areas nonfarm businesses and wages account for 46 percent of household incomes on average.

43 **Richer households are more likely to have nonagricultural employment than poorer households, but four in ten poor households can be thought of as *transitional*, having shifted into some nonagricultural activities. Informality persists in all jobs and across income groups.** Better-off households tend to have more-educated members and a greater stock of assets than poor households, facilitating nonagricultural employment. Among households with nonagricultural employment, better-off households are more likely to have small businesses, while poorer households are more likely to perform manual labor—construction work, for example—often on a temporary or seasonal basis. Almost all nonagricultural jobs (95 percent) are “informal.”²⁶ Although nonpoor workers in the nonagricultural sector are twice as likely to be in a formal job than poor workers (6 percent vs. 3 percent), the overall rate of informal employment requires attention before this gap can be closed.

44 **Diversification can occur by working across sectors and locations. Migration is increasingly used to generate income, though poor households benefit less from this opportunity.** One in four households in Myanmar receive remittances, linking them to labor markets beyond their localities. In 10 percent of these households, remittances come from abroad. Among those who receive them, remittances account for just over a third of the household’s income, making this an important channel for diversification. These remittance channels link households to predominantly nonagricultural jobs: 73 percent of households that receive remittances get them from nonagricultural activities. Poor households are less likely to receive resources from remittances. This is likely linked to the high cost of migrating, especially internationally, which may make it a less viable option for poorer households. When they do receive remittances, poor households receive less relative to their overall incomes.

1.4. Social Inclusion: Progress and Challenges

45 **In the context of recent growth and widening inequalities, social inclusion²⁷ remains a challenge despite some progress.** Differences in poverty levels across households are linked to multiple factors, including location, religion, language, possession of an ID card, gender, and others. Those living in rural areas, coastal zones, those living in Chin and Rakhine states, Muslims, Christians, those who do not speak Myanmar as their mother tongue and those who lack ID cards, are still disproportionately affected by poverty, even as poverty has declined overall.

46 **Geography. There is a strong correlation between inclusion and geography in Myanmar.** Rural areas consistently score worse than urban areas on a number of key indicators of inclusion and have seen slower progress, as outlined in section 1.2. At the state level, there is also wide variation in terms of inclusion. For example, Shan, Tanintharyi, Ayeyarwady, Magwe and Kachin, show multiple signs of exclusion. Rakhine shows particularly strong signs of exclusion: the poverty rate was 73 percent in 2010. Human development outcomes

25 Note that this analysis adopts a definition that goes beyond employment to include income from nonfarm businesses and remittances. This is not the case for the analysis in chapter 2.

26 Employment is “informal” when the employer has fewer than five employees and the worker doesn’t have a contract or benefits such as annual leave or sick leave.

27 The World Bank’s flagship *Inclusion Matters* report defines social inclusion as: “The process of improving the ability, opportunity, and dignity of people, disadvantaged on the basis of their identity, to take part in society.” In contrast, social exclusion consists of being disadvantaged by one’s identity when participating in society. People participate in society in three main domains: markets (land, housing, labor, and credit); services (health, education, water, transport, electricity, information, social protection); and political, physical, cultural, and social spaces. See World Bank 2013.

are very poor. Despite improvements, an individual living in Rakhine today is still twice as likely to lack access to adequate sanitation as someone living elsewhere in Myanmar. In 2017, the vast majority of the population in Rakhine still lacked proper housing and access to electricity from the public grid. People in Rakhine are much less likely to be full citizens of the country: in the coastal area (covering Tanintharyi and Rakhine) only 46 percent of the population held a citizenship card in 2015, compared to a national average of 74 percent. The figure would likely be even lower for Rakhine alone, as suggested by census data. Chapter 4 explores this in detail.

47 Conflict affected areas appear disadvantaged. This may be attributable to location rather than to conflict per se, since these areas are also among the most remote or mountainous regions of the country. Forty-four percent of the rural population living in townships affected by subnational conflict is poor, compared to 37 percent of the rural population in the country as a whole.²⁸ This figure reaches 55 percent among the rural population in areas with active conflict. Other markers of human development are also relatively low in these areas, notably adult literacy and school enrollments among school-age children.

48 Identity. Social exclusion is closely associated with ethno-linguistic identity. Recent surveys including questions on “mother tongue” indicate that socioeconomic outcomes vary considerably among ethno-linguistic groups, with some more likely to be socially excluded. Compared to individuals speaking Myanmar as their mother tongue, others are more likely to be excluded in all social dimensions: poverty, access to land, access to labor, education and health outcomes, access to quality housing, and access to credit (figure 1-20).

49 Religious diversity, like ethnic diversity, has long been a source of tension and conflict in the country, and religious identity continues to be an exclusion factor. The long-standing discrimination against non-Buddhists, which dates back to colonial times, became highly visible in recent years, as deadly religious violence, particularly directed at Muslim minorities, erupted in various parts of the country (see box 1-2). Minority religious groups are more likely to be poor and live in substandard conditions.²⁹ In 2014, the country passed four “Protection of Race and Religion” laws, placing restrictions on interfaith marriage and conversion.

Box 1-2: Muslims living in Rakhine are the most socially excluded group in Myanmar

People who self-identify as Rohingya make up most of the Muslim population in Rakhine. At the time of the 2014 Census, they were estimated to be 1.1–1.3 million of the more than 3 million people living in Rakhine state. Recent data on this population is not available, but the IHLCA-II of 2010 offers some insights into the level of deprivation of this group. Ninety percent of Rakhine Muslims were found to be poor, 75 percent were landless, 73 percent had substandard housing (a hut), and two thirds were not working. Health and education indicators for young Rakhine Muslim children were quite low: they were twice as likely as the national average to be underweight and not enrolled in preschool. The gap between the national average and Rakhine Muslims is high in all dimensions of social exclusion.

Following the violence that led around 725,000 Muslims to flee to Bangladesh since August 2017, it was estimated by the UNHCR, in October 2018, that about 525,000–596,000 stateless Muslims remain in Rakhine State. They represent the majority of the close to 130,000 people in IDP camps in Central Rakhine.

50 In addition, noncitizens under the 1982 citizenship law³⁰ continue to be excluded from owning property, practicing law, attending a university, applying for electrical service, or buying health insurance, and they report challenges to their rights to security, legal protections, and inheritance. It is estimated that one in five people in Myanmar do not hold a Citizenship Scrutiny Card. Figure 1-21 highlights the disadvantages

28 This difference is statistically significant, but is a rough estimation given the MPLCS 2015 is not representative at the township-level. This follows the definition of conflict-affected township by The Asia Foundation (Burke et al. 2017), which includes 118 townships with either EAO presence or having more than two battle per year in 2015 and 2016.

29 IHLCA-I, IHLCA-II, MPLCS and World Bank staff computations.

30 Myanmar’s 1982 Citizenship Law recognizes three categories of citizen. They are *citizen*, *associate citizen*, and *naturalized citizen*. A citizen is defined by the 1947 constitution as a person who belongs to an “indigenous race,” has a grandparent from an “indigenous race,” is the offspring of citizens, or lived in British Burma prior to 1942. Under this law, citizens are required to obtain a National Registration Card (NRC), while noncitizens are given a Foreign Registration Card (FRC), which limits their participation in everyday life.

faced by those without citizen cards. Compared to card holders, for example, they are more likely to have lower access to land (90 percent vs. 70 percent lack legal ownership certification for land), decent housing (59 percent vs. 29 percent live in substandard housing), and public services (89 percent vs. 66 percent have no access to grid electricity).

Figure 1-20 | Selected indicators of social exclusion, by ethno-linguistic group (mother tongue), 2015

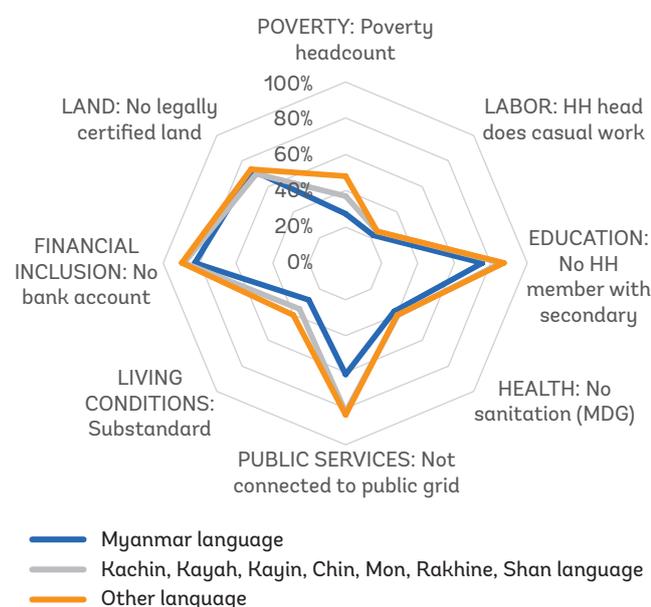
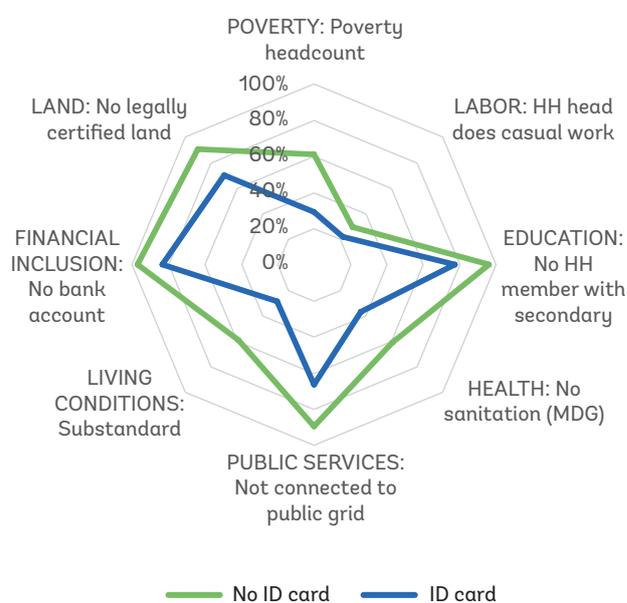


Figure 1-21 | Selected indicators of social exclusion, citizen-card holders vs. nonholders, 2015



Source: World Bank staff computations, based on MPLCS 2015.

Note: Substandard housing is defined as having no concrete walls, no concrete floors and no tin/tile floors.

51 **As in many other countries, gender, sexual orientation and disability are also exclusion factors in Myanmar.** The 2016 Gender Inequality Index ranks Myanmar 80th of 159 countries, and the 2017 OECD Social Institutions and Gender Index places Myanmar at the bottom in East Asia and the Pacific region. Ethnoreligious identity can also determine cultural norms and customary laws affecting women's lives, including rules for inheritance, marriage, divorce, and childrearing; the ability to work or study outside the home; and the ability to play a leadership role in their community (Gender Equality Network 2015; Namati 2016). Although household survey data cannot be disaggregated by sexual orientation or gender identity (SOGI), the available literature suggests that SOGI minorities struggle with discrimination in school and in the workplace, less access to services, and inadequate livelihoods (Crehan 2015). Disability affects 4.5 percent of the population. Social norms ascribing disability to karma can contribute to shame and discrimination. For example, according to the census, only 18.6 percent of children with disabilities between five and nine years old attend school, compared to 71.5 percent of children with no disability.

52 **Laying the foundations for peace and sustainable growth in Myanmar will mean ensuring that the benefits of continued growth are shared more broadly across the population, and that socially excluded groups are not left behind.** This is an enormous challenge, yet the experience of other countries shows that achieving greater inclusion is possible, and that it is critical to fostering a shared vision of national development. *Pathways for Peace: Inclusive Approaches to Preventing Violent Conflict* (UN and World Bank 2018) has emphasized the extent to which a sense of fairness and social justice across population groups helps maintain peace and prevent violent conflict. The global evidence shows that promoting social inclusion and reducing inequality can make growth more resilient, whereas social stratification and exclusion can constrain productivity and trap poor people in poverty.³¹

31 Work on social stratification and poverty traps is long-standing. See for, example, the chapter "Removing Social Barriers and Building Social Institutions" in World Bank 2001.



Drivers of Growth and Poverty Reduction

53 **This chapter explores what is behind the stylized facts described in chapter 1.** By highlighting drivers of growth and poverty reduction, it explains why growth has not been more inclusive, before chapters 3 to 6 explore the constraints and challenges Myanmar must now overcome, and chapter 7 sets out concrete policies to accelerate growth, boost its inclusiveness, and ensure sustainability.

2.1. What Drove Growth in the Early Transition Years?

54 **As the economy opened and began liberalizing, growth convergence, structural transformation, and private investment explained Myanmar's strong economic performance.** In many cases, this performance was directly or indirectly related to exploiting Myanmar's abundant and diverse natural resources. Official extractives activity (using the value added of "Energy" and "Mining" sectors) accounted for less than 5 percent of GDP growth between 2011 and 2016, a likely underestimation as mining activities are often unrecorded. In terms of exports, they represented over 50 percent of total exports in 2015, mostly from natural gas and gems. Informal and illicit extractives activity may have had more indirect impacts on the economy; for instance, through the boom in the construction sector.

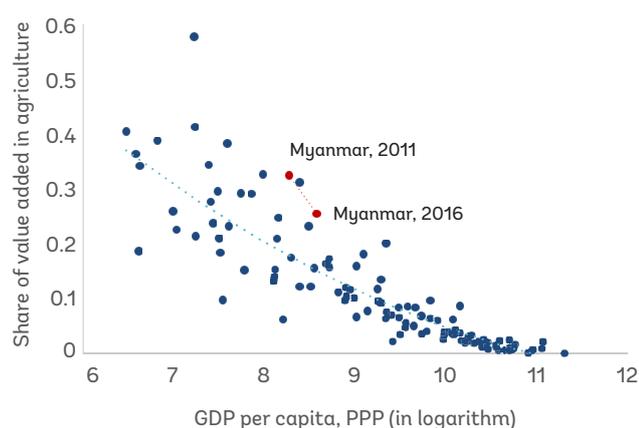
The supply side: Convergence and structural transformation

55 **Myanmar's high rate of growth reflects its low starting point, dominated by agriculture, and high potential for convergence compared to peers.** Myanmar had one of the lowest levels of GDP per capita in the region at the start of the transition in 2010, and the theory of economic convergence³² predicts a relatively high growth rate. This catch-up effect influences not only the rate of growth, but also the structure of production. For its level of income, Myanmar had one of the highest shares of value added in agriculture and one of the lowest shares in services (figure 2-1 and figure 2-2). The share of manufacturing value added was comparatively large (20 percent, compared with total industry value added of 26 percent), and it has increased in the past five years and experienced within-sector changes.

56 **As a result, most of the contribution to GDP growth in the past five years stemmed from industry (1.9 percentage points from manufacturing and 0.7 from other industries) and services (3.6 percentage points) rather than agriculture (figure 2-3).**

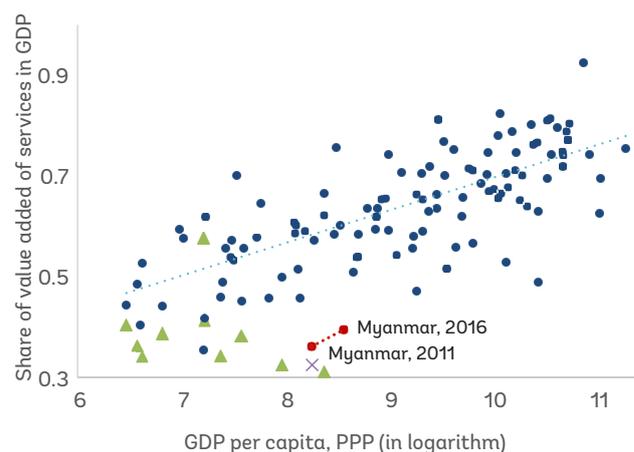
32 In the theory of economic convergence, *unconditional convergence* states that poorer countries will catch up with richer ones; for example, through technological change or factor mobility. *Conditional convergence* refers to growth given a certain potential (which could depend on available technology, social and political institutions, or geographic location). It does not necessarily imply that poorer countries will catch up, as structural conditions might prevent them from growing.

Figure 2-1 | Share of agriculture in GDP and income level, 2011 and 2016



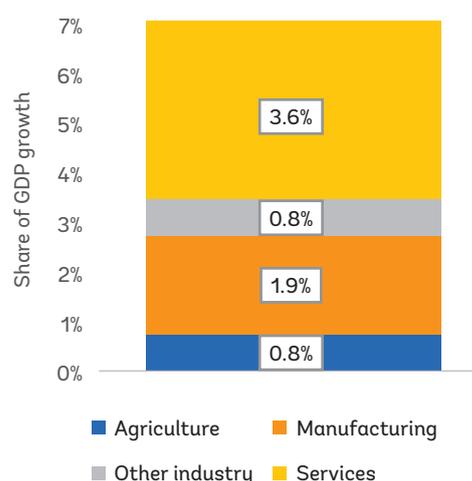
Source: World Development Indicators.

Figure 2-2 | Share of services in GDP and income level, 2011 and 2016



Source: World Development Indicators.

Figure 2-3 | Sectoral contribution to growth, 2011–2016

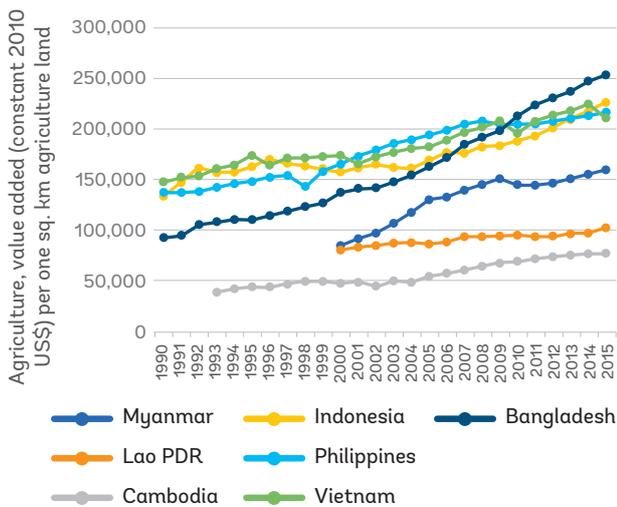


Source: Central Statistical Office.

57 **Agriculture, in particular rice, remains an important source of exports, income and rural growth, and hence, of poverty reduction, with crop yields gradually rising.** Myanmar is the sixth-largest rice producer in the world. Rice contributed 14 percent of overall GDP and half of agricultural GDP in 2016, in addition to its role in food security and satisfying the dietary habits of the Myanmar population. Agricultural exports are important to Myanmar’s economy, accounting for 20 percent of total exports. Exports of rice (mostly to China, but also to South Asian and sub-Saharan African countries, and the EU) and beans and pulses (mostly to India) each constituted roughly 35 percent of agriculture exports in 2017. Evidence of productivity improvements in agriculture can be seen in rising value added per square kilometer cultivated and in rising yields for pulses, sugarcane, and paddy. Data on productivity changes in agriculture over time show that Myanmar’s value added per kilometer cultivated has increased by 50 percent since 2000. Yields of the three crops with the highest export values—pulses, sugarcane, and rice—also increased, although yields increased more moderately for rice, Myanmar’s staple crop and food.³³

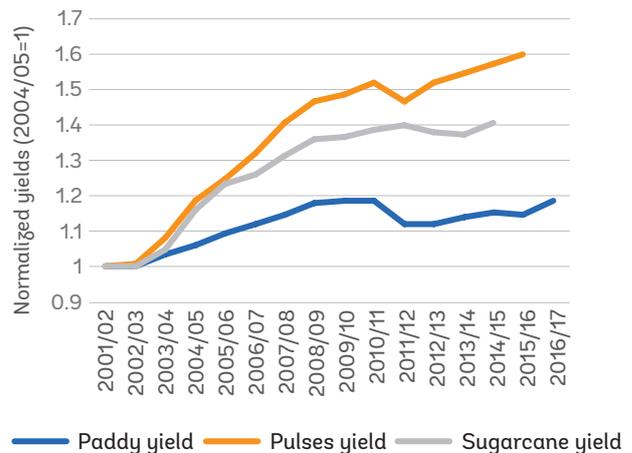
33 The lack of historical official population data also precludes an understanding of changes in the absolute size of the agricultural labor force and of changes in value added per agricultural worker.

Figure 2-4 | Agriculture value added per square kilometer of agricultural land, 1990–2015



Source: World Development Indicators, accessed June 2018.

Figure 2-5 | Yields of paddy, pulses, and sugar cane, 2001/02–2016/17



Source: Paddy yields from USDA, pulses and sugarcane from Ministry of Agriculture, Livestock, and Irrigation. Yields are normalized to 2004/05 for each crop.

58 **Although the agriculture sector’s direct role in GDP growth has been limited, it is likely to have played an indirect role through other sectors, as a supplier of inputs to manufacturing businesses and as a core market for rural, nonfarm services. Enhancing productivity in this sector could increase rural incomes and strengthen linkages to other sectors to support rural poverty reduction.** Fifty-eight percent of manufacturing firms in Myanmar are in the food and beverages sector (MOPF and Danida 2018). Service growth in rural areas is also tightly linked to agricultural growth and demand, with businesses providing mechanization services reported to be expanding in central Myanmar (Belton et al. 2017), and transport services for agricultural products the second-fastest-growing enterprise category. Rising rural incomes are also linked to an expansion in nonfarm opportunities. The opportunity for household members to migrate to urban areas or abroad and send remittances is one factor in rising rural incomes. But household surveys suggest that income from nonfarm activities within rural areas has also increased, with a growth in retail businesses, those supplying food and beverages, and personal services. The reach of the agricultural sector into both the manufacturing and services sectors is likely to be significant.

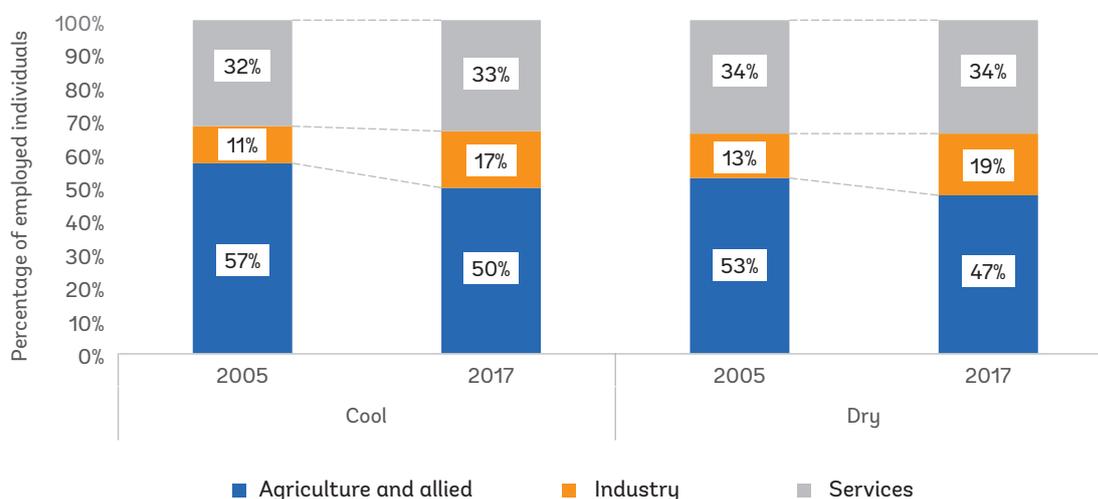
59 **Structural transformation has also moved workers from lower- to higher-value-added sectors supporting labor productivity growth.** Farming, fishing, livestock rearing, and forestry continue to be the most commonly reported labor activities, but the share of the labor force working in these sectors has declined over time while increasing in manufacturing and construction. Comparing the sectoral participation of the labor force aged 15 and above over time, it becomes clear that a gradual structural transformation has been occurring.³⁴ In the cool season, the share of the labor force participating in agriculture declined from 57 percent to 50 percent between 2005 and 2017. By contrast, the share of the labor force in services has remained largely unchanged over time. Given the growth in the services sector, this signals a potential stickiness in labor flows across sectors.

60 **This shift of resources between sectors was supported by a dramatic increase in the number of private firms and investments, drawn to manufacturing, services such as telecoms and transport, and oil and gas.** The private sector has responded positively to the economic transition. The number of firms registered as companies through the Department of Investment and Company Administration (DICA) has doubled since 2011 (figure 2-7). Along with the introduction of the Special Economic Zone (SEZ) Law and the 2012 Investment Law (revised in 2016), the removal of sanctions by the EU and the United States and the reintegration of Myanmar into the global trading system were associated with a significant increase in investment. Between 2013 and

34 These structural trends in the sectoral composition of the labor force have been occurring since 2005, but were not previously visible in earlier analysis due to incomparability in the way the data was being used.

2017, 18 percent and 22 percent of permitted investment by citizen companies (domestic investment) and foreign companies, respectively, was in the manufacturing sector, also supporting exports (figure 2-8). The opening of tightly regulated sectors such as telecom and transport drew a large share of this investment, as did activities such as construction and real estate, where domestic firms have a greater advantage.

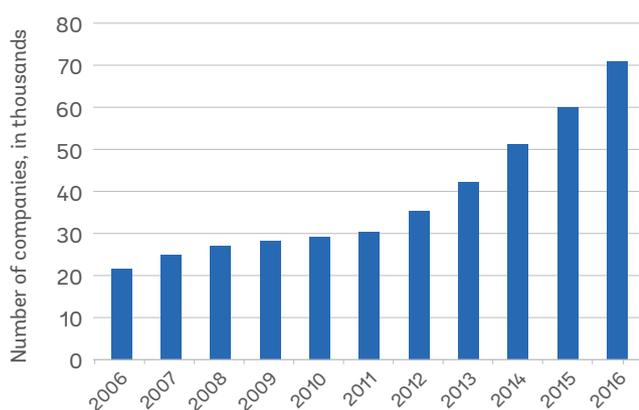
Figure 2-6 | Share of employed, by sector, seven-day recall,³⁵ 2005 and 2017



Sources: CSO, UNDP, and World Bank 2018.

Note: 2005 cool-season results use data from round 1 of the IHLCA-I, enumerated during December 2004. 2005 dry-season results use data from round 2 of the IHLCA-I, enumerated during May 2005. 2017 cool-season results use data from the first quarter of the MLCS, enumerated between December 2016 and February 2017. 2017 dry-season results use data from the second quarter of the MLCS, enumerated between March and May 2017. *Agriculture and allied activities* includes farming, fisheries, livestock, and forestry. *Industry* includes manufacturing, construction, mining, and utilities. *Services* includes all other activities. For the purpose of comparability, the figures from 2017 are defined using the 1985 Labor Classification Standard and include all those who are working regardless of whether they are working for self-gain rather than profit or pay.

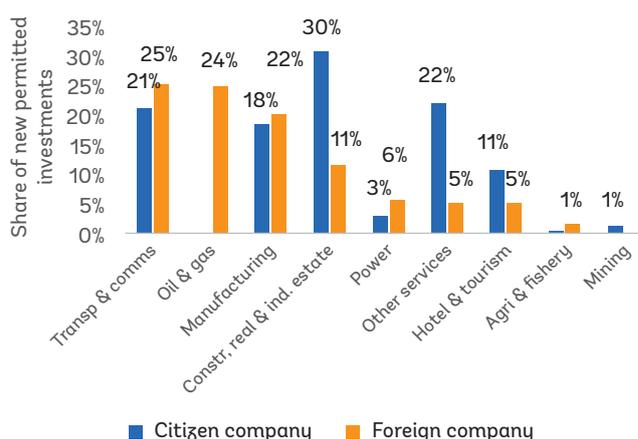
Figure 2-7 | Number of companies registered with DICA, 2006–2016



Source: CEIC.

Note: Only a small fraction of businesses in Myanmar are registered as companies through DICA. Most businesses are registered through municipal governments or line ministries (e.g., shops, hospitality).

Figure 2-8 | Distribution of new permitted investments across key sectors, 2013–2017



Source: CEIC and World Bank staff calculation.

Note: *Citizen company* refers to companies registered under the Myanmar Citizen Investment Law (MCIL). *Foreign company* refers to companies registered under the Foreign Investment Law and new Investment Law.

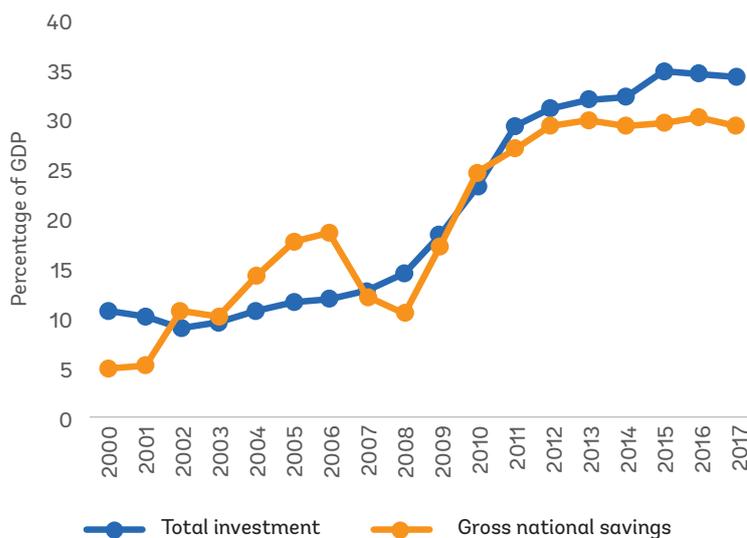
35 The estimated size of the workforce in 2005 is derived from the IHLCA-I, which did not enumerate approximately 5 percent of the population in conflict-affected areas.

61 **However, while movements between sectors supported productivity gains, within sectors it appears that the exceptional rise in firm entry and exit mostly occurred among low-productivity firms, limiting labor productivity growth.** This is on par with other recent take-offs in East Asia and highlights the importance of investment in capital (see demand-side analysis, below) and of reallocation within sectors from inefficient to more efficient uses of inputs. In particular, high levels of churning in the private sector have occurred: out of the 1,000 formal enterprises that were surveyed in five major cities (Yangon, Mandalay, Bago, Taunggyi, and Monywa), about a third of firms interviewed in 2014 had ceased operations as of 2016, and about 17 percent of firms ceased operation annually over the past two years. This is substantially higher than the average annualized exit rate of 7 percent found in 47 countries (Aga and Francis 2015), but not unusual given Myanmar’s robust economic growth. According to the 2014 and 2016 World Bank Enterprise Surveys, however, exiting and surviving firms are virtually identical in terms of labor productivity, employment, and sales growth, indicating significant reallocation of resources, but among low-productivity firms rather than from low- to high-productivity firms. Deeper analysis is needed on the contribution of firm entry and exit to productivity growth, possibly including a repeat of the business survey last conducted in 2015.

The demand side: Private domestic and especially foreign investment supported capital accumulation and trade

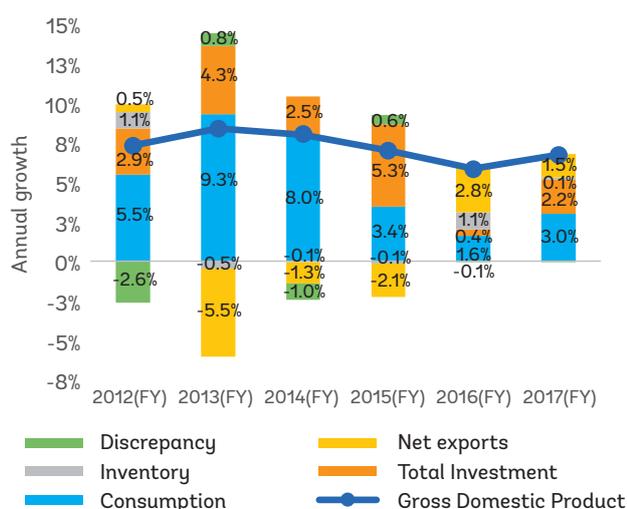
62 **In addition to benefiting from convergence and some structural transformation, Myanmar has gained from increasing access for investment, which has supported capital accumulation.** Total investment as a share of GDP jumped by more than 15 percentage points between 2008 and 2017, from 14 percent to 34 percent, most of the increase occurring before 2011. Gross national savings financed the initial increase, by growing at an equally fast rate until 2012 before tapering (figure 2-9). After the opening, foreign direct investment became an important vector of investment, accounting for 5 percent of GDP in 2015. Though there are uncertainties around the exact magnitudes, due to a lack of statistical capacity, it is clear that investment has been a major contributor to growth, of about 2.3 percentage points of GDP per year between 2011 and 2017 (figure 2-10). Mostly led by private investment, this increase puts Myanmar in the upper tier of other developing Asian countries in terms of investment intensity (figure 2-11).

Figure 2-9 | Savings and Investment, 2000–2017



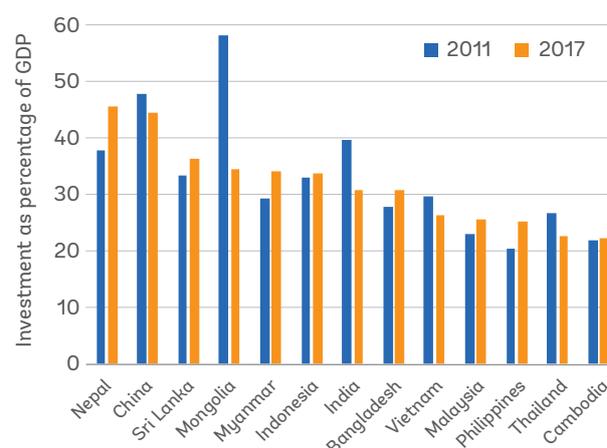
Source: IMF World Economic Outlook, 2019 (April).

Figure 2-10 | Contribution to growth, by expenditure, 2011–2017



Source: Central Statistical Office.

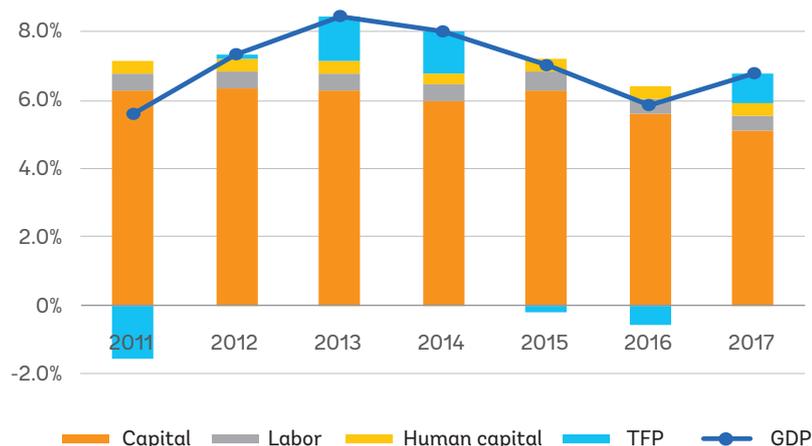
Figure 2-11 | Investment as percentage of GDP, 2011 and 2017



Source: IMF World Economic Outlook, 2019 (April).

63 **Growth accounting confirms the large contribution of capital accumulation to growth while the contribution of total factor productivity (the residual measuring technical and allocative efficiency of the economy) has remained flat.** Because of the sharp increase in investment rate after years of low investment, the rate of capital accumulation also increased rapidly (figure 2-12). In the framework of the Solow (1956) growth model, this implied that like other Asian countries, growth was almost only led by the accumulation of capital (about 83 percent of total contribution to growth between 2011 and 2017) and labor (in quantity and quality) to a lesser extent (17 percent). Meanwhile, the rate of TFP growth has been close to zero over the past 6 years. (0.3 percent per year).

Figure 2-12 | Factor contributions to growth, 2011–2017

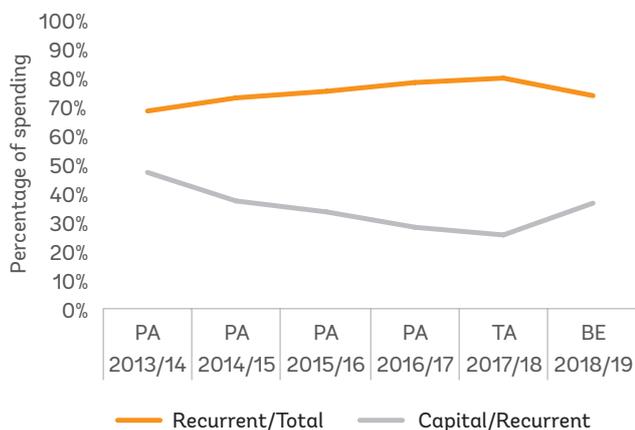


Sources: Penn World Tables 9.0, IMF World Economic Outlook, 2019.

64 **Unlike private investment, public investment towards capital accumulation in Myanmar is low as a share of GDP and falling, despite significant need.** The period between 2005 and 2011 saw a major ramp-up in public investment linked to the establishment of the new national capital, Nay Pyi Taw, and some investment in gas extraction. Since then, public investments have been growing more slowly than total and recurrent expenditures, and have been declining in real terms (figure 2-13). As a result, public investment as a share of total spending has declined from 36 percent in 2011 to 26 percent in 2015/16, and growth in capital spending

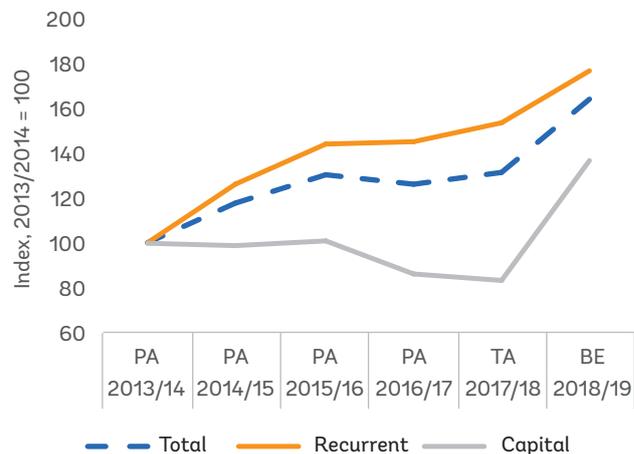
by Union ministries has declined rapidly (figure 2-14), leading to a decline in capital spending as a share of GDP. Compounding the decline in public investment spending, current capital spending is allocatively inefficient. While some decline in infrastructure spending from the peaks driven by public-building construction was necessary, the share of spending in priority sectors such as energy and transport also declined. Capital spending is also inefficient in implementation, with an increase in the number of stalled projects due to long delays in project completion and large cost overruns.

Figure 2-13 | Share of capital spending, 2013/14–2018/19



Source: World Bank 2017a.

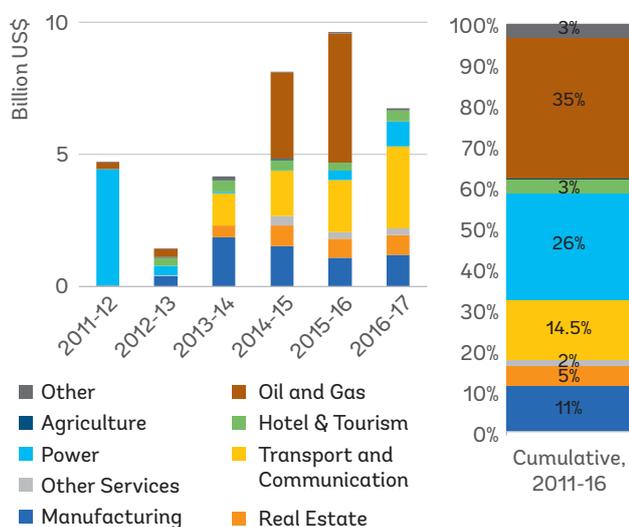
Figure 2-14 | Public-sector spending growth in current prices, 2013/14–2018/19



Source: World Bank 2017a.

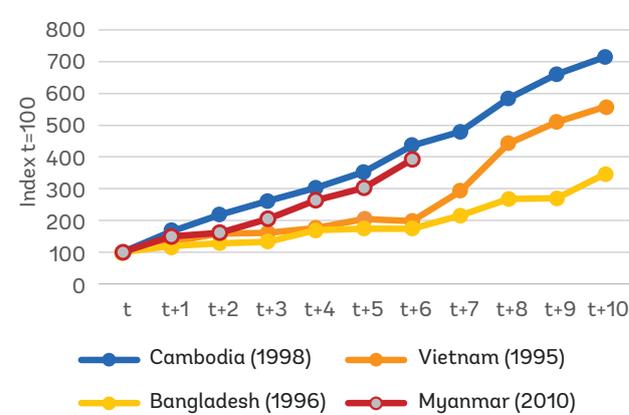
65 FDI has compensated for low public investment, and recently diversified from natural resource sectors to other productive sectors. Between 1988 and 2010, a large share of FDI was in the extractives or energy sector. This remained the case, in cumulative terms, for the 2011–2016 period, when power received 25 percent of total FDI while the mining and oil and gas sectors combined represented 35 percent (figure 2-15). However, the liberalization of new sectors for foreign direct investment in 2013/14 allowed a reorientation away from extractives to sectors such as telecommunications and manufacturing, which became the largest recipients of FDI in 2016 and 2017 and together constituted 55 percent of the total.

Figure 2-15 | Foreign Direct Investment, by sector, 2011/12–2016/17



Source: DICA.

Figure 2-16 | Take-offs in garment exports, Myanmar and comparators



Source: UNCTAD.

66 Located on the ancient Silk Road, Myanmar holds a strategic location to facilitate trade, which is key to further unlocking of its economic potential. It shares overland borders with China, India, Lao PDR and Thailand, which together account for about US\$15 trillion in GDP (of which China accounts for 79.6 percent), or one-fifth of the world's total GDP. In this context, the government is considering a range of trade integration options, including the recently signed China-Myanmar Economic Corridor (CMEC).

67 China is the biggest trader with Myanmar notably in natural resources, and until this year the biggest investor, especially in garments and construction, providing opportunities but also representing concentration risk. In 2017, 86 percent of Myanmar's cross border trade (as distinct from trade through ports) was with China. In the same year, China accounted for 13 percent of total FDI into Myanmar and 39 percent and 31 percent of Myanmar's total export and import respectively. The next largest export destination was Thailand (19.4 percent) and the next largest source of imports was Singapore (15.2 percent). In 2010 and 2011, prior to the opening of the economy, major Chinese approved investments in the resources sector had accounted for several billions of dollars, the large majority of FDI (though these approved flows did not always translate into actual investments). Since then, FDI from China has declined, but still ranks among the top-3 FDI sources in the country. In terms of sectoral composition, the largest sectors are construction (18 percent) and garments and mining (17 percent each) (Calabrese et al. 2017). But as projects in garments are often much smaller, mining and other extractive sectors represent the bulk of Chinese investment stock. China imports a large amount of natural gas, rice and jade from Myanmar. About 80 percent of gas production is delivered to China and Thailand through dedicated pipelines while the remaining 20 percent (about 400 mmcfd) supplies the domestic market, mostly for power generation.

68 Myanmar's exports have nevertheless been evolving away from low-value-added primary exports and towards integrating into Asian manufacturing value chains. Its garment sector was reborn after most sanctions were lifted by the EU in 2013 and the United States in 2016, achieving growth resembling that of other stellar performers in the sector (figure 2-16). Garment export values have been multiplied by a factor of 2.5 in just three years, from US\$1 billion in 2014/15 to US\$2.5 billion in 2017/18. The sector thus almost compensated for the decline in gas exports (from US\$5.2 billion to US\$3.5 billion) caused by lower gas prices and the decline in production from the mature Yetugun and Yadana gas fields. Simultaneously, commercial-service exports quadrupled between 2011 and 2015, reaching US\$4 billion, including about US\$2 billion (3 percent of GDP) in tourism exports in 2015, up from US\$70 million in 2010.³⁶

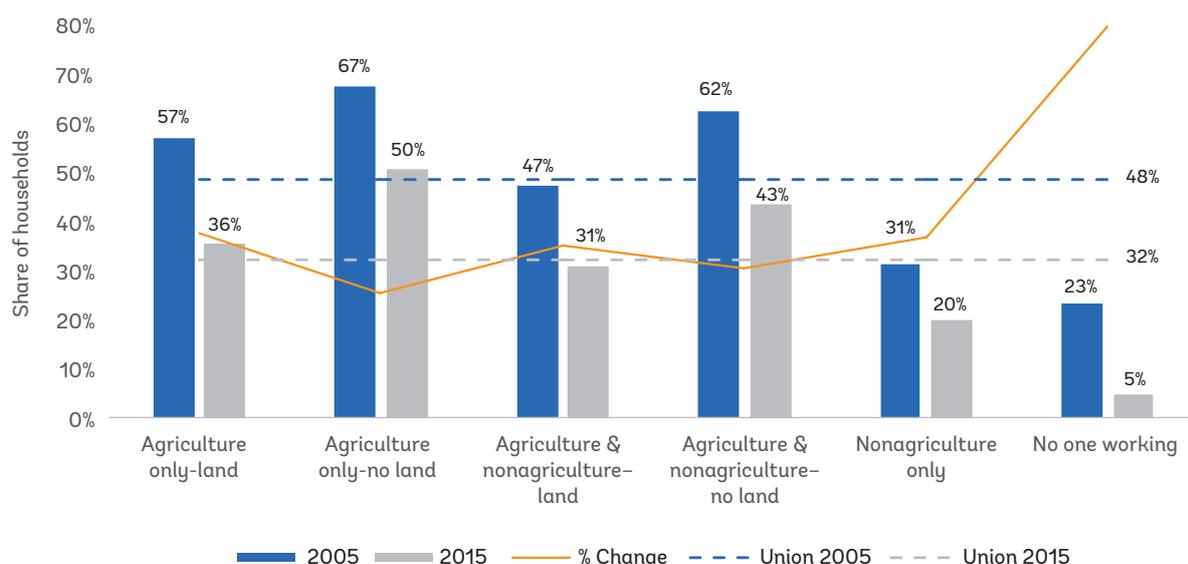
69 The direct and indirect role of the natural resource sector in driving Myanmar's economy remains important, but it is also difficult to quantify, because much activity is informal and illicit. Illicit activities range from drug production and trafficking, illegal logging of timber, mining and smuggling of gems and precious stones (jade in particular) and wildlife. Existing estimates point to very large economic magnitudes of those activities: jade mining and sales are officially valued at US\$1.5 billion in 2014, but estimates as high as US\$31 billion have been published. A recent detailed analysis revised this estimate to US\$6.3 to US\$6.6 billion (Jade Open Data, 2019), about 10 percent of GDP. Myanmar is likely to be the second largest producer of opium and the largest of methamphetamine in the world (UNODC 2017 and ICG 2018), with up to 3 percent of GDP in activity linked to opiates and probably even more in methamphetamine. In some states and regions, illicit activities are thus a major economic factor. Union-wide, they also very probably significant impact, through land and real estate markets. An additional channel however remains the fact that illicit activities and conflicts reinforce each other by financing non-state actors and giving them incentives to refuse negotiated settlements.

³⁶ World Trade Organization, Trade in Commercial Services database. It defines travel exports as "goods and services—for own use or to give away—acquired by nonresidents from an economy during visits to that economy."

2.2. What Drove Poverty Reduction?

70 **Poverty reduction during the 2005–2015 period³⁷ affected households in all sectors.** All groups of households, whether relying on incomes from agriculture, nonagriculture, or a mix of both, saw a decline in poverty. Both landed and landless households experienced poverty reduction, as did households with no one working—a mere 2 percent of the population in 2005. Available evidence indicates this group is dominated by better-off, elderly retirees rather than households with unemployed workers. Progress across all income groups suggests that, beyond sector-specific factors, improvements in the broader economic and institutional environments have probably contributed to poverty reduction.

Figure 2-17 | Poverty rates, by source of income, separating those working in agriculture by landholding status, 2005 and 2015



Note: Bars indicate poverty rates; solid line percentage change in poverty over time.
 Source: World Bank staff calculations, based on IHLCA-I 2005 and MPLCS 2015.

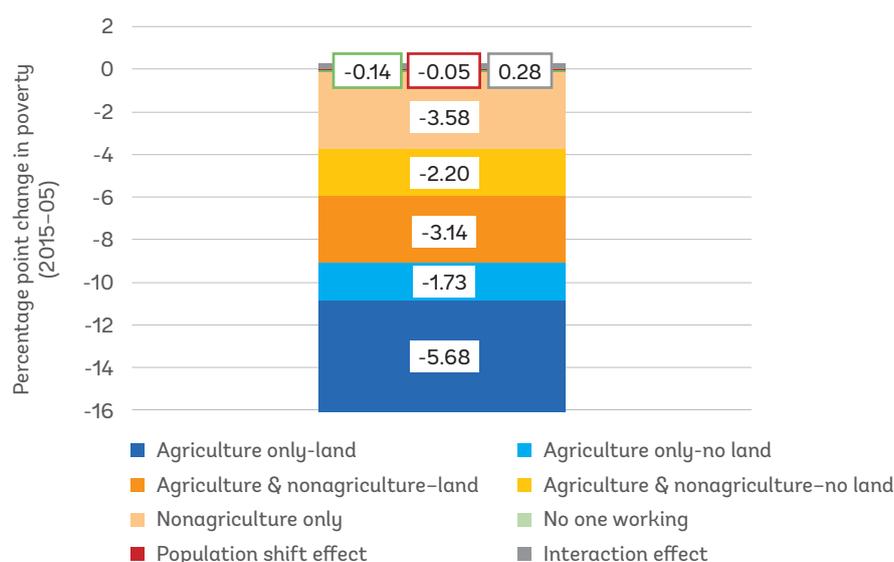
71 **While growth has been supported by movements within and between sectors, the majority of the poverty reduction can be linked to progress within income groups, rather than to structural transformation at the household level.** The total poverty reduction of 16 percentage points between 2005 and 2015 can be divided into two components: the change in poverty within sectors, keeping the population share in the sector of income generation at its original value, and the change in poverty associated with a population shift across sectors.³⁸ Figure 2-18 shows the contribution of within-sector change compared to cross-sector population movement. This decomposition finds that almost the entire decline in poverty comes from within-sector progress.

72 **Opportunities for poverty reduction through jobs have likely not been evenly distributed across space, but evidence on exclusion from progress in poverty reduction is scarce.** Further insights into the relationship between jobs and poverty reduction across space would help understand whether there is a clear spatial concentration in deprivation over time and identify critical challenges to inclusive growth. Data availability, however, limits our ability to monitor monetary poverty progress across states and regions. Trends in non-monetary measures, explored in chapter 4.1, provide some indication of persisting disparities across states and regions and population groups.

37 The analysis presented here used multiple imputation methods and followed an assessment of the sample, given issues of comparability across surveys. See annex C for details.

38 This analysis uses the approach of Huppi and Ravallion, 1991, "The sectoral structure of poverty during an adjustment period: Evidence for Indonesia in the mid-1980s," *World Development* 19 (12), 1991.

Figure 2-18 | Contribution of income and land groups to poverty reduction, within-sector vs. cross-sector, 2005–2015



Source: World Bank staff calculations, using data from IHLCA-I and MPLCS.

Progress in poverty reduction is anchored in agricultural sector growth

73 **Although the contribution of the agricultural sector to GDP growth has been relatively low, progress within this sector alone accounts for at least 46 percent of the poverty reduction seen between 2005 and 2015.** The headcount poverty rate for households working exclusively in agriculture dropped from 60 percent to 41 percent, between 2005 and 2015. Given that 37 percent of the population lived in households working only in agriculture in 2005, this translates into within-agriculture-only changes in poverty accounting for 46 percent of the total poverty reduction. Another 28 percent of the population was living in households conducting both agricultural and nonagricultural activities. Progress in the agricultural sector may also have fed into the further 33 percent of total poverty reduction accounted for by these households. Although households engaged exclusively in agriculture have seen the largest poverty reduction in absolute terms, those with a foot in nonagricultural activities have seen faster poverty reduction in relative terms. Together, households working exclusively in nonagriculture and households working in both agriculture and nonagriculture have contributed more to poverty reduction than agriculture-only households. This is aligned with the sectoral growth patterns discussed earlier.

74 **Progress was faster among those who owned land.** As shown in figure 2-17, both landed and landless households have seen a decline in poverty, signaling that growth in agricultural incomes is being transmitted to farmers and wage workers through the labor market. Landless households, which accounted for 30 and 41 percent, respectively, of those exclusively in agriculture in 2005 and 2015, were more likely to be poor than the average rural household or landed agriculture-only households in both years. However, poverty reduction has been higher in both absolute and relative terms for those with land, who have seen a 37 percent decline in poverty, compared to a 25 percent decline for landless agriculture-only households (figure 2-17). As such, the gains among landowners account for a greater share of the poverty reduction seen among agriculture-only households (figure 2-18).

75 **Unless labor markets fully transmit productivity gains in agriculture to the wages of agricultural laborers, households working only as agricultural laborers are less likely to benefit from improvements in agricultural productivity than farming households.** Evidence from India suggests that greater investment in agricultural innovations, such as irrigation, higher-yield seeds, or rainfall insurance, does not have the same positive impact on income for landless laborers as it does for farmers (Rosenzweig and Foster 1993; Mobarak and Rosenzweig 2014).

76 The decline in poverty among households working in agriculture has occurred despite the slower value-added growth in the agricultural sector noted in section 2.1. A variety of factors appear to have contributed to poverty reduction among households engaged in agriculture.

- i. **Diversification of cultivated crops in the cool and dry seasons.** Although the share of households cultivating in the cool and dry seasons decreased from 2005 to 2015, there has been a large shift towards cultivating crops other than rice, particularly vegetables and industrial crops, among households that continue to cultivate in these seasons. Easier access to local and regional markets may have given farmers greater incentive to cultivate crops other than rice.
- ii. **Diversification within agricultural activities, particularly towards livestock breeding.** More agricultural households, especially those engaged *exclusively* in farming, are also breeding livestock. In 2005, 13 percent of households engaged in farming also bred livestock, while 39 percent did so in 2015.
- iii. **Greater use of inorganic fertilizers, pesticides, and herbicides.** More farmers have shifted from organic fertilizers to inorganic fertilizers or a combination of the two. Pesticide and herbicide use has also increased, from 43 percent in 2005 to 58 percent in 2015. Fertilizers and pesticides were two of the topics on which farmers sought the most advice from the government in 2005, underscoring the role of the government and its agencies in aiding growth in the agricultural sector.
- iv. **Small overall increases in irrigation, with greater variation by season and region.** The share of farmers with irrigated land did not change significantly between 2005 and 2015. There have been marked shifts within seasons, however: the fraction of cultivated land that is irrigated has decreased during the wet season, but has increased in the cool and dry seasons, particularly on plots used to cultivate rice. There is significant regional variation in irrigation, as some areas in the delta benefit from embankment infrastructure. Despite small improvements in selected seasons and areas, the share of cultivated land that is irrigated remains low, at 31 percent.
- v. **An increase in mechanization.** There was a more than twofold increase in the use of machinery among farmers between 2005 and 2015, from 18 percent to 38 percent. Preliminary findings from a 2017 farm survey show that improved farming techniques such as the use of farm machinery increased moderately after 2013 in surveyed states and regions in the delta, hills and mountains, and dry zones. Knowledge of operation, maintenance and repair of farm machinery remains low and constraints faster progress.
- vi. **Easier access to markets, partly due to improved transport infrastructure.** Between 2010 and 2015, the share of villages with a local market increased from 26 percent to 31 percent. Reports from nonnational surveys suggest that travel times from villages to nearby urban centers have also fallen.³⁹ Shorter travel times reflect improvements to rural roads and increasing ownership of motorbikes, which have become by far the most common mode of passenger transport used to reach nearby markets or urban areas.
- vii. **Increased access to reliable credit for smallholder farmers.** The share of farmers receiving a formal agricultural loan increased from 24 percent in 2005 to 35 percent in 2015. This increase was largely due to a decision by the Myanmar Agriculture Development Bank (MADB) to expand lending from 191 billion kyat in 2013/14 to 1,700 billion in 2016/17. As these loans have below-market interest rates, borrowing farmers effectively receive an interest-rate subsidy.
- viii. **Rising wages for agricultural labor.** Real daily wages for casual agricultural labor increased by more than one-third from 2012 to 2016 according to non-national data sources (Belton et al. 2017). Women earned approximately 20 percent less per day than men, but the gender wage gap has narrowed slightly. Available evidence points to unmet demand for labor at critical times during the agricultural season, despite rising mechanization and wages (World Bank 2016a).

77 Further analysis is needed to assess whether an expansion of cultivated land also contributed to reducing poverty among agricultural households. The decline in forest cover from 54 percent in 2000 to

³⁹ See, for example, a survey in the central dry zone that found a travel-time decrease of one-third in both the monsoon and the dry season, in Belton et al. 2017.

45 percent in 2015⁴⁰ may have resulted in an expansion of the total land area used for agricultural purposes. Available surveys do not provide conclusive evidence on whether the average farm size among farmers increased, however. The use of satellite imagery could shed light on this other potential channel behind poverty reduction.

A gradual structural transformation and migration also contributed to reducing poverty

78 Poverty reduction has been fastest for those engaged in nonagricultural activities, either exclusively or in combination with agriculture, and these households may rely on agriculture more as a source of income than of sustenance. Figure 2-17, above, shows that households engaged in nonagricultural activities exclusively are less likely to be poor than the average household. Among those who work in both the agricultural and nonagricultural sectors, poverty rates are distinguished by the type of work that they do in agriculture: those who own land are more likely to be farmers and tend to be better off than the landless, who are more likely to be laborers. Households engaged in both agricultural and nonagricultural activities also adopt agricultural technology at higher rates (i.e., irrigation, fertilizer, machinery) and are less likely to consume their own harvest than agriculture-only households. Although the causal direction between participation in nonagricultural activities and technology adoption is unclear, this finding suggests that households working in both sectors have greater capability to invest in productivity-enhancing agricultural activities and are more likely to rely on agriculture as a source of income than as a source of sustenance.

79 A gradual shift in the structure of work has moved more people into the nonagricultural sector, but many households engaged in nonagricultural work maintain some engagement in agriculture.⁴¹ The share of households working exclusively in agriculture declined by two percentage points between 2005 and 2015, from 37.2 percent to 34.9 percent. This was mostly driven by landed households moving into nonagricultural work, many choosing to cultivate only in the cool and/or dry seasons. The share of households without land working exclusively in agriculture has remained the same, at 14 percent. These landless households are, however, more likely to make the transition from having their feet in both sectors to only working in the nonagricultural sector.

80 Households with more-educated household heads are better off and are more likely to be in the nonagricultural sector. The household income returns to education have grown over time, so that those with more education have seen faster expenditure growth.⁴² No clear change can be seen between 2005 and 2015 in the education level of household heads: in both years, 68 percent of households were headed by individuals with a primary school education or below. A strong relationship between education and poverty can be seen in both years: 84 percent of poor households were headed by someone with a primary education or less in 2015, compared to 63 percent of nonpoor households. Households with more-educated household heads are more likely to be working in the nonagricultural sector and to be working in a small enterprise. This relationship has remained broadly stable over time. The relationship between education and household expenditures strengthened between 2005 and 2015, however: econometric analysis shows that having a household head with more education is strongly associated with higher expenditures, and that this relationship has strengthened for those with a primary school education or higher. The strongest growth in the return to education occurs for household heads who completed high school or above.⁴³

81 Both poor and nonpoor households are migrating more in response to expanding nonagricultural labor opportunities across Myanmar and internationally.⁴⁴ The share of households receiving remittances increased from 6 percent in 2010 to 24 percent in 2015, indicating increased migration. Remittances accounted for 8 percent of household income in 2015—less for the lowest expenditure quintile (6 percent) than for the top quintile

⁴⁰ Statistics on forest land cover as a share of total land cover downloaded from FAO Stat in June 2018.

⁴¹ Given the data available, this theory cannot be tested over time.

⁴² Standard analysis of the wage return to education cannot be done in Myanmar due to an absence of wage data before 2015. It is, however, possible to examine how education affects what a household does, including the rise in expenditures associated with higher levels of education.

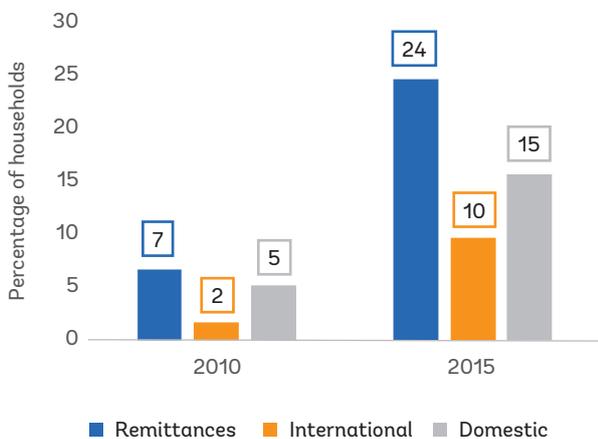
⁴³ A Blinder-Oaxaca decomposition was conducted to examine changes in expenditures between 2005 and 2015. The regression controlled for the characteristics of the household head, including his or her education; household demographic variables; land; and sector of income generation.

⁴⁴ Historical migration data in Myanmar is limited, and the data that exists must be interpreted cautiously, in part because of potential underreporting of undocumented migrants. The issues around migration reporting are explored in greater depth in MOLIP 2016c. Rather than using data on reported migration, this analysis assesses reported remittances.

(11 percent). Three-quarters of remittance senders work in nonagricultural jobs. Although receiving remittances from domestic channels is more common, the remittances coming from international channels are larger and account for 65 percent of total remittances received by households.

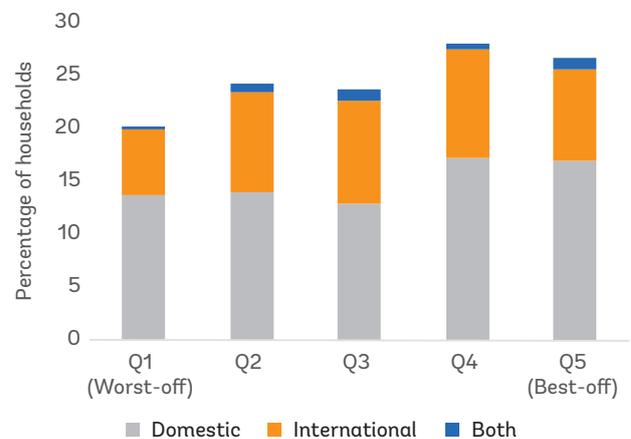
82 Poor households are less likely to receive remittances, and when they do, they receive less relative to their overall incomes. The income sources of poor households appear to be more locally concentrated than those of nonpoor households. Poor households are slightly less likely than better-off households to receive remittances (20 percent receive remittances, compared to 25 percent among the nonpoor), and these remittances represent a lower share of their income. This may be linked to demographic composition: with fewer working-age members for every dependent child, the capacity of these households to send a working-age person to migrate for work is also more limited. The high cost of migrating might also explain this. While the majority of poor households receiving remittances are receiving income for nonagricultural work (60 percent), they are twice as likely as nonpoor households to be receiving remittance income from agricultural work. Poor households are also more likely than better-off households to have domestic rather than international migration connections.

Figure 2-19 | Share of households receiving remittances, 2010 and 2015



Source: WB staff estimates using IHLCA-II and MPLCS.

Figure 2-20 | Share of households receiving remittances from migration, 2015



Source: WB staff estimates using MPLCS.

A conducive demographic transition also played a role

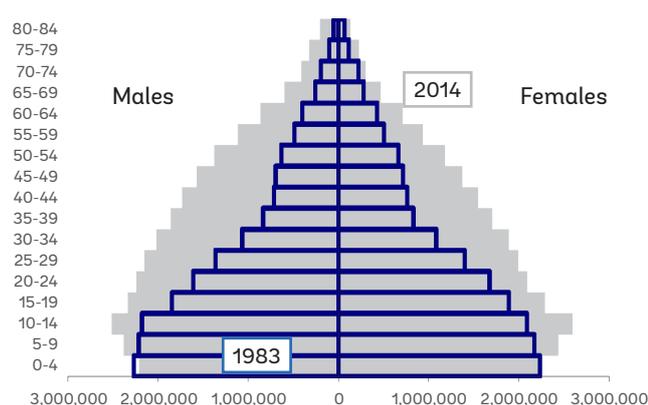
83 The labor force has grown, reflecting more people of working age as well as higher rates of participation, especially by women. The ratio of workers to dependents increased in the last few decades. The share of the population of working age increased from 57.5 percent in 1983 to 66 percent in 2014, while the share of the population under 15 decreased from 39 percent to 29 percent over the same period (MOLIP, 2016a).⁴⁵ Female labor-force participation increased from 47 percent of women aged 15 and above in 2005 to 55 percent 2017.⁴⁶ This is likely the result of new manufacturing jobs and declining fertility rates. Fertility fell by one child per decade between the mid-1970s and the late 1990s, and subsequently may have stabilized.⁴⁷

⁴⁵ Population projections. Population estimates between the 1983 and 2014 censuses are not available at the time of this analysis.

⁴⁶ The rise in female labor-force participation is likely a reflection of another population trend: Myanmar has seen rising rates of women never marrying, and is second in this region only to Singapore. Note that the sources of these data are the IHLCA-II 2010 and MLCS 2017 (national household surveys); figures may differ from modelled ILO data often used for comparative purposes.

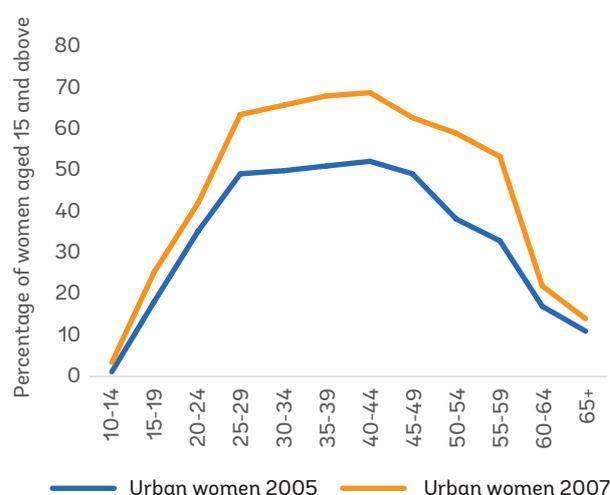
⁴⁷ The evidence on fertility rates between 2000 and 2014 is unclear (MOLIP, 2016a). The available evidence points to potential stabilization, but lack of population statistics over this period do not allow a conclusive statement.

Figure 2-21 | Age-sex population pyramid, 1983 and 2014



Source: MOLIP 2015.

Figure 2-22 | Female labor force participation, 2005 and 2017 (urban)



Source: IHLCA-I and MLCS.

84 **The demographic transition has likely contributed to poverty reduction through a higher proportion of workers per household and more opportunities for women to work.** First, households with three or more children, which are twice as likely to be poor as those with no children, have declined slightly between 2005 and 2015. Households with more children under the age of 15 have fewer working-age and working adults for each child, are more likely to live in rural areas, and have less-educated and younger household heads. Second, the decline in fertility is also likely to have contributed to the 12 percent rise in female labor-force participation noted above. In the longer term, a third factor may come into play, as the decline in fertility may be associated with rising investment in each child, leading to healthier and more productive workers later on. The demographic transition has been slowest in Myanmar's poorest state, Chin, where the adjusted total fertility rate of five is twice the national average. This is also the state that has seen some of the most limited poverty reduction over time.



3

DEEPENING AND SUSTAINING JOB-CREATING GROWTH

Deepening and Sustaining Job-Creating Growth

85 **Myanmar made remarkable progress during the transition towards achieving high economic growth, but renewed and persistent reform efforts will be needed to sustain and spread growth and raise its potential.** This chapter acknowledges that economic growth will be necessary to achieve the MSDP goal of a peaceful, prosperous, and democratic Myanmar. But it will not be sufficient, which subsequent chapters on inclusiveness, sustainability, and institutions will address. Nevertheless, growth will provide the economic and employment base necessary to achieve the government's vision. Growth, in turn, needs macroeconomic stability supported by capable public-sector institutions, and it needs a dynamic and thriving private sector with access to markets and inputs such as credit, land, electricity, and skilled labor in a peaceful environment. Thus, in an economy such as Myanmar's, transitioning from a closed and socialist state to a more modern, market-based state, achieving high and stable growth is synonymous with building capable economic and private institutions that unleash the power of competition, connect people to services and markets without discrimination, and promote sustainable resource use.

86 **Myanmar may pursue different growth models to attain high income status in the next decades, but common to these is the need to boost innovation and productivity, and capital accumulation.** While Myanmar's growth acceleration since 2011 was driven by capital accumulation supported by private domestic and especially foreign direct investment, the contribution from productivity improvement waned. To achieve high income status by the 2040s, increased public investment in physical and human capital and efforts to level the playing field for private innovation will matter most. These efforts can be supported by FDI, that brings both much needed capital and innovative management practices. A competitive domestic and external trade environment also boosts innovation, as well as further improvement in financial access.

3.1. Economic Stability and Strengthened Macroeconomic Management

87 **Macroeconomic indicators improved during the transition, supported by good policies, but global economic uncertainty and emerging domestic vulnerabilities point to an unfinished reform agenda in the fiscal and financial sectors and the large illicit economy.** Myanmar's economic growth is expected to slow from 6.8 percent in 2017/18 to 6.5 percent in 2018/19 before recovering to 6.8 percent in 2021, which is still robust by regional and global standards. The kyat depreciated by roughly 18 percent against the US dollar between April and October 2018, inflation edged closer to double digits, and economic growth remains volatile, driven in part by trade in natural resources (World Bank 2018a). The global economic environment is not supportive. Nascent financial intermediation and monetary policy transmission channels place the burden of economic management on fiscal policy. But constrained fiscal space and execution hinder government support of the economy. And the large informal and illicit economies impede tax collection and spill over into the formal economy, occasionally destabilizing it with asset-price bubbles and exchange-rate volatility.

Global and domestic economic uncertainty may hinder progress and add strains

88 **The global economic environment has become less favorable.** Real growth in global GDP is projected to moderate, declining from 3 percent in 2018 to 2.5 percent in 2019, as economic slack dissipates, major central banks continue to remove policy accommodation, and global trade and investment growth weaken further due to uncertainty in global trade policy. Rising crude oil prices have been growing more volatile, reaching their highest level in four years in late October before declining. Growth in East Asia and the Pacific region has slowed with the region growing at 6.0 percent year-on-year in the first half of 2019 compared with 6.5 percent in the first half of 2018.

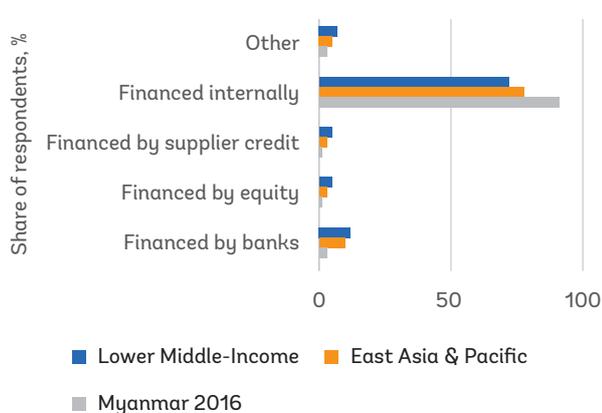
89 **Myanmar’s economic outlook faces risks from global and domestic sources.** Global and regional growth and trade flows are at risk of slowing further amid elevated policy uncertainty and geopolitical tensions. Regional currencies, including the kyat, may come under further pressure triggered by faster-than-expected monetary policy normalization in advanced economies. These global risks interact with high domestic risks. The indirect economic impacts of the crisis in Rakhine State may intensify, further depressing tourism revenues, which still account for 2.7 percent of GDP in direct revenues and significant indirect economic benefits. Exports face a downside risk from the possible revocation by the European Union (EU) of benefits under the Generalized System of Preferences (GSP). This may particularly impact garment exports, which accounted for a quarter of overall export growth in Myanmar in the last year. Slowing growth may especially exacerbate the external balance, with growing pressure on the kyat that may increase inflationary pressures.

90 **Preserving hard-won macroeconomic stability is still a key prerequisite for growth, elevated growth potential, and sustained poverty reduction in Myanmar.** Maintaining stability in the rate of inflation, the exchange rate, and real GDP growth and using the financial system to intermediate savings to the most productive uses will be critical. Collecting more public revenue and better spending decisions will allow the public sector to play a greater role in building connective infrastructure and human capital for a stable and prosperous Myanmar.

A more stable macro-financial environment supports macroeconomic stability, financial intermediation, and access

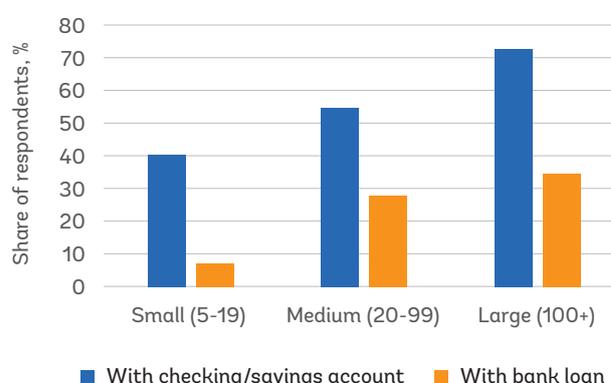
91 **National savings are adequate, but they must be intermediated more efficiently to boost growth and economic potential.** Recorded savings in the national accounts have been increasing in the past five years, from 24 percent of GDP in 2010 to 33 percent in 2016, compared to 20 percent of GDP in lower-middle-income East Asian countries (WDI data). However, very little of those savings is intermediated in the financial sector. A cause and consequence of this is that most investments are financed by retained earnings. Another is the underdevelopment of the financial system. In particular, formal savings remain low. Most firms finance expansions from internal sources (figure 3-1). In 2016, deposits mobilized by domestic banks represented only 37 percent of GDP (compared with 64 percent in Cambodia and 132 percent in Vietnam), and only 150 bank accounts were recorded per 1,000 adults (in contrast, Laos has 390 and Thailand about 1,500). It thus seems that an important constraint is the allocation rather than the volume of savings.

Figure 3-1 | Most firm expansions are financed from internal resources, 2016



Source: Myanmar Enterprise Survey 2016.

Figure 3-2 | Relatively few firms are still making use of the financial system, 2016



Source: Myanmar Enterprise Survey 2016.

92 **Interest rates are regulated, ostensibly to promote access for firms but restricting banks' ability to lend.** As a result, a sizeable and active informal credit market has developed with much higher interest rates, suggesting a relative scarcity of available capital in those markets. At the same time, commercial banks have low capitalization rates and retain a high level of liquidity, exacerbated by the inability to discover risk and price lending accordingly. The development of financial markets can improve the allocation of capital.

The banking sector has accumulated vulnerabilities over time, but has significant potential to sustain growth in the longer term

93 **Vulnerabilities have built up in the banking sector.** They are due to high growth in credit to the private sector in recent years, a proliferation of short-term overdrafts that were often directed to related parties, concentration risk, lax reporting requirements, limited loan-assessment capability, and interest-rate caps that limit banking-sector profitability. In terms of banks' liabilities, deposit growth has been robust, and liquidity ratios are growing. Finally, by the end of the second quarter of 2017/18, the overall banking-sector capital adequacy ratio fell to 7.8 percent, just below the recommended 8 percent prudential norm. But this industry average masks a significant variation among banks. Non-Performing Loans (NPLs) are recorded to be well over 3 percent of total.

94 **To address these vulnerabilities, the Central Bank of Myanmar (CBM), with support from the World Bank and the IMF, issued four prudential regulations in 2017 to ensure banks' compliance with minimum international standards,** covering critical areas such as large exposures, asset classification and provisioning, and capital adequacy. Implementation of these regulations should contribute to better monitoring and management of systemic risks. Nevertheless, if banks reduce the supply of credit while adjusting to the new environment, sectors that depend on external finance, like the construction sector, could be severely affected. A slowdown in construction would disproportionately affect poorer households, which are more reliant for livelihoods on unskilled labor opportunities.

Collecting more revenues and spending them better can improve fiscal capacity, support countercyclical fiscal policy, and provide public goods

95 **The public sector can be an important contributor to inclusive economic growth, and Myanmar has embarked on major fiscal reforms to enable the public sector to play this role.** Significant reforms include efforts to modernize tax administration by introducing self-assessment, introducing policy-based budgets based on a medium-term fiscal framework (MTFF), creating the Treasury Department and introducing Treasury bonds, and mandating the independence of the CBM to control monetization of the fiscal deficit. These reforms have yielded results. General government receipts rose from 6 to 12 percent of GDP between 2009 and 2015. While there is still a long way to go, budget reallocations to social sectors and away from defense have enabled higher spending on public services within a prudent fiscal stance. The annual fiscal deficit averaged 2.4 percent of GDP between 2011 and 2015, rising to over 4 percent in 2016 before falling back to average in 2017 due to underspending. Public debt levels were 37 percent of GDP in 2017, reflecting a low level of debt distress.

96 **However, strengthened fiscal fundamentals mask the fact that Myanmar's public sector remains small relative to need, hampered by low revenues.** General government spending at 15 percent of GDP is much lower than what is needed to deliver public services and infrastructure for economic growth, and well below the average of countries at a similar level of development, which spend over 20 percent of GDP on public services. Fiscal space and resilience are limited by low revenue (10 to 12 percent of GDP), with considerable economic activity that is either in hard-to-tax sectors, dominated by small and micro enterprises, or exempt altogether. Myanmar's current revenue potential could be in the range of 15–20 percent of GDP.⁴⁸ Tax receipts are around 6–7 percent of GDP, compared to 10–20 percent in countries at similar levels of income (figure 3-3). In other fragile states, tax collections range between 14 and 16 percent of GDP (figure 3-4), driven by relatively high natural resource rents.

48 Excluding tax and nontax receipts from large mining activities. The potential revenue range is derived from revenue collection in countries at similar levels of income.

97 Despite the low overall level of debt distress, Myanmar faces fiscal sustainability constraints from limited options for deficit financing. Myanmar relies on short-term domestic financing of the deficit, with a large but declining share (20 percent in 2017/18) financed by highly inflationary Central Bank financing. The rest of the deficit is financed primarily by domestic treasury bills and bonds with short maturities: over one-third of the domestic debt portfolio matures in less than one year, with an average time to maturity (ATM) of 1.6 years, while external debt consists of long-maturity loans with an ATM of 11.4 years. The short-term nature of domestic debt is a consequence of the immature domestic securities market—the first Treasury Bond issued only in 2016—and international experience suggests that the market will take many years to become capable of stable financing at scale. The reliance on short-maturity debt increases refinancing risks and impedes long-term investment. Access to concessional external finance is thus critical for Myanmar in the short run, as per Myanmar’s first Medium Term Debt Strategy (MTDS), published in 2016. When recent economic shocks such as Cyclone Komen in 2016 widened the fiscal deficit, the government turned to the Central Bank for monetary financing. This exacerbated inflationary pressures from the supply shock. Government has only recently initiated market auctions of Treasury bills and bonds, which will take time to reach volumes large enough to provide significant deficit financing and effectively manage liquidity and monetary pressures

98 SEEs retain an important, albeit declining, role in Myanmar’s budget and also face declining revenues. There are 32 SEEs in Myanmar, down from 44 in 2011/12, as some have been absorbed as administrative units in line ministries. SEEs still account for more than a third of government expenses and receipts. However, SEE sales account for only around 7 percent of GDP, which is a lower share than in many transitional and emerging market economies. The presence of SEEs is felt more in certain sectors such as natural resources where the Oil & Gas and gems companies make a significant contribution. Their revenue contributions to the budget have been steadily declining as gas revenues from the national oil company have fallen and competition from the private sector has squeezed SEE profits more broadly.

Figure 3-3 | Tax/GDP vs. GDP per capita, 2010–2016 average

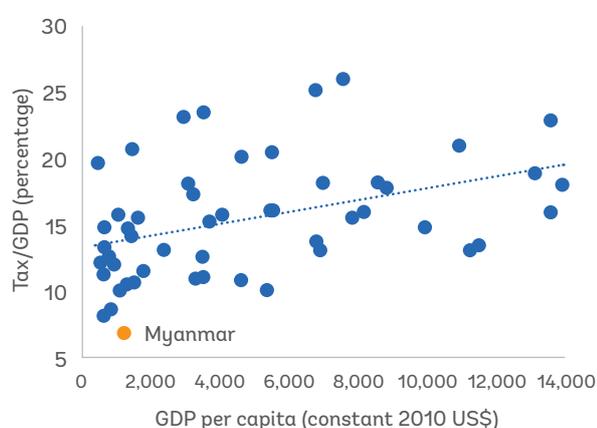
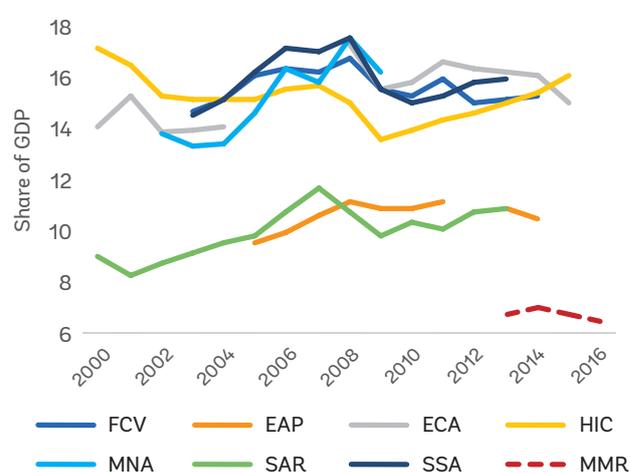


Figure 3-4 | Tax/GDP across regions, 2000–2016



Source: World Bank, 2017a.

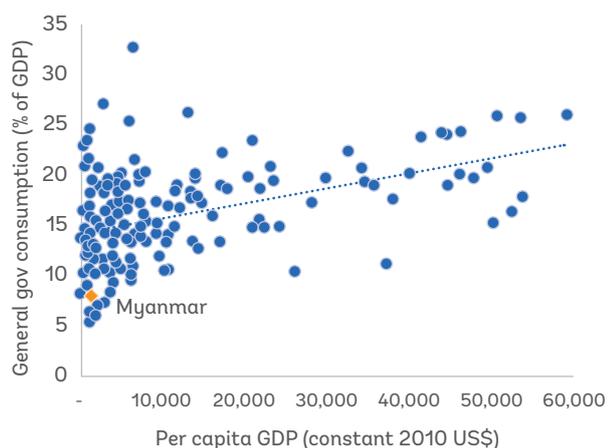
Note: Regional averages exclude high income countries FCV = Fragility, Conflict and Violent; EAP = East Asia and Pacific, ECA = Europe and Central Asia, HIC = High Income Countries, MNA = Middle East and North Africa, SAR = South Asia Region, SSA = Sub Saharan Africa, MMR = Myanmar.

99 Collecting more revenues and improving tax system efficiency in the short term are possible by better defining and identifying the tax base. The tax policy and administration reforms already in motion are likely to improve understanding of the tax base, especially as (i) self-assessment is rolled out to more of the taxpaying population, extending the successful work begun in 2017 for the first Medium Taxpayer Office (MTO) and other taxpayer segment starting ; and (ii) on the tax policy side, revisions in the income tax law, and eventual adoption of a VAT to replace the commercial tax, will help ensure that the tax base is fully specified and that the Internal Revenue Department (IRD) has the requisite legal basis to carry out its mandate.

100 **In addition, reforms to reduce revenue leakages of the tax base could also have a significant positive impact.** In this regard, Myanmar could consider improving the transparency of incentives available to investors and the amount of tax expenditures resulting from those incentives. This would entail consolidating and streamlining the information on incentives that is available to investors, and publishing the specific criteria used to grant tax incentives and a detailed explanation of the approval and appeal process. This could lead to adjusting the current mix of tax incentives, gradually replacing tax holidays with more cost-effective incentives that support investment in human capital and higher-value-added sectors.

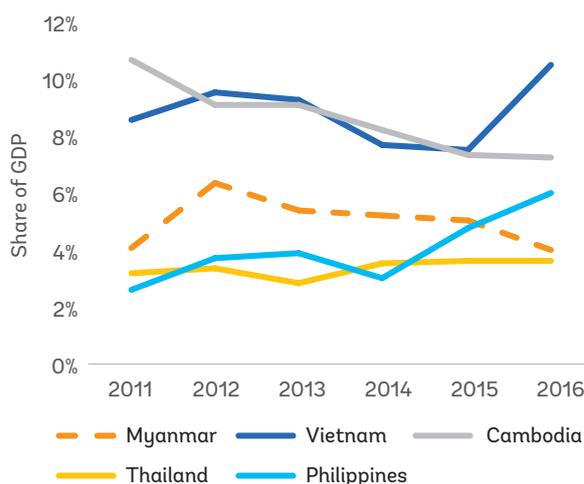
101 **Low levels of revenue mobilization have meant that general government remains small relative to service delivery and infrastructure needs, and public capital investment has declined as a share of GDP.** Myanmar has one of the lowest levels of recurrent spending by general government,⁴⁹ including relative to other countries with a similar level of income (figure 3-5). General government has historically had a small role in public-service delivery. Many decades of underspending have led to prohibitive out-of-pocket financing by households of critical education and health services, resulting in low access. Inefficient and inadequate public investments have left major infrastructure gaps, which are similar to low-income countries and significantly higher than those of other lower-middle-income countries. Despite these gaps, capital spending is low and has been falling as a share of GDP since 2012/13 (f).

Figure 3-5 | Recurrent spending vs. per capita GDP, 2010–2016 average



Source: World Bank, 2017a.

Figure 3-6 | Capital spending by Union ministries, 2011/12–2016/17

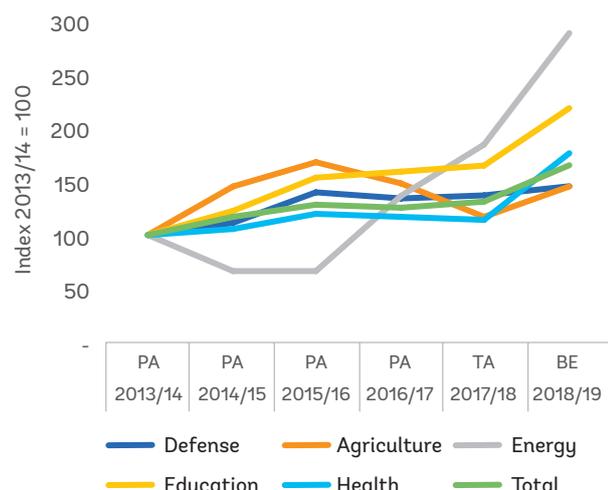


Source: World Bank, 2017a.

102 **Within this limited available fiscal space, Myanmar could still spend better—first by further improving allocations to priorities.** In Myanmar, six ministries out of 22 account for 80 percent of total ministry spending: Defense, Education, Health, Agriculture, Energy, and Planning and Finance. Health Ministry spending has seen the biggest increase since 2009–2010, followed by Education and Agriculture. Between 2009/10 and the approved 2016/17 budget, spending for these ministries grew faster than the average spending for all ministries (figure 3-7). As a result, the budget rebalanced gradually towards the pattern in other Lower Middle Income Countries (LMICs). The share of spending on defense remains higher than other LMICs, however (figure 3-8), while spending on social protection, at less than 0.5 percent of GDP, remains some of the lowest in the world. The government should also focus on reversing the declining trend in Union capital-budget spending as a share of GDP, focusing on selecting the right projects and implementing them well. Here is an opportunity to further rebalance towards priorities. The approved 2019 budget framework includes positive reforms in this direction.

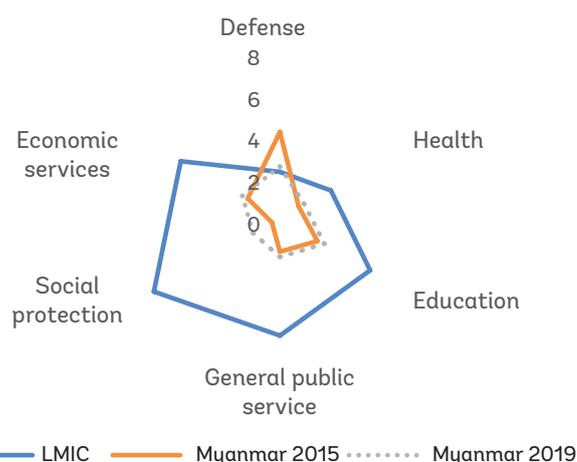
49 General government receipts and spending refers to the consolidation of spending and revenue collection by both the Union government and by SEEs.

Figure 3-7 | Spending growth (index, 2013/14 = 100)



Source: World Bank, 2017a.

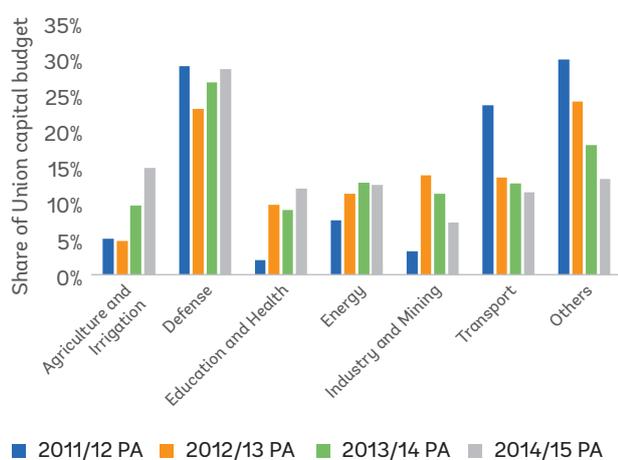
Figure 3-8 | Functional spending allocations in Myanmar and LMICs, share of GDP, 2015 vs. 2019



Source: World Bank, 2017a.

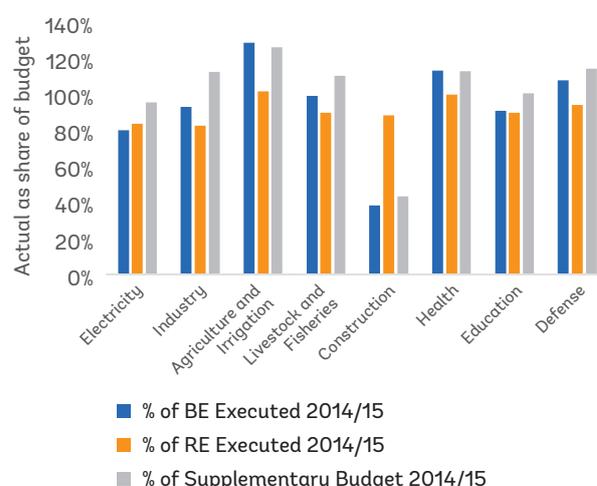
103 Myanmar could also spend better by focusing on effective implementation, which remains a significant issue, especially for capital investment in physical infrastructure. From 2011/12 to 2014/15, Myanmar steadily increased the share of the capital budget allocated to the energy and transport sectors, yet despite this, the share of actual spending in energy remained stagnant, while the share of capital spending in transport declined (figure 3-9). This is partly due to poor budget execution: construction in the transport sector had the lowest capital-budget execution rate of all major ministries (figure 3-10). This reflects a lack of strategic project selection, ambitious and rigid project designs that are inadequately appraised, lack of multiyear capital budgeting allocation, and delays in procurement. The lack of sustained funding is detrimental, especially considering the multiyear nature of infrastructure projects and the network effect when outputs of one project are closely linked with overall service delivery. In addition, large capital projects have traditionally been deprioritized,⁵⁰ with the average and total value of large projects declining significantly since 1995. Measures are underway with the MSDP Project Bank to reverse this trend towards small projects and slow project execution. Success is critical for growth.

Figure 3-9 | Sectoral spending as share of Union capital spending, 2011/12–2014/15



Source: World Bank, 2017a.

Figure 3-10 | Capital-budget execution, by ministry, four-year average, 2011/12–2014/15

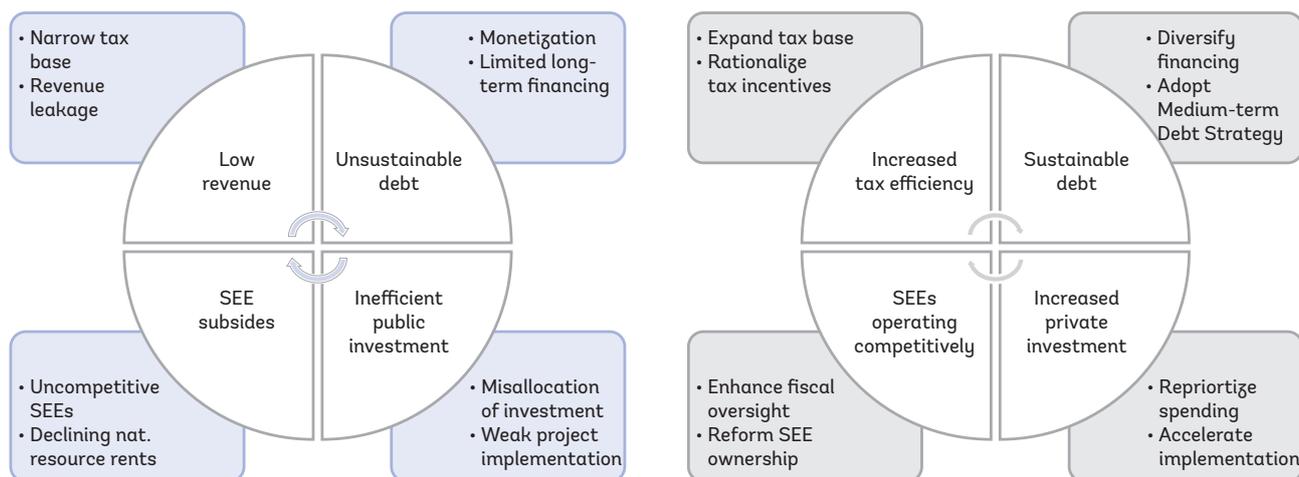


Source: World Bank, 2017a.
Note: BE refers to budget; RE refers to revised budget.

⁵⁰ This analysis is based on data on large projects (above 2 billion Kyat in value, equivalent to about US\$1.5 million) from the previous Ministry of Energy and Electric Power and the Ministry of Agriculture, Livestock, and Irrigation, which, together with the Ministry of Construction, account for all large infrastructure projects in Myanmar.

104 As highlighted above, it is possible to collect more revenue to expand the budget envelope and to spend better to fund priorities, but this must be part of an integrated, macro-fiscal strategy. The *Myanmar Public Expenditure Review 2017* found that while Myanmar can afford to borrow more, it could incur unsustainable debt if economic growth were marginally slower or the fiscal deficit slightly larger than what is projected in the baseline scenario. Growth could be significantly affected by the efficiency of capital spending, SEE operations, and the tax system, and by public-debt sustainability. Similarly, the risks of fiscal slippages are greater with inefficient capital spending and SEE operations, a narrow revenue base, and unsustainable debt. Therefore, integrating these elements into a comprehensive strategy that lays out how the government will create fiscal space for growth improves the chances of implementation and success.

Figure 3-11 | Creating fiscal space and resilience



Binding Constraints

Slowing growth and recurring exchange-rate and inflation volatility are deterring investment and consumption, while low public-sector revenues and spending constrain government from supporting the economy and distributing income.

The financial sector does not adequately channel savings to investment opportunities, and individuals' access to finance is restricted by regulated interest rates and collateral requirements. While essential regulation is taking effect, vulnerabilities remain due to rapid credit growth, a history of short-term overdrafts that were often directed to related parties, concentration risk, lax reporting requirements, and limited loan-assessment capability.

3.2. Job Creation and Private Sector-Led Growth

105 The private sector is large relative to the public sector. While the role of the public sector is critical in Myanmar to maintain macroeconomic stability, provide public goods and services, and support inclusion, its direct contribution to the economy and employment remains limited. Only 3 percent of all jobs, equivalent to fewer than one million people, are in the public sector. The other 33 million jobs are in the private sector. Between 2011 and 2016, private-sector investment contributed nearly half of all growth, while public investment contributed roughly 8 percent.

The private sector has evolved quickly in the transition, generating jobs, albeit of low quality

106 Private enterprise in Myanmar is largely dominated by small, young firms concentrated in urban areas. Most private enterprises in Myanmar have a small number of workers. According to the *Myanmar Business Survey 2015* (MBS),⁵¹ 72 percent of firms have five workers or less. About 60 percent of enterprises were established after 2000, and in particular after 2011 when the economic transition began. According to the 2016 Enterprise Survey, only out of three firms with five workers or more have a woman as majority owner and two out of five have a woman as top manager. The gender gap is however lower than the EAP average. There is also substantial agglomeration of firms in two of Myanmar's largest cities, Yangon and Mandalay, which contain about one-third of all enterprises in Myanmar, employing more than half of private-sector workers and contributing up to half of the country's total value added. Developing Myanmar's urban spaces can attract investment and talent and reduce the "congestion cost" associated with transport, crime, and pollution. With the right infrastructure, business agglomeration can also create demand for goods and services from businesses in other areas.

107 Myanmar can benefit from the concentration of businesses in urban areas and the large proportion of young firms. Current business agglomeration in Yangon and Mandalay can contribute to productivity if firms can link to markets and suppliers more efficiently, have access to skilled workers, and can tap into information and innovative ideas. Another important dimension is the large proportion of young firms. They tend to be more agile in exploring business opportunities, but they are also more prone to failure than large and more established firms. Therefore, improving the ecosystem for firms to grow, exit, and change business is important for sustaining private-sector growth in Myanmar.

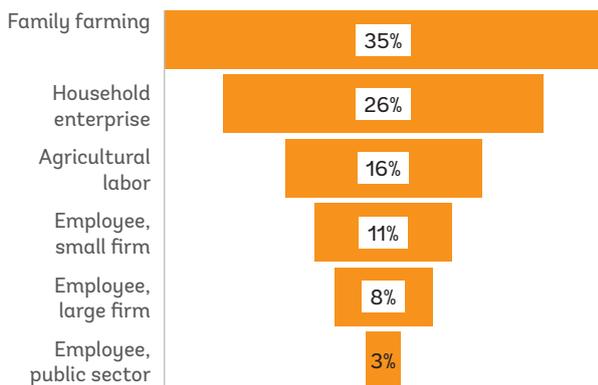
108 Most domestic enterprises are in traditional activities, with large firms in a few sectors. Ninety percent of domestic enterprises in Myanmar are sole proprietorships. The 2015 MBS data found 28 percent of those enterprises are manufacturers or providers of food and beverage services, while 11 percent are in retail services, most of them SMEs or household enterprises with five to six workers per firm. Larger domestic enterprises are typically in natural resource extraction (gas, mining, wood processing); agricultural processing; chemical, construction, or financial services; and transport services. Several large domestic enterprises are also linked to business groups or government factories that have been acquired by private investors.

109 Indeed, most jobs in Myanmar's private sector are, and for the foreseeable future will be, in the traditional sector. About 8 percent of the workforce is employed by large firms in the modern sector of registered companies, equivalent to about 1.7 million jobs (figure 3-12). Meanwhile, around 35 percent of the workforce—more than 8.5 million people—is involved in family farming, mostly in rural areas, with another 16 percent—nearly 4 million—working on these farms as paid laborers. A further 37 percent of the workforce is employed by SMEs (2.6 million) and household enterprises (6.1 million), mostly involved with food products, light manufacturing industries (garments, machinery), and retailing.

110 Job quality, including remuneration, is low, particularly among certain groups. Only 3 percent of Myanmar's workers are classified as professionals or managers. The rest labor in low-value-added elementary or semiskilled jobs. On average, earnings cluster around the minimum wage. While 39 percent of workers are wage employees, only 5 percent of jobs are covered by a labor contract that stipulates a minimum wage and other job-related benefits. Nearly 60 percent of workers own small farm enterprises or off-farm, household enterprises that are subject to earnings uncertainty due to weather, market fluctuations, and seasonality. Their median earnings fall below the poverty wage, and far below the minimum wage, and they do not enjoy social benefits normally obtained through a job.

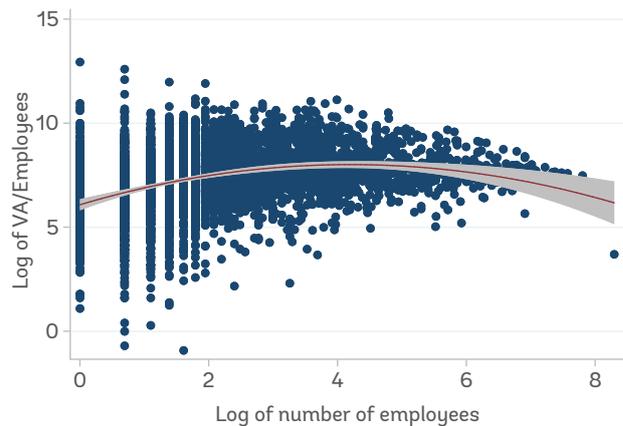
51 UNDP, *Myanmar Business Survey 2015*. From: http://www.mm.undp.org/content/myanmar/en/home/library/democratic_governance/MyanmarBusinessSurvey.html

Figure 3-12 | Distribution of jobs, by type, 2015



Source: MPLCS 2015.

Figure 3-13 | Relationship between size and productivity of manufacturing firms, 2015



Source: MBS 2015.

111 **Despite low wages, unit labor costs are high, reflecting low labor productivity and restricted access to jobs for women and vulnerable groups.** Labor productivity in manufacturing is low by regional standards and highly variable with respect to firm size (figure 3-13). Myanmar’s labor productivity in paddy production is 4 percent of Thailand’s. The unit labor costs in the garment sector, following the 2018 minimum-wage increase, are among the highest in the global garment sector. Women, older and rural workers, and those living in conflict-affected zones are particularly clustered in poor-quality jobs. Female labor-force participation in 2017 was estimated at 55 percent of women over age 15. When women are active in wage labor or employment outside of the home, the gender wage gap is significant. Women’s wages for agricultural day labor are about 25–50 percent lower than men’s, according to estimates and reports from various NGOs and agencies.

112 **Participation of Myanmar firms in the global value chain is low compared to other countries.** In contrast to firms in neighboring countries, most domestic enterprises in Myanmar are not engaging in cross-border trade. The 2016 Enterprise Survey data (World Bank 2016b) suggest that only around 5 percent of private enterprises in Myanmar are directly or indirectly exporting, compared to 14 percent in Cambodia and 17.5 percent in Vietnam. Only 28 percent of firms in Myanmar are using imported inputs, lower than the average of 41 percent for East Asia-Pacific countries. Exporters were responsible for one-third of new jobs in 2014–2016.

113 **Myanmar has a small but growing number of foreign-owned enterprises with modern operations.** The number of enterprises with foreign ownership (full, or joint venture) is still relatively low, at about 1 percent of all enterprises. Both MBS and Enterprise Survey data suggest that, on average, firms with foreign ownership in Myanmar employ more workers than domestic enterprises. Among firms with less than 10 years of operation in Myanmar, foreign-owned enterprises accounted for 20 percent of workers. The Enterprise Survey data also show that foreign-owned enterprises in Myanmar have higher labor productivity and pay higher wages than domestic enterprises. Foreign investment in Myanmar has been driven by “resource seeking” and “market seeking.” This can be seen by the relatively large concentration of FDI in natural resources (gas, mining), power generation, and telecommunications. The removal of sanctions has broadened the incentives for FDI, and recently more foreign investments have been made in manufacturing (garments, machinery) and hospitality (tourism).

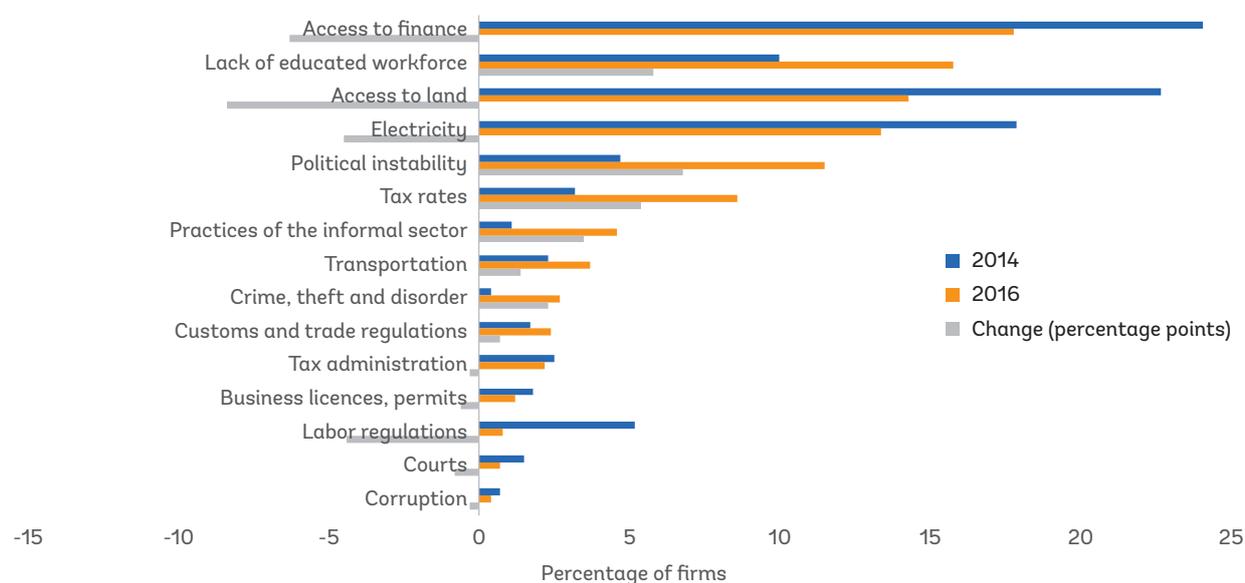
Key constraints to private-sector development and employment

114 **Addressing significant bottlenecks will be important to sustain the private sector and jobs** (figure 3-14). As in other developing countries, the private sector in Myanmar highlights the underdevelopment of banking and financial markets as the principal obstacle to business expansion. In preserving state supremacy over land ownership, Myanmar’s outdated land management and titling regime created a major hurdle for private

investment, except for those who have the resources to locate in industrial zones or SEZs such as Thilawa. Lack of reliable electricity is also a major issue for competitiveness (World Bank 2018b). Stubborn obstacles faced by the private sector include the lack of a skilled workforce, tax uncertainty, the high cost of transport and logistics, and cumbersome customs procedures. The private sector is also concerned about political uncertainty, which is perceived to cause exchange-rate volatility. Firms also cite the state's limited ability to enforce rules, often manifested in practices such as the illegal import and distribution of products and services.

115 **The shortage of skills, even basic ones, among workers is reportedly a critical and increasing concern for firms.** “Lack of educated workforce” ranked second among the obstacles faced by the private sector in 2016, with the position deteriorating compared to 2014. Small firms in particular also face internal constraints such as poor managerial and professional skills and unfamiliarity with appropriate technologies. Alleviating the constraints firms face is not simply a matter of improving technical and specialized skills, to meet the needs of a changed labor market. Rather, structural impediments relate to foundational education policies and cognitive and non-cognitive skills acquisition since the early years. This issue is analyzed in detail in chapter 4.2, given its links to basic quality education and inclusion through greater accumulation of human capital for inclusion in productive employment.

Figure 3-14 | Key obstacles faced by the private sector in Myanmar, share of respondents identifying each constraint, 2014 vs. 2016



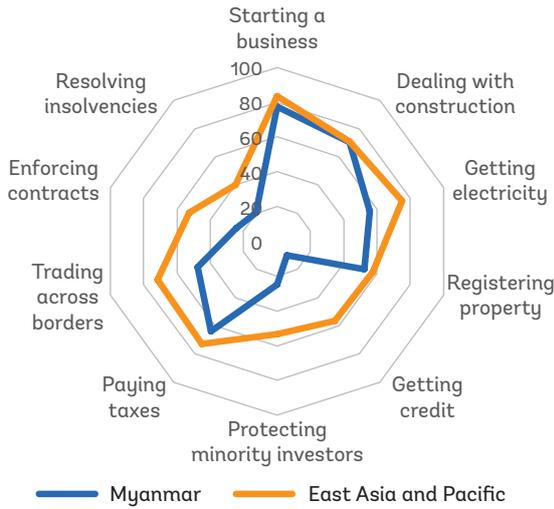
Source: World Bank Enterprise Survey 2014 and 2016, and WB staff calculation.

Note: Data covers firms with at least 10 employees in Yangon, Mandalay, Mon, Bago, Taunggyi.

Supporting a stronger business environment for more and better private-sector jobs

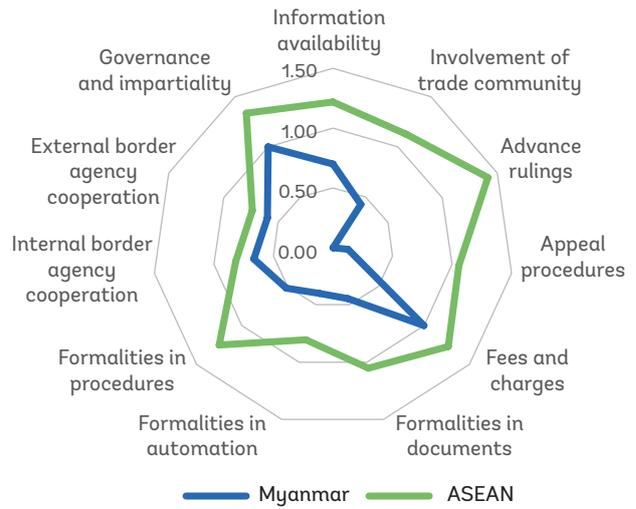
116 **Myanmar's performance on key indicators affecting private-sector operations lags behind its regional peers, but recent progress is notable.** In the report *Doing Business 2019*, Myanmar scores poorly in relation to the frontier (100 percent is the maximum) for obtaining credit (10 percent), protecting minority investors (25 percent), resolving insolvency (20.4 percent), and enforcing contracts (24.5 percent) (figure 3-15). The new Investment Law, the Company Law, and the reduction in the number of products that need trade licenses are important initiatives to improve the business environment and should be implemented and communicated to the public. Myanmar also needs to tackle poor trade facilitation, which is leading to high trade costs and preventing firms from doing more cross-border trade. Processing documents for trade licenses or permits is insufficiently automated. Cargo inspections need to be streamlined by applying a risk-based approach (figure 3-16). The 2020 *Doing Business* report will identify Myanmar as one of the 20 countries in the world to have improved their ease of doing business score the most since the previous year.

Figure 3-15 | Doing Business distance to frontier, 2018



Source: World Bank Doing Business 2018.

Figure 3-16 | Trade Facilitation Index, 2018



Source: OECD Trade Facilitation Indicators 2019. The indicator presents the state of development of key areas in trade facilitation that contribute to lowering of trade costs. A higher score signals a more developed stage.

117 **Small businesses suffer most from a weak business environment and deserve specific attention.** Seventy-two percent of Myanmar’s enterprises employ fewer than five people. Small businesses are mostly registered with the municipal or regional government, engage in informal activities, and do not pay taxes. Small businesses, particularly in rural areas, typically have limited access to information about markets or business plans. Providers of business services may find the cost of reaching small clients prohibitive. Smaller firms may also find it expensive to retrain their workers, while private training providers may find it unprofitable to invest in vocational training facilities for low-income workers.

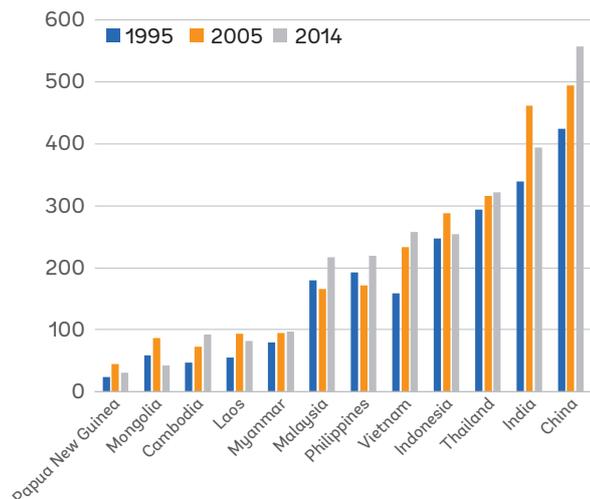
Growing a productive private sector and increasing employment through trade

118 **Despite the continuing transition and new products such as garments, Myanmar’s exports are still narrowly concentrated in few industries** (figure 3-17). The garment industry has played an important role in the diversification of exports, but its productivity is low, and it is focused on the lowest segment of added value in the sector- “cut-make-pack,” or CMP. The expansion of the sector was supported by the European Union’s lifting of sanctions and granting of “everything but arms” (EBA) status in 2013, a preferential, duty-free access to EU markets. The EU has become the main export market for textiles, overtaking Japan in 2016. Overall, the economic complexity of exported products (a measure of producing and exporting ability, see Hausmann et al. 2017) is among the lowest in the region, but this measure is heavily weighted by the inclusion of gas production, which rose until 2015 (causing the economic complexity index to decline) and fell thereafter (figure 3-18).⁵²

119 **Businesses that produce for export improve productivity and create more and better jobs, but Myanmar has yet to fully exploit this connection.** Data from the 2014 Enterprise Survey show that between 2012 and 2014 about 40 percent of jobs created by Myanmar firms with at least 10 employees were linked to exporting activities. But in Myanmar, only 5 percent of firms engaged in exporting, compared to 25 percent in Bangladesh and 17.5 percent in Vietnam. From a jobs and productivity perspective, Myanmar is still mostly exporting products of low quality, produced with low-productivity labor. Gas, minerals, and precious stones are not necessarily jobs-friendly, and in Myanmar they have been associated with activities in contested areas. Myanmar’s agricultural exports are also limited to products of relatively low quality. All of this is shown by the shift in labor content in Myanmar exports. For instance, in 2015 Myanmar was exporting more goods associated with lower levels of output per worker than in 2010. Forging connections to exporting firms is an important policy agenda to raise labor productivity and the quality of Myanmar products.

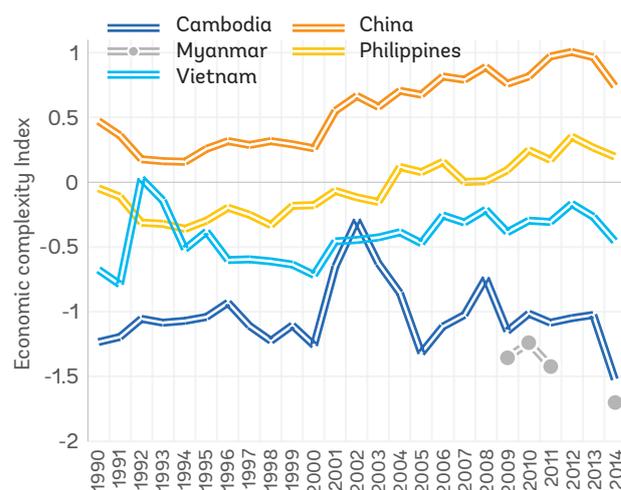
52 While the complexity analysis has not been updated beyond 2014, production, investment, and export patterns suggest complexity (in terms of greater diversity of product lines) has improved since then.

Figure 3-17 | Number of export lines



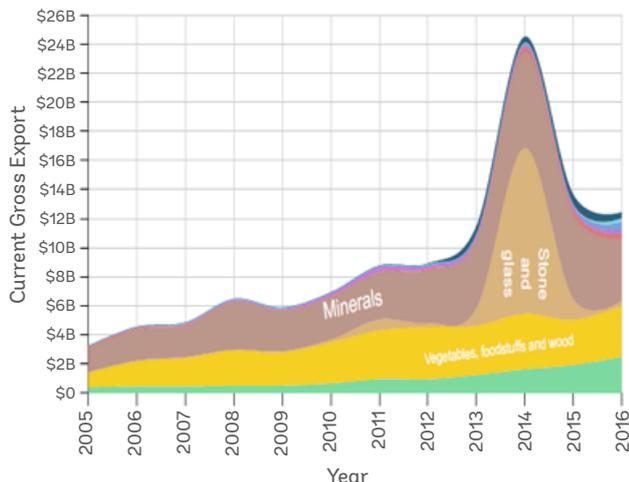
Source: Comtrade.

Figure 3-18 | Economic complexity, 1990–2014



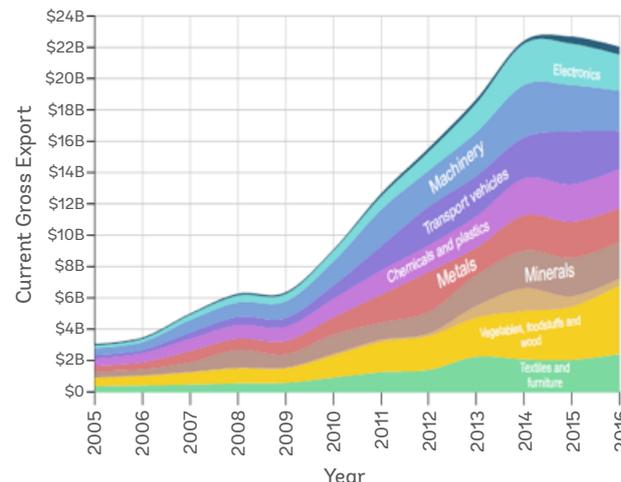
Source: Atlas of Economic Complexity, Harvard and MIT.

Figure 3-19 | Current gross export value, by category, 2005–2016



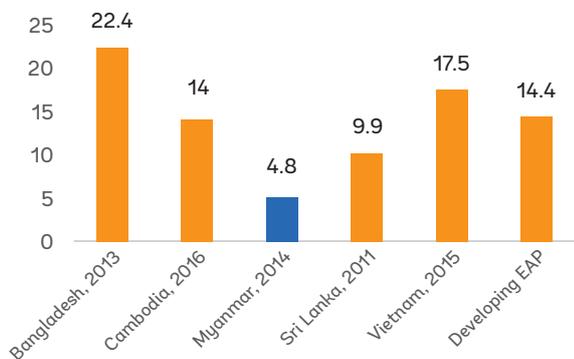
Source: Atlas of Economic Complexity, accessed June 2018.

Figure 3-20 | Current gross import value, by category, 2005–2016



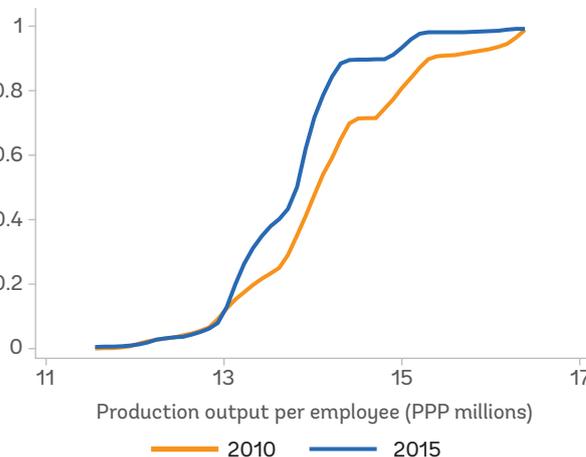
Source: Atlas of Economic Complexity, accessed June 2018.

Figure 3-21 | Percentage of firms that are exporting



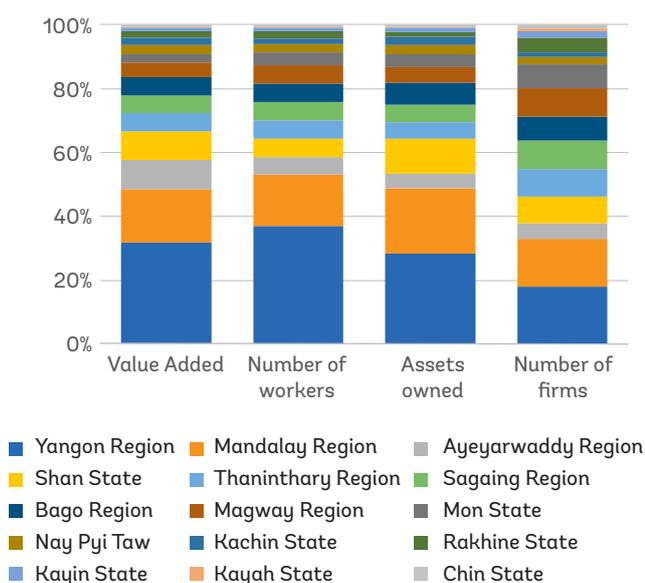
Source: World Bank Enterprise Survey, various years.

Figure 3-22 | Cumulative distribution of Myanmar output per employee in Myanmar export baskets, 2010 vs. 2015



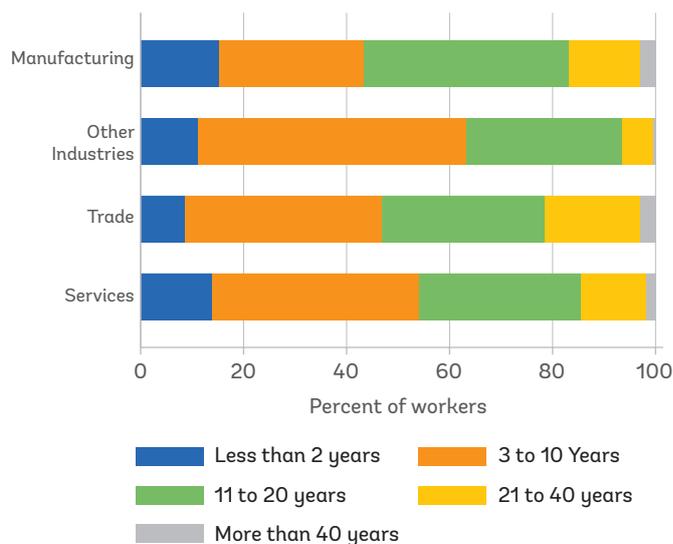
Source: Estimated from WDI and UN-Comtrade.

Figure 3-23 | Distribution of key characteristics of firms in different areas, 2015



Source: Business Survey 2015.

Figure 3-24 | Distribution of age of firms across different sectors, 2015



Source: Business Survey 2015.

Some sectors pose constraints and opportunities for growth

Land

120 **Land access is a critical concern under the current system of land management.** While this is a major constraint to improving agricultural production and productivity, opaque and restrictive land-management practices also restrict the use of land as collateral for finance, and directly restrict investment opportunities.

121 **Under the current land-tenure system, many land claimants, including industrial users, farmers, and customary tenure holders such as forest communities lack proper land-use rights, and many rural households do not have access to land at all.** The current legal framework has no classification for seasonal or communal uses of land. Communities often use forests to gather firewood or graze livestock, but this land can be reallocated to people outside of the community due to the community’s lack of formal tenure. Similarly, seasonal cultivation of paddy and fisheries often utilizes an area for only part of the year. Broad land-governance reform must consider varying uses of land in order to succeed.

122 **Current land laws, such as the Farmland Law and the Vacant, Fallow, Virgin Lands (VFV) Law, prohibit farmers from making decisions about crop choice or growth cycles, which puts them at risk of losing their land and threatens the majority of remaining forests in Myanmar.** As they are currently enforced, these laws limit rather than protect farmers. Minor amendments to these laws that establish greater farmer freedoms and clarify the farming rights of women could provide critical land tenure security in the interim period before a comprehensive land law is written, while also providing a foundation for the future land law. Amendments to operational guidelines of the Land Acquisition Act could allow for more community involvement in decision-making and better land tenure protections, such as stronger regulatory requirements for notice, comment, and appeals in proposed land acquisitions. Amendments to the VFV Law introduced in 2018 require persons using VFV land without Central Committee permission to apply for a thirty-year land-use permit by March of 2019. The timeframe for this process is unrealistic given the extent of informal land use and the lack of administrative procedures for addressing applications. Poor smallholders and those in ethnic minority areas are particularly at risk of losing access to land. Almost two thirds of forests are on VFV land, often under some form of customary management, and exposed to large scale agricultural expansion. Clear procedures and coordination between MOALI and MONREC are needed to provide adequate tenure security for community-managed forests and to preserve them.

Infrastructure

123 **Lack of reliable infrastructure and basic infrastructure services continues to constrain businesses in Myanmar, emphasizing the need for innovative financing solutions.** Firms have trouble getting electricity much more frequently than in most other countries. Myanmar ranked 151st on the “getting electricity” indicator in Doing Business 2018. In Yangon, home to a vast number of firms, the supply of electricity is unreliable, tariffs are opaque, and burdensome procedures are required to connect to the grid. Despite some improvements, the electrical infrastructure cannot provide the quality and quantity of electricity needed by the country’s growing economy. The transport infrastructure is similarly underdeveloped. Through telecommunications liberalization, remarkable progress has been made in cellular penetration, although broadband access is still limited. Financing remains a constraint to infrastructure development as public revenues are limited, and capital markets lack products with long tenors. PPPs are being explored as a means to share cost and share risk between the public and private sector. The government recently created the Project Bank—a prioritized investment list—which includes transport and energy projects that may be candidates for PPPs if risks (e.g. large contingent liabilities) can be made explicit and managed.

Transport

124 **Myanmar’s transport connectivity challenges are unique in the region in both scale and complexity, and overcoming them will be costly** (figure 3-25). Over 60 percent of highways and railways, which connect the main economic centers in the country, are in poor condition, and about 40 percent of the population—and more than half of the rural population—lacks basic access to all-season roads. Nine million people live in villages unconnected to any road (ADB 2016).⁵³ These transport connectivity problems are far more than a simple infrastructure gap; they constitute a major cross-cutting issue that affects poverty reduction, human-capital development, the delivery of public services, and the social and economic integration of rural populations, including ethnic groups.

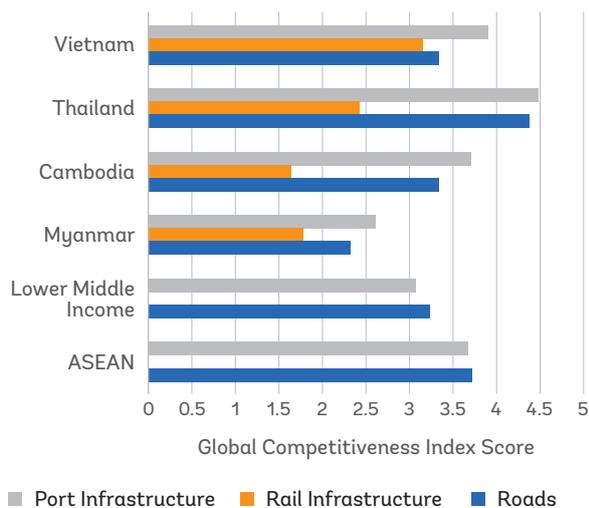
125 **Public and private investment in the transport sector is estimated at about 1–1.5 percent of GDP, which is inadequate to address the country’s transport infrastructure gaps.** Implementation of the 2014 National Transport Master Plan has been slow, partly because of large financing needs. It is estimated that increasing spending on transport to 3–4 percent of GDP, in line with other countries at a similar stage of development, could provide basic road access to 10 million more people and reduce long-distance transport costs by 30 percent over the next 15 years (ADB 2016). Given how little revenue the government collects, and the scale of the need, private-sector participation in infrastructure financing and management will be important, in turn requiring government deregulation.

126 **Myanmar has enormous potential to become one of the major transport and logistics centers in the region; however, high transport and logistics costs significantly hamper its trade and export competitiveness.** Despite its strategic location between three major economies—China, India, and ASEAN—decades of isolation have created long-lasting physical barriers to regional integration and trade. Myanmar is ranked 137th on the Logistics Performance Index, the lowest in ASEAN (figure 3-26).⁵⁴ Bringing down transport and logistics costs is important for increasing trade, especially in agriculture and manufacturing, and for creating more and better-paid jobs in Myanmar.

53 Refers to motorable road, either paved or unpaved.

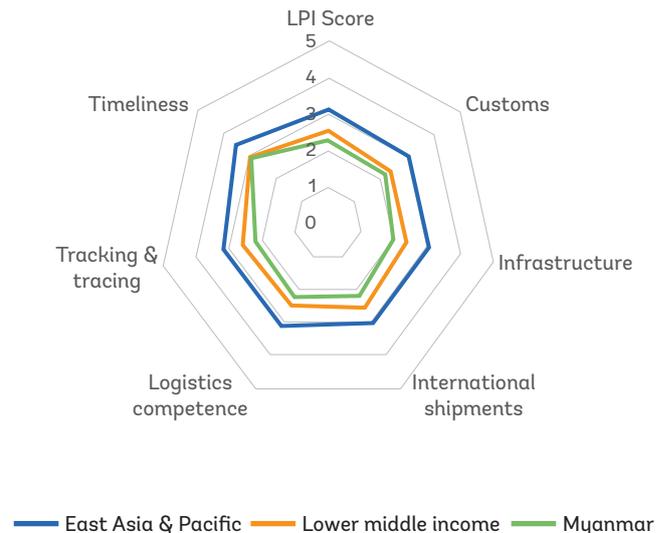
54 Logistics Performance Index, World Bank, 2018.

Figure 3-25 | Quality of Myanmar transport infrastructure, 2015



Source: Global Competitiveness Index 2015.
 Note: Data on average railway infrastructure quality is not available for ASEAN and the lower-middle-income group.

Figure 3-26 | Myanmar logistic performance, 2018



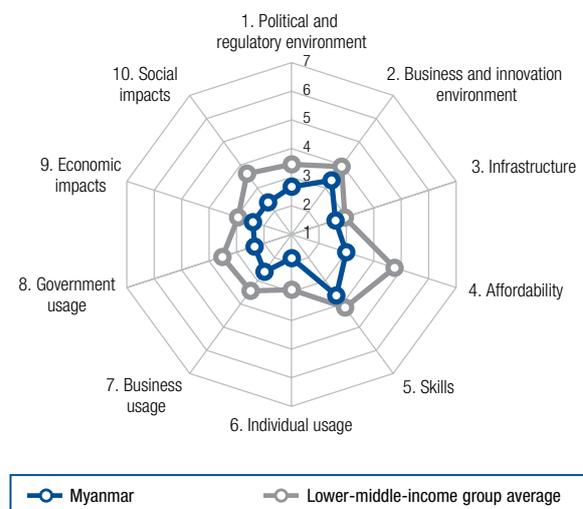
Source: World Bank Logistics Performance Index 2018.

Digital

127 **With the right policies, Myanmar can leverage its growing digital infrastructure for productivity gains.** While liberalization of the telecom sector since 2012 has established the initial foundations for digital development, including a 75.1 percent mobile broadband usage rate as of September 2018, Myanmar still lags in digital technologies for economic and social development. It ranks 133rd out of 139 economies in the World Economic Forum’s Networked Readiness Index (figure 3-27). This severely limits Myanmar’s ability to leapfrog development obstacles by digitally transforming its government, economy, and society. Myanmar should vigorously support the growth of the digital economy through enabling legislation and regulatory and policy changes, as well as support for digital literacy and skills development among the population.

Figure 3-27 | WEF Digital Readiness Index, 2016

	Rank (out of 139)	Value (1–7)
Networked Readiness Index	133	2.7
Networked Readiness Index 2015 (out of 143).....	139.....	2.5
Networked Readiness Index 2014 (out of 148).....	146.....	2.3
Networked Readiness Index 2013 (out of 144).....	n/a.....	n/a
A. Environment subindex	133	3.0
1st pillar: Political and regulatory environment.....	134.....	2.7
2nd pillar: Business and innovation environment.....	127.....	3.3
B. Readiness subindex	118	3.1
3rd pillar: Infrastructure.....	115.....	2.6
4th pillar: Affordability.....	122.....	3.0
5th pillar: Skills.....	113.....	3.6
C. Usage subindex	137	2.3
6th pillar: Individual usage.....	131.....	1.8
7th pillar: Business usage.....	138.....	2.6
8th pillar: Government usage.....	137.....	2.3
D. Impact subindex	135	2.4
9th pillar: Economic impacts.....	129.....	2.4
10th pillar: Social impacts.....	135.....	2.4



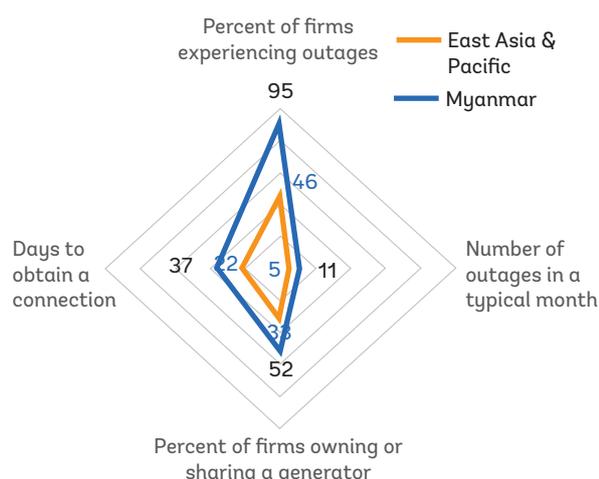
Source: WEF website. From: http://www3.weforum.org/docs/GITR2016/WEF_GITR_Myanmar_2016.pdf

Energy

128 **Improving Myanmar’s energy infrastructure and service delivery is critical to both economic growth and social inclusion.** The country is endowed with substantial energy resources, including hydropower, natural gas, and potential renewables such as photovoltaics. For instance, 60 percent of Myanmar’s power is sourced from hydro, and only 1 percent of Myanmar’s estimated hydro potential has been tapped, given that hydro potential lies predominantly in conflict affected areas. Myanmar is also strategically located to benefit from cross-border energy trade with large energy suppliers and consumers in China, India, Laos, and Thailand. However, decades of underinvestment in infrastructure and inadequate policies have resulted in South Asia’s lowest electricity access rates and have left domestic electricity and gas markets underdeveloped. Electricity reaches only about 40 percent of the population, with connection rates substantially higher in urban areas. Providing access to basic electricity and clean cooking opportunities will be critical to foster inclusion especially in remote areas that are home to a large share of the poor and excluded.

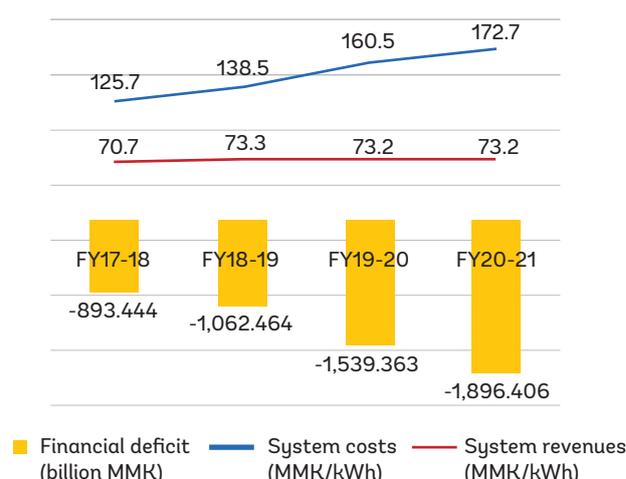
129 **Lack of access to quality service is a major obstacle to business.** Improving the quality of the electricity supply is also an important challenge. Blackouts and brownouts are common, especially during the dry season. As seen in figure 3-28, below, Myanmar lags significantly behind its East Asia peers in all dimensions of electrical infrastructure. In fact, unreliable access to electricity ranks in the top three constraints to doing business for large and medium-size firms (World Bank 2016b).

Figure 3-28 | Quality of electricity infrastructure, 2016



Source: World Bank Enterprise Survey 2016.

Figure 3-29 | Electricity sector projected financial deficit, FY17/18 to FY20/21 estimates



Source: World Bank staff estimates as of April 2019.

130 **Addressing the infrastructure and service-delivery gap will require substantial investments and improved performance from energy-sector entities.** According to government estimates, peak demand is expected to reach 8,051–14,834 MW by 2025. This represents an increase of at least two and a half times from the current level of 3,189 MW in 2018, requiring annual capital expenditures of around US\$5 billion. To close the investment gap, the government is seeking private-sector participation, and there are several projects under discussion that could boost capacity significantly. To control the costs and contingent liabilities of contractual agreements with independent power producers, a sound, least-cost development plan prioritizing specific projects should inform these investment decisions. While an Energy Master Plan was developed in 2015, there is no updated Power Sector Master Plan to support the investment prioritization process. The performance of state-owned entities in the power sector also needs improvement, specifically through programs to upgrade system management and quality of service.

131 An overarching concern is the deterioration of the energy sector’s financial position, which has become an unsustainable burden on the Union budget. According to FY17/18 data, system revenues must grow by over 40 percent to cover the cost of service, even as end-user tariffs have remained unchanged since 2014. The sector is already heavily supported by the Union budget, and subsidies to cover the operational deficit reached around US\$650 million (1.4 percent of GDP) in FY17/18. Additional government funding (e.g. direct transfers and government-guaranteed loans) supports the capital investments of state-owned entities. It is estimated that the operational deficit could reach US\$1 billion as early as 2020 if measures to increase revenues and reduce costs are not implemented (figure 3-29). The operational deficit is expected to grow due to increasing, high-cost, gas-based generation; continued depreciation of the kyat, which increases the cost of power purchases denominated in foreign currencies; and additional investments in infrastructure. To put the sector on a sustainable financial path, end-user tariffs must be increased, as expected to be the case following reforms under discussion as of early 2019.⁵⁵ At the time of writing this SCD, residential tariffs are the lowest in the region, and government subsidies benefit the wealthy: the richest households receive 63 percent of all electricity subsidies, while just 2 percent benefits the poorest. To make basic services affordable for the poor and vulnerable, a lifeline tariff could be implemented along with tariff increases for other end users.

132 The gas sector accounts for an important share of exports and government revenues, but gas output is expected to decrease by 2020/21. In oil and gas exploration and development accounted for a quarter of total FDI over the past decade. The sector developed on the back of export contracts with Thai and Chinese buyers that consume 80 percent of gas output. The remaining 20 percent is supplied to the domestic market, mostly for power generation. On average over the past few years, natural gas accounted for 30 to 40 percent of merchandise exports and between 15 and 20 percent of general government receipts. In 2018, production from existing fields reached 1,825 thousand cubic feet per day (mmcf). Production is expected to decrease to around 1,000 mmcf by 2025, and 500 mmcf by 2030, with a corresponding drop in exports and revenues.

133 There are opportunities to offset the expected production decline by developing new gas resources, but it will require an overhaul of the existing fiscal regime. Discoveries were announced recently in new deep-offshore gas fields (notably block A-6) that could increase recoverable reserves. Exploiting these new resources will require deep water exploration and development, which are as much as three times as costly as existing offshore fields. Under these conditions, the current fiscal regime is uncompetitive with other regional regimes⁵⁶ and is unlikely to attract commercial development of the new resources. To address this bottleneck, the government is reportedly negotiating new terms with gas-field development partners. While this is a positive development, it will be important to move from project-by-project negotiations to a more comprehensive and transparent redesign of the fiscal regime as the government prepares to launch the next bidding round in 2019. The new regime should strike a balance between attracting investors and maximizing revenues for the country.

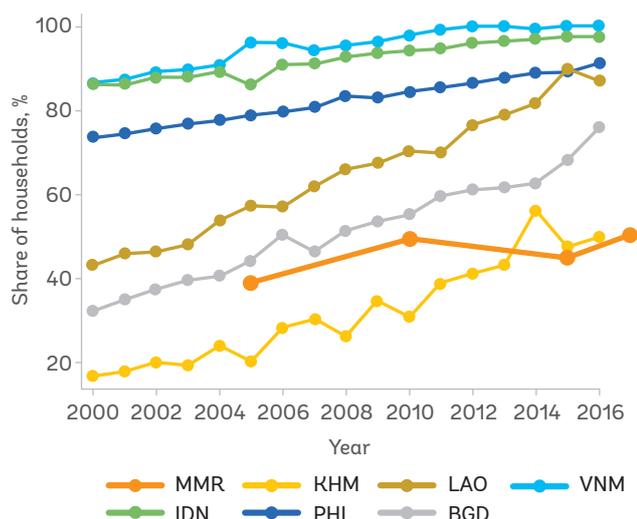
134 Access to electricity is a constraint also for households, representing an impediment to inclusion and shared prosperity, particularly among the population living in rural and conflict-affected areas. Electrification rates increased rapidly between 2010 and 2017, from 28 to 42 percent of households, but Myanmar lags behind all countries in the EAP, as shown in figure 3-30. Urban populations enjoy higher rates of access to the public grid than rural households, which rely predominately on solar home systems and other distributed generation technologies to meet their lighting needs. Progress between 2005 and 2015 also overwhelmingly benefited urban residents, heightening disparities and further undermining social inclusion (see figure 4-14). There was an improvement in clean and modern household electricity sources over time (figure 3-31). The public grid continues to expand as the country progresses towards its goal of universal access by 2030. To achieve this goal and accelerate the penetration of the public grid, a new approach will be needed to enable households to connect, particularly in poorer, rural, and more remote areas. Under the current electrification model, households are responsible for building the low voltage grid and individual connections to it. It is estimated that around 1.3 million households, mostly in villages, have access to the public grid but cannot afford connecting: household contributions for the grid development and connection are in the form of a one-time fee around US\$300–500.

⁵⁵ The analysis and projections in figure 3-29 do not reflect the impact of the recent electricity tariff increase that became effective on July 1, 2019. The recent increase represents a considerable step in putting the sector on a path of financial viability.

⁵⁶ For a model 3Tcf deepwater gas field, total government take under the current deepwater fiscal terms is estimated at 81 percent at a gas price of US\$7.00 per MMBtu. This compares to a government take of 44–78 percent for a group of peer countries. Investor rate of return is estimated at 7 percent, well below the hurdle rate for international oil companies exploring in deep water.

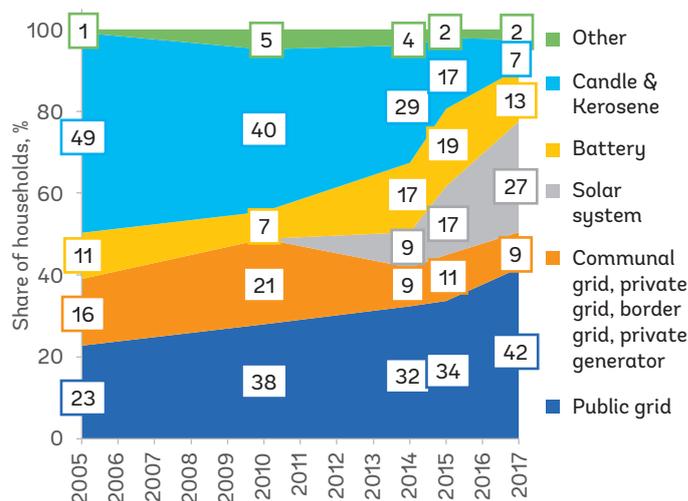
135 **The poorest also do not have access to clean energy solutions, particularly for cooking.** It is estimated that about half of Myanmar households rely on the traditional three-stone stove for cooking, with adverse health effects, particularly on women and children. With better access to electricity and other fuels such as LPG, modern cooking solutions have significantly higher penetration in urban areas (60 percent) than in rural areas (10 percent).⁵⁷ Addressing key barriers such as high upfront costs and lack of awareness will be key to the widespread adoption of improved cooking solutions.

Figure 3-30 | Share of households with access to grid electricity, Myanmar and EAP, 2000–2017



Source: Figures for Myanmar are from IHLCA-I (2005), IHLCA-II (2010), MPLCS (2015), and MLCS (2017). Other country data are from WDI.

Figure 3-31 | Main source of electricity, 2005–2017



Source: IHLCA-I (2005), IHLCA-II (2010), Census (2014), MPLCS (2015), and MLCS (2017).

Finance

136 **A sound, efficient, and inclusive financial system can play a major role in building a market-based economy and ensuring inclusive growth in Myanmar.** The reform agenda necessary to develop a “fit for purpose” financial system in Myanmar runs both deep and wide, even as recent changes have yielded significant gains. On the one hand, the financial sector needs to find a more solid footing. On the other hand, it needs to significantly expand outreach and the range of available instruments. A stable solution therefore requires complex, simultaneous reforms. Policymakers must implement a realistic, minimally disruptive, clearly articulated roadmap that is also sufficiently transformative to deliver the benefits of effective financial services to the general public and to allow the financial system to intermeditate people’s savings towards much-needed investment. In a sign of early progress, financial-sector supervisors and regulators are working with state-owned and commercial banks to comply with the new prudential regulations and assess balance sheet quality. Recent provisions to allow more foreign activity in the banking and especially insurance sectors represent further progress.

137 **Myanmar’s financial sector lags its neighbors, some of which launched their own reform agendas to modernize their financial sectors a few years ago.** Myanmar’s financial sector has tremendous growth potential. The system currently mobilizes just 37 percent of GDP by way of deposits in the banking system and lends just 22 percent of GDP to the private sector. It is worth noting, however, that in 2011, when Myanmar launched its reform agenda, these rates stood at 15 percent and 7 percent, respectively.

57 Energy Sector Management Assistance Program (forthcoming), “Myanmar Beyond Connections,” Energy Access Diagnostic Report Based on Multi-Tier Framework.

138 **Limited financial access constrains firm growth and job creation** and can be attributed to several factors, including the difficulty small firms face in establishing real estate collateral, the inability of lenders to assemble accurate credit profiles due to gaps in the credit infrastructure, and the difficulty of pricing loans appropriately due to regulated deposit and lending rates and lenders' low capacity.

139 **Individuals also have limited access to the formal financial system. More than 70 percent of adults in Myanmar do not have an account with a formal financial institution, even a mobile account.** Thirty-one percent of adults in Myanmar cite insufficient funds as the only reason for not having an account. Other important factors include documentation requirements and the distance to the nearest office. Contrary to anecdotal evidence, lack of trust is cited by just 2 percent as cause for staying away from the financial system.

140 **Further development of the financial system will require a much wider array of institutions and products.** More than 90 percent of financial-sector assets are with the banking sector, and savings and credit products dominate, leaving several gaps in the markets. The Yangon Stock Exchange is four years old and is slowly building its capitalization, with five companies now listed. A domestic private bond market does not yet exist, and bank lending products were limited until recently to one-year overdrafts and only subject to full collateral. Both corporate financial products (export credit and trade finance, agricultural insurance, etc.) and consumer long-term finance are very limited. At the same time, according to the OECD, Myanmar has some of the most restrictive regulations on FDI in the insurance and banking sectors.

141 **The microfinance subsector has been growing, but now faces constraints.** Microfinance institutions (MFIs) have proliferated organically in recent years and they serve a very important segment of the market, one that banks do not typically reach out to. There are 177 MFIs licensed in Myanmar as of December 2018 and their number of clients has doubled in two years. But the sector has faced several challenges, not least of which is that policymakers lack a comprehensive strategic vision. While the industry also faces many operational challenges, including raising funding, the key challenge is that there is no clear articulation of their development role, and thus no scheme of rewards and incentives for delivering on this mandate. The result is that MFIs currently operate largely in urban areas.

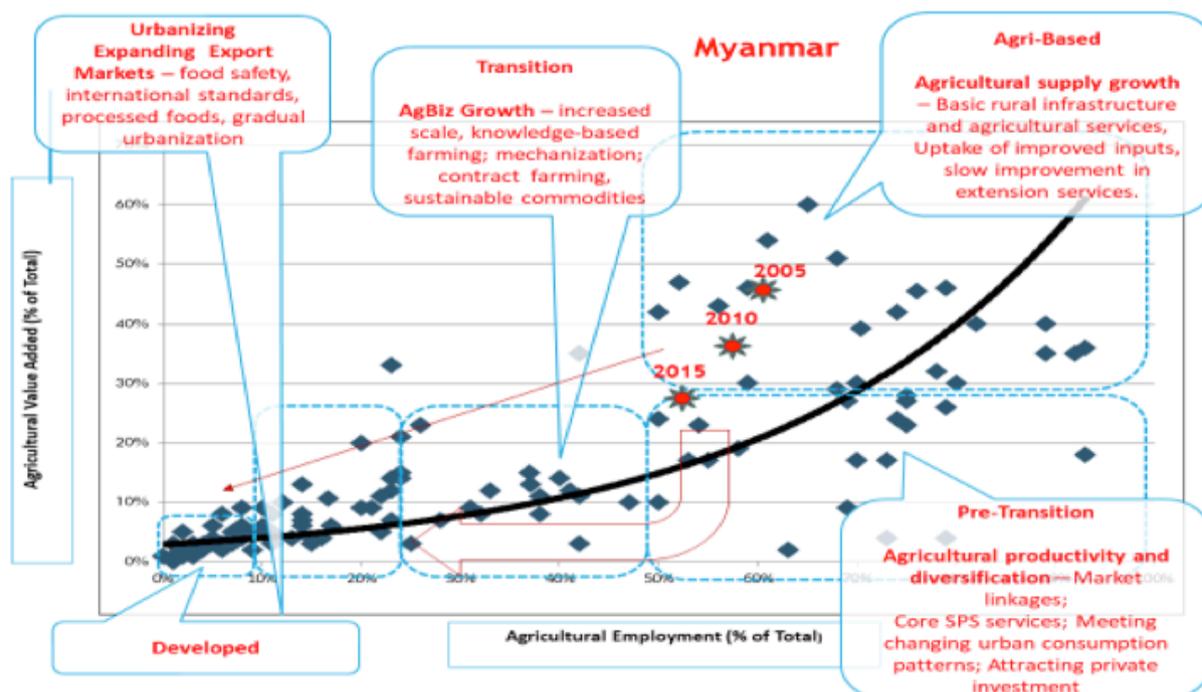
Unlocking Myanmar's enormous cultivation potential

142 **Despite a smaller share of the economy, agriculture employs 50 percent of Myanmar's workforce and 60 percent of poor workers. As such, it has significant potential to directly support broad-based poverty reduction.** As discussed in section 2.2 on poverty reduction, 46 percent of the decline in poverty between 2005 and 2015 occurred among those engaged solely in agriculture (this includes cultivation, livestock, fisheries, and forestry). Although agriculture's share of GDP declined from 52 percent to 28 percent between 2000 and 2017, the sector still accounted for 53 percent of principal occupations in 2015.⁵⁸ The sector is dominated by cultivation, but livestock and fisheries (captured and cultured) are also substantial components: estimates place the contribution of these two sources as high as 8 percent of GDP in 2017, just over a quarter of the total contribution of agriculture.

143 **Myanmar is moving from an "agri-based" to a "pre-transitional" economy, in which agribusiness, market linkages, and diversification will play a more important role.** Like other agri-based economies, Myanmar's agriculture is characterized by thin markets for inputs and an undersupply of basic public goods such as rural infrastructure and agricultural extension services. As incomes rise, per capita rice consumption is falling, although total demand will continue to rise with population growth. The potential for transition in the agriculture sector is clearly visible, with growing demand in urban centers for more varied and sophisticated products, expanding exports of rice and pulses, and an emerging need for core crop-safety investments, such as sanitary and phytosanitary services (SPS), to support these advances.

58 The share of the workforce in agriculture varies over the course of the year, from 47 percent in the dry/hot season to 52 percent in the wet season (CSO, UNDP, and World Bank 2018). The figure presented in the text reflects a person's principal employment, defined by the share of annual workdays spent in different occupations. An individual is classified as working in agriculture if more than 50 percent of their reported workdays are spent in agricultural work.

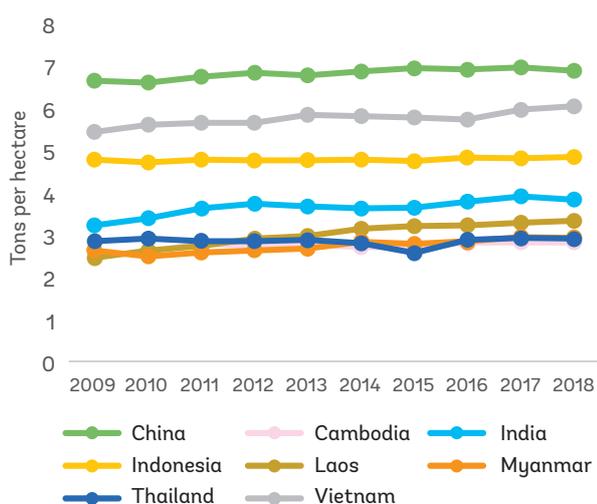
Figure 3-32 | Agricultural Transformation of Myanmar, 2005–2015



Source: World Bank Staff depiction based on WDR 2008.

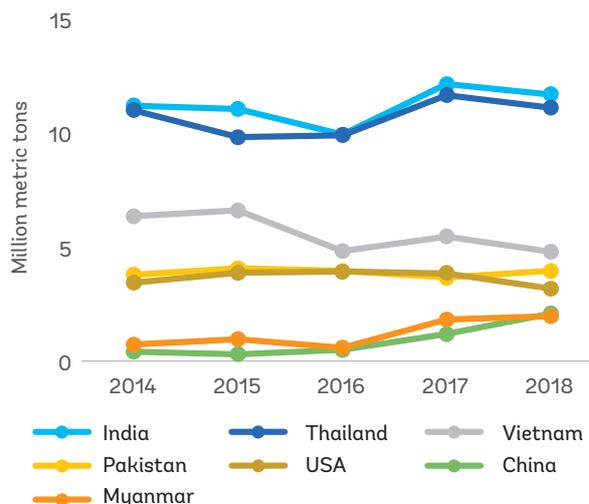
144 **The current productivity of land and labor for cultivation is below potential and below that of Asia’s other rice producers.**⁵⁹ The relative productivity remains low despite the improvements over time documented in section 2. Paddy yields (or land productivity) in Myanmar, are low compared to key production areas of Asia’s other rice bowls (figure 3-33).⁶⁰ Labor productivity for paddy is also low, in part because Myanmar’s production processes are still highly labor intensive. Profits tend to increase along with increased farm size: economies of scale allow larger farms to adopt more modern technologies and save on costs. In Myanmar, however, farms are mostly small, narrow and irregular in shape.

Figure 3-33 | Paddy yields, Myanmar and comparators, 2009–2018



Source: USDA.

Figure 3-34 | Paddy exports, top world exporters, 2014–2018



Source: Global Outlook, USDA, May 2018.

59 Productivity estimates are derived from “Ahmed, Hanane and Mekbib Haile. 2018. “Accelerating Myanmar’s Agricultural Transformation.” Washington DC, The World Bank.”

60 In varying degrees across the agro-ecological zones. Within Myanmar, there is widespread variation in paddy productivity and profitability, with the lowest in Ayeyarwady and Sagaing States, and the highest in Shan State.

145 **Low productivity in cultivation is a result of multiple factors:**

- i. **Rice has taken center stage in Myanmar’s agricultural policies and investments, primarily due to concerns about food security.** This needs to change. Land-use restrictions need to be loosened, and programs that now support paddy exclusively should be modified to support broad-based agricultural development. The emphasis on rice is evident in several ways. First, input intensification has been concentrated in rice production. Second, land-use restrictions have prevented farmers from using agricultural land as they deem most profitable (USAID 2017; Anderson et al. 2016). The 2012 Farmland Law prohibits the growing of alternative (non staple) crops or the fallowing of land without permission from the government, and the same law requires government permission to grow alternative crops or to change from one agricultural land use to another.⁶¹
- ii. **The enabling environment for private-sector participation in agriculture continues to be a challenge in several dimensions.** According to the 2017 report *Enabling the Business of Agriculture* (World Bank 2017e) Myanmar ranks 34 out of 62 countries for ease of private-sector participation in the seeds sector, 61 out of 62 in agricultural finance, 37 out of 62 for ICT, and last out of 62 countries for private-sector participation in agricultural machinery. The low rankings largely result from the regulatory environment. Registration, certification, and licensing of input products is cumbersome. The quality of agricultural inputs is also of major concern, due to the lack of laboratory capacity to test certain chemicals and nutrients. Standards for agricultural commodities are mostly outdated or missing. Recent efforts to meet Codex standards bear some promise, but the updated system is not fully functional and covers only a small subset of commodities.
- iii. **Private-sector participation in agricultural value chains is low.** In addition to the constraints mentioned above, several other factors are obstructing the private sector’s full participation in agricultural value-chain development. Inadequate infrastructure such as post-harvest storage, cold-chain facilities, and testing laboratories prevents farmers from contributing to the downstream side of the value chain. Efforts to improve accreditation of services supporting regional and global exports are underway, but the system is not yet fully functional.
- iv. **The undersupply of quality agricultural public goods plays a significant role in Myanmar’s low agricultural productivity and weak support for diversification.** First, agricultural extension services are few, and their outreach to farmers is poor. The ratio of extension staff to farm families is very low: roughly 1 to 585 (Aye Myint Myint 2017). Given that major crops cover over 38 million acres, each extension worker is responsible for 5,081 acres. And extension outreach has been mostly geared to paddy, with its dominant role in agricultural strategy. Second, farm management is poor. Farmers have a poor understanding of the appropriate application of production technologies such as fertilizers, seed varieties, and pesticides. Third, agricultural research is fragmented and underfunded and suffers from poor human-resource capacity. According to the *Agricultural Public Expenditure Review* (World Bank 2017b), the most underfunded function in the sector is agricultural research.

146 **Despite this low productivity, Myanmar’s cultivation potential is large—both for growth and for supporting poverty reduction.** The country has five comparative advantages in cultivation: it has abundant land, plenty of water, a youthful workforce, a diversity of farming systems, and a strategic location close to major markets. It was once the top rice exporter in the world but lost this position in the 1960s.⁶² Its rice exports have surged since 2015, largely in response to the duty-free access to the EU market under the Everything but Arms initiative. Myanmar was projected to be the world’s number five rice exporter in 2018 (figure 3-34). It is already the world’s second-largest exporter, after Canada, of beans and pulses and the largest exporter in ASEAN. In addition, urbanization and income growth in parts of the population are changing dietary preferences and food spending patterns. These developments hold enormous opportunities for farmers and the private sector in all segments of the value chain, and for overall sectoral growth.

61 An active debate is under way over the 2012 Farmland Law, because it is subject to interpretation, resulting in uncertainty as to what is permitted and what is prohibited.

62 USDA World Agriculture Production - Foreign Agricultural Service 2018.

Supporting rural development

147 **Since 2011, Myanmar has pursued policies to promote agriculture as one of the driving forces of rural growth.** After decades of underinvestment in rural areas, there has been a renewed focus on rural poverty reduction (World Bank 2015a). The Framework on Economic and Social Reforms, whose goal is sustainable and inclusive growth, and the Rural Development Strategic Framework, which outlines support for rural communities and remote areas, are intended to deliver public services in rural areas in a responsive, transparent, and accountable manner. To help implement these and promote rural investment, there has been some fiscal decentralization to states and regions. State and region spending as a share of overall public-sector spending is relatively low, at around 10 percent (World Bank 2015a), but their expenditure assignments cover important economic services such as agriculture, local transport and communications, cottage industry, and small-scale energy projects that are critical to rural development. To complement these efforts, Myanmar launched the National Community-Driven Development Program (NCDDP) in 2013, which is showing positive results in reducing poverty in rural areas.⁶³

148 **Physical isolation of many villages in Myanmar limits the potential of rural population to benefit fully from poverty reduction efforts.** Myanmar's Rural Access Index (RAI) is estimated at 36 percent,⁶⁴ which is the second lowest in Asia, after Afghanistan (ADB 2016). There are about 24,000 villages without road access and about 20,000 villages which have road access only in dry season, across most states, with Shan and Rakhine states most affected. Physical isolation of large number of villages and population results in high transportation cost to reach markets and affects productivity growth in agriculture sector where most of rural population are employed. Extreme accessibility constrains also result in poor medical outreach and high school dropouts in rural areas limiting human development and social outcomes in Myanmar.

Binding Constraints

The private sector faces high costs to invest, trade, and operate businesses. Procedures for issuing licenses or permits vary, are focused on documentary formalities, and are not risk based. Poor trade facilitation, inefficient logistics services, low-quality infrastructure, and weak financial-sector intermediation are preventing firms from gaining from trade. Entrepreneurs and employees also lack the skills to innovate and grow.

Myanmar has the lowest electricity access rate in East Asia. Those connected to the grid also suffer from low-quality service and interruptions, with firms resorting to costly backup generators that lower their competitiveness.

Poor access to quality transport infrastructure impedes service access and commerce. Myanmar is ranked lowest in ASEAN on the Logistics Performance Index.

While telecommunications and mobile broadband usage took off in 2012, constraints on digital development and the capabilities of telecom firms place Myanmar near the bottom of the global Networked Readiness Index, limiting opportunities for greater business efficiency and access to services.

Agricultural productivity and diversification are low due to the undersupply of necessary public goods and technical services by the private sector. Poor coordination and logistical inefficiency within agricultural value chains exacerbate productivity gaps and market risks and inhibit downstream investments in value-adding agricultural processing and food manufacturing.

63 The NCDDP helps communities formulate development plans and transfers grants for community-level infrastructure directly to village-tract committees, elected by secret ballot with gender parity. The NCDDP has provided grants to over 12,000 villages in 63 townships across Myanmar to finance community-level infrastructure, coupled with facilitation and capacity building to help communities make choices in an inclusive, informed, and transparent manner. During the first four cycles, the program financed 21,500 subprojects identified and implemented by communities, including improving schools, health centers, foot paths, jetties, and other critical community infrastructure serving about 7 million people.

64 The Rural Access Index (RAI) is an indicator that measures the portion of the rural population living less than 2 km away from an all-season road. 36 percent RAI implies that 64 percent of the rural population has to travel more than 2 km to reach an all-season road.



Spreading Prosperity to Include All

149 **The benefits of economic openness and growth in the early transition years have not been widely shared.** Entire population groups and areas of the country remain excluded and are falling behind. The nature of growth and the incomplete progress along the triple transition have increased gaps between the haves and have-nots, favoring those with greater political and social capital and a greater asset base. The noninclusive nature of growth poses limits to the country's ability to sustain economic progress in the longer term. Limits to inclusion and widening inequalities are a source of fragility for Myanmar. Exclusion from growth and institutions has led to grievances that have fueled subnational conflicts in the country's peripheries. These conflicts, in turn, have further stymied growth in many areas.

150 **To take full advantage of the opportunities to promote shared prosperity and reduce poverty, Myanmar will need inclusive institutions and services that can respond effectively to the needs and aspirations of all people in all areas, and it will need to unleash the full potential of its human resources.** Evidence shows that a sense of fairness and social justice across population groups helps maintain peace and prevent violent conflict (United Nations, World Bank 2018). Similarly, promoting social inclusion and reducing inequality can make growth more resilient, whereas exclusion from services, infrastructure, and economic opportunities can constrain productivity and trap people in poverty.⁶⁵ Only by improving public services everywhere and for all can Myanmar fully realize the potential of its human capital to engage productively in the economy—thus sustaining growth in the longer term.

4.1. Peace and Governance

Progress on resolving Myanmar's conflicts has been slow, reducing the potential for inclusive growth

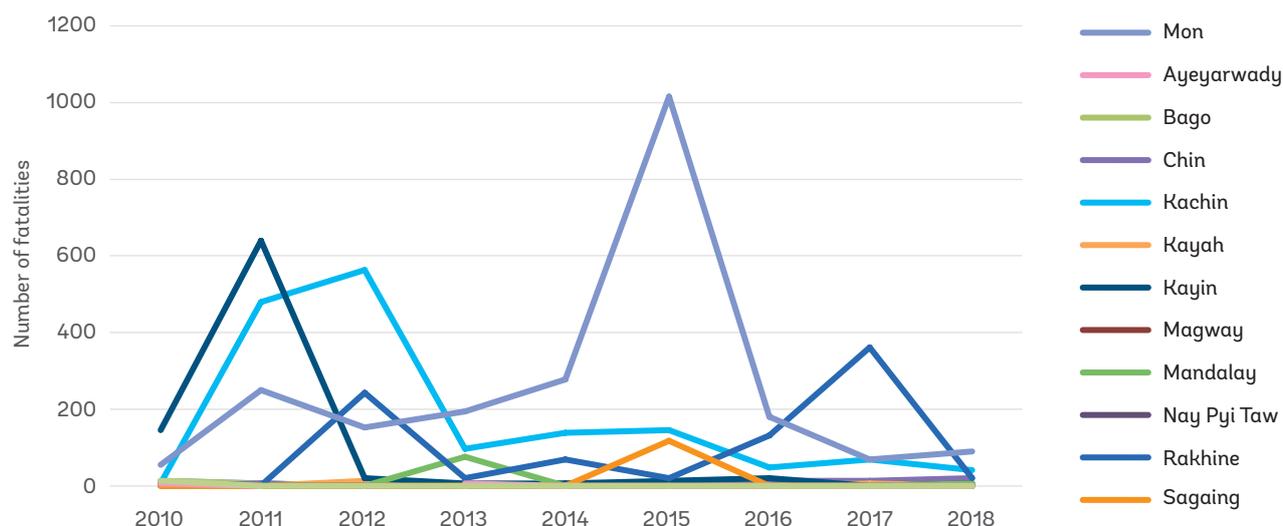
151 **Since 2011, there has been some progress in reaching ceasefire agreements with ethnic armed organizations (EAOs).** A series of bilateral ceasefire agreements was followed by the signing of the Nationwide Ceasefire Agreement (NCA) in late 2015 with eight of the 20 main EAOs. Two more signed in early 2018. This has significantly lowered levels of violence in many areas, especially the Southeast. In Kayin State, for example, 141 people were killed in 2010 and 631 in 2011, but no lives were lost in 2017 (figure 4-1). In Mon State, only one person has been reported killed since 2014.

152 **Violence has continued at high levels in other states, however, often driven and financed by illicit activities.** Kachin State, where the Karen Independence Organization has yet to sign the NCA, has seen particularly high levels of violence, as has northern Shan, where a number of EAOs and militias are battling both the military and each other, often over control of the illicit economy. The value of the jade sector alone, which is concentrated in conflict-affected areas of Shan and Kachin States, was estimated at US\$31 billion in 2014, almost half of Myanmar's GDP (Global Witness 2015). Large quantities of timber are illegally exported from conflict areas to China (UNODC 2015). Levels of production of methamphetamines, both tablets and in crystalline form, have continued to rise (UNODC 2017). Most of this is allegedly manufactured in the Wa special autonomous region in Shan State, home to the United Wa State Army, Myanmar's largest ethnic armed group.⁶⁶ Chin State has seen increasingly frequent clashes involving the Arakan Army, which is allegedly involved in the drugs industry. Clashes have occurred in some ceasefire areas, including in Kayin state.

⁶⁵ Work on social stratification and poverty traps is long-standing. See, for example, the chapter "Removing Social Barriers and Building Social Institutions" in World Bank 2001.

⁶⁶ See for example "Myanmar's Wa State rules synthetic drug market," Star, February 5, 2017. From: <https://www.thestar.com.my/news/regional/2017/02/05/myanmar-wa-state-rules-synthetic-drug-market/>.

Figure 4-1 | Conflict deaths by state/region over time, 2010–2018



Source: ACLED database.

Note: Data significantly underreports deaths in Rakhine State in 2017. The Uppsala Armed Conflict Dataset reports 1,201 deaths in Rakhine that year.

153 Violence in Rakhine State since August 2017 has forcibly displaced about 725,000 Muslim people into Bangladesh, the largest refugee exodus in modern times. One conservative estimate noted that at least 6,700 people were killed in one month following military responses to attacks by the insurgent Arakan Rohingya Salvation Army (ARSA) (MSF 2018). The UN Fact-finding Mission suggests that the estimate that up to 10,000 Muslims were killed may be conservative. Many more Muslims were injured and subjected to serious human rights abuses, during the military’s “clearance operations” (United Nations Human Rights Council, 2018). Rakhine has seen successive bouts of large-scale intercommunal violence between the largely Buddhist ethnic Rakhine population and Muslim communities. Conflict surged in 1949, 1978, 1991, 2012, 2013, and 2016 before the latest wave of violence began in August 2017. A lack of citizenship and rights has made the Muslims particularly vulnerable (see chapter 1.4). Since 2012, most Muslims in Rakhine have been deprived of freedom of movement on the grounds that the state could not guarantee their security. Communal violence, in Rakhine but also in other parts of Myanmar, has hardened identities and intolerance. This meant that when the military started operations in August 2017 in response to attacks from ARSA, they gained support from much of the local Buddhist population as well as others across Myanmar. A few days before military operations and the exodus began, the Advisory Commission on Rakhine State, led by Kofi Annan, released a roadmap for a durable solution in Rakhine. The report calls for both economic development for all communities, and for policies that tackle underlying drivers of exclusion of Muslim communities. It was endorsed by the government, but there has been little substantive progress on its recommendations.

154 Intercommunal violence has also surged across the country. Since 2012, incidents of anti-Muslim violence—from fleeting episodes, to large-scale riots, to the protracted violence in Rakhine—have occurred in most of the states and regions in the country, including the main cities of Yangon and Mandalay. Such violence has been driven by, and has further reinforced, rising Buddhist nationalism in the country (Cheesman 2018).

155 Serious abuses in conflict areas, including against Muslim communities in Rakhine State, continue to be reported, fueling the cycle of violence and distrust towards institutions.⁶⁷ Areas of armed conflict tend to be remote, with limited accessibility to government administrators and civilian institutions due to poor infrastructure and security. Although the commander in chief has spoken of the need to follow international norms and to treat civilians lawfully and respectfully, extrajudicial killings, torture, sexual violence, forced labor, forced displacement, and destruction of property still occur in conflict areas throughout the country. In Rakhine State, such abuses by the military towards Muslim civilians were documented as widespread during

⁶⁷ A systematic review of these dynamics was conducted in Horsey 2018.

the “clearance operations” following the August 2017 eruption of violence (United Nations Human Rights Council 2018). Government shelling and airstrikes have struck civilian areas, in violation of the laws of war. Both government and nonstate groups are known to use antipersonnel landmines and forced recruitment, including of children. Use of forced labor by the military has declined significantly, as have forced recruitment and use of child soldiers, but neither have ended.⁶⁸

156 Progress in ending Myanmar’s subnational conflicts has stalled over the past year. The ceasefire agreement of late 2015 was followed by the start, for the first time, of a wide-ranging political dialogue on the structure of a democratic federal state. Progress has stalled over the past year, however, and many view the peace process as moribund. At least ten EAOs have not signed the NCA, and these include some of the largest armed groups. The United Wa State Army, which has not signed, can mobilize 30,000 troops.⁶⁹ Using conservative estimates, four times as many EAO troops are part of groups that have not signed the NCA as are in NCA signatory groups (table 4-1). As dialogue continues on how to restructure the Myanmar state, it is vital that such groups be able to contribute to a shared vision for the future. Three Union Peace Meetings, the beginning of the political dialogue, have been held, but little of substance has been discussed, and no significant agreements have been reached up to the time of this analysis.

Table 4-1 | Estimated EAO troop numbers, by NCA and non-NCA groups

NCA	Troops	Non-NCA	Troops
All Burma Students’ Democratic Front (ABSDF)	400	Karenni National Progressive Party (KNPP)	600
Arakan Liberation Party (ALP)	100	United Wa State Army (UWSA)	30,000
Chin National Front (CNF)	200	Kachin Independence Organization (KIO)	12,000
Democratic Karen Benevolent Army (DKBA)	1,500	National Democratic Alliance Army / Eastern Shan State (NDAA ESS)	3,000
Karen National Liberation Army Peace Council (KNU/KNLA-PC)	200	Palaung State Liberation Front / Ta’ang National Liberation Army (PSLF/TNLA)	6,000
Karen National Union (KNU)	5,000	Myanmar National Democratic Alliance Army (MNDAA)	2,000
Pa-O National Liberation Organization (PNLO)	400	Arakan Army (AA)	3,100
Restoration Council of Shan State (RCSS)	8,000	Shan State Progress Party / Shan State Army-North (SSPP/SSA-N)	8,000
New Mon State Party (NMSP)	800	National Socialist Council Nagaland-Khaplang (NSCN-K)	500
Lahu Democratic Union (LDU)	0	Ruki National Army (RKA)	200
Overall troop numbers	16,600		65,400

Source: Data from Myanmar Peace Monitor as of January 2019.

157 The Rakhine crisis and unresolved subnational conflicts more broadly are a major barrier to inclusive growth in Myanmar. In central Rakhine State, around 130,000 Muslims have remained in displacement camps since 2012. Without freedom of movement, they are unable to pursue livelihoods and are fully dependent on humanitarian aid. The government has committed to gradually closing the camps, but how this will unfold and what form resettlement will take are additional sources of uncertainty. In northern Rakhine, remaining Muslims are also unable to move beyond their villages. This has caused major labor shortages, with the result that the agricultural economy has almost completely collapsed. Other ethnic groups, such as the Rakhine, also remain among the poorest in the country and lagging behind. This is fueling distrust and straining relations with Union authorities, which have tenuous control over an increasingly nationalistic Rakhine. As outlined in chapter 1, the

68 “Follow-up to the resolution concerning remaining measures on the subject of Myanmar adopted by the Conference at its 102nd Session (2013),” ILO Doc. GB.331/INS/11, Governing Body, 331st Session, Geneva, October 2017.

69 Myanmar Peace Monitor (n.d.), “United Wa State Army,” Burma News International website, accessed January 27, 2019: http://www.mmpeacemonitor.org/stakeholders/mpsi/169_uwsa.

Rakhine crisis is starting to have a visible impact on growth, affecting tourism and investor confidence among other things. Beyond the Rakhine crisis, other conflicts also affect growth. Border trade between China and Myanmar dropped by over US\$200 million in 2016 due to conflict in northern Shan State (Burke et al. 2017).

Limited progress towards more inclusive governance institutions and a clear path to decentralization hinder peace

158 **Perceptions of exclusion have driven and continue to drive subnational conflicts in Myanmar.** Rebellions from the 1940s on were the result of the perceived dominance of the majority Bamar group over ethnic minorities. Groups such as the Karen, Shan, Chin, and Kachin felt that their rights and cultures were not being respected within the newly independent Burma. The nature of the Union has been contested since its origin, and the power envisaged for its constituent groups and the states/regions established under the 1947 Constitution did not materialize. Box 4-1 provides details on the origins of such contestation and federal arrangements envisaged in the Constitution. Feelings of exploitation continue to drive narratives that underpin conflicts across the country. Resolving Myanmar's conflicts will require finding solutions that give ethnic states more control over their own affairs and greater representation in Union-level institutions.

Box 4-1: The origins of a “contested union” and constitutional arrangements since 1947

The non-Bamar ethnic nationalities in upland areas surrounding Myanmar's major river systems have a long history of self-governance separate from Bamar populations in lowland areas. This reflected a long-standing consciousness of the different culture and lifestyles of people residing in the lowland areas and those living in the upland and mountainous areas near the borders with India, China, Thailand, and Laos. Before British colonization, the ruling Konbaung Dynasty directly controlled and administered the area known as Lower Burma, and secured Sovereignty over the peoples living in the Shan States and to the east and the north, where internal administration was largely left to local hereditary rulers who paid occasional tributes. The British colonial administration also largely maintained the system of indirect rule in “frontier” states.

With independence, the founders of the Union sought to integrate multiple ethnic groups into a single administrative structure. Reflecting the principles laid down at the preceding Panglong Conference, the 1947 Constitution created three states—Shan, Kachin, and Karenni (later Kayah)—as “constituent units” of the Union of Burma along with all other territories declared to be a single administrative unit. Crucially, Shan and Kayah States were granted the right of secession after ten years of independence (Furnivall 1960).

The nature of the Union was contested from the start. The Anti-Fascist People's Freedom League (AFPFL)—a loose coalition of numerous groups united only in their opposition to foreign rule—envisaged a Union State with a unitary system. In contrast, ethnic groups understood it to be a federal system. The tensions between these positions was encapsulated by Chief Justice Chan Htoon, an important architect of the 1947 Constitution, who noted that “Burma's Constitution, though in theory federal, is in practice unitary” (Sai Kham Mong 2007).

Many of the state powers envisaged in the 1947 Constitution never materialized, which contributed to one of the longest and most complex civil wars in the world. At the heart of seven decades of conflict are issues of ethnic rights and local control of decisions and resources for local development. The military resistance from ethnic armed groups in the pursuit of greater local autonomy has been repeatedly met with violence by successive military governments.

The military-drafted 2008 Constitution represented an important change of step in Myanmar's path towards political and social pluralism. The Constitution created space, within tightly controlled boundaries, for ethnic minorities to exercise more control over internal affairs and redress horizontal inequities. From a highly centralized and uniform administrative architecture, it established fourteen separate political units—seven ethnic *states* and seven *regions* of equivalent status—as the new, and only, subnational tier of government. Unicameral legislatures (*hluttaws*) were established in each state and region. It also gave subnational governments executive powers, their own budgets, and an assortment of small, own-source taxes and other revenues.

The Constitution stops well short of creating a federal structure, and most power remains concentrated in the Union. The chief minister of each state and region is appointed by, and ultimately accountable to, the president. The military occupies one-quarter of the seats in each subnational legislature, and key ministerial posts. Much of the legislative power of the subnational governments is subject, in one way or another, to the direction of the Union legislature. Most subnational-level civil servants are still appointed by, and accountable to, Union-level ministries. Subnational governments also depend on Union transfers to address vertical and horizontal fiscal imbalances, and the Union government formally approves subnational budgets through the Finance Commission.

The 2008 Constitution also leaves several core “federal” issues unresolved. Subnational governments lack mandates sought by ethnic political movements in key areas of governance, including land and natural resource management; the right of subnational governments to determine language, culture, and religion; and the authority to oversee development projects of local concern. Major social services such as health, education, and social welfare remain Union responsibilities.

159 Most parties to the peace process nominally agree on the overall importance of a future democratic and decentralized system of government to mitigate the drivers of conflict in Myanmar. The NCA—agreed to by 10 EAOs, the government, and the military—calls for dialogue leading to constitutional reform and a Union accord on the structure of a new federal democratic state. The MSDP also cites progress toward decentralization and federalism as crucial for peace. There is little agreement, however, on what this federal state should look like or how to get there. The forms, roles, and responsibilities of different entities under a federal state and the amount of power to be shared between the state and ethnic minorities are unsettled questions. Decentralization within the current constitutional constraints, it has been argued, cannot provide the political autonomy, security, or share of national wealth that the nonstate armed groups, ceasefire signatories or not, require in order to agree to sustainable peace agreements (Nixon et al. 2013). Yet radical constitutional reform is also not in prospect, as any change requires the acquiescence of the military, which remains committed to the fundamental precepts in the 2008 Constitution.

160 Despite the calls for decentralization of decision-making, the government today remains very centralized. Decades of military rule focused on crushing demands for ethnic political autonomy or cultural self-expression. The 2008 Constitution, drafted by the military, creates seven regions, mostly Bamar, and seven states, mostly dominated by various ethnic groups. All these subnational governments support their own executive, legislature, and judiciary, but political and administrative power remains with the Union. While there has been some degree of political decentralization, with state and region governments and parliaments becoming more active, there has been only limited administrative or fiscal devolution of powers. State/region government expenditures have almost doubled since 2012, but still account for just 11.8 percent of all government expenditures. Further, the Union president appoints the state and region chief ministers, and the Union government dominates all major sources of revenue and administers all major functions, including education and health (Batcheler 2018). Weak subnational governments also contribute to the tortuous paths of accountability that hamper local service delivery.

161 Myanmar’s recent decentralization reforms represent important institutional steps towards federalist principles, and have provided subnational actors with some experience and capacity to govern in multitiered government structures. Steps towards political, fiscal, and administrative decentralization illustrate this point and highlight the space within the current constitutional framework for further institutional development—including building capacity to resolve functional tensions, managing intergovernmental fiscal relations, encouraging participatory decision-making, and more. While decentralization reforms within the bounds of the current Constitution are not likely to offer a complete solution for peace, they ground federalism debates in practical solutions.

162 The legislative and financial responsibilities assigned to subnational governments equip them with the tools to shape the society around them. Subnational hluttaws create a space for a new form of political contest that can promote greater inclusion and accountability in government, particularly in ethnic states.

Subnational governments are generally growing in autonomy under the current NLD government, which remains nominally committed to a federal democratic Union. Hluttaws are also becoming increasingly assertive in holding the executive to account and representing their constituents.

163 Administrative decentralization has, arguably, lagged behind the political and fiscal dimensions. The Constitution allows room for further administrative reforms—for example, by allowing subnational governments to form subnational civil service organizations.⁷⁰ This would give subnational governments more authority to deliver on their mandates by building a civil service that is more ethnically diverse, locally representative, and responsive to local needs. This authority has been left mostly unexercised, however. Civil servants are advised to support subnational governments, though all human resource management is handled by the corresponding Union ministry.

164 EAOs perform government functions in large areas of the country, but there is limited convergence with state institutions. The Karen National Union (KNU), for example, collects taxes, administers justice, and delivers health and education services in large areas of southeastern Myanmar, where 800,000 people live (Jolliffe 2016). In many other places, including areas of mixed government-EAO control, children receive schooling and vaccinations from ethnic service providers (see chapter 4.2). The NCA acknowledges the role EAOs play in delivering services, and envisions a process of convergence, whereby EAOs continue to provide services in their areas while efforts are made to harmonize these with state services. Yet there has been little progress in implementing the NCA’s “interim arrangements” setting out this vision.

165 Minorities are underrepresented in the political space. For example, in the general elections in November 2015, while several Muslims applied to be on the candidate rolls of the victorious National League for Democracy (NLD), the party selected no Muslim candidates. Muslims ran as candidates for other parties, but none were elected. The current parliament is the first in Myanmar’s history with no Muslim representation. In contrast, 55 Christians were elected as Union members of parliament (MPs) in the 2015 elections. Furthermore, the Myanmar government uses temporary identification cards, known colloquially as “white cards,” for individuals who have lost their Citizenship Scrutiny Cards (CSCs) or for whom citizenship has not yet been verified (Cheesman 2015). In the 2010 general elections, those holding white cards were eligible to vote, while in 2015 they were ineligible. This disproportionately affected Muslims and those of Indian and Chinese descent.

166 It is widely held that senior echelons of the civil service and the military do not reflect the diversity of Myanmar’s population, being dominated by Bamar males.^{71,72} This is despite the 2008 Constitution enshrining the principle of nondiscrimination towards any citizen based on race, gender, or other factors. Biases persist at all levels of the civil service, and these biases affect benefits and entitlements (Cifuentes 2016). Bamar ethnic groups dominate positions across all levels of the Ministry, not just senior management. In Hakha, the capital of majority-Christian Chin State, two department heads in the state administration are Burman Buddhist (Fleming 2016). Similarly, in the last decades, few Muslims have been integrated into the civil service. Those who have entered have stayed at lower ranking positions. No affirmative action policies on the basis of ethnicity, gender, or background are practiced.

167 Collecting data on the ethnicity of officials is confounded by the general imprecision in the identification of race. Citizens are listed according to 135 recognized categories of ethnic nationality, while an estimated 16 percent of adults remained unregistered in 2016.

168 The political system remains dominated by men. Through the development of the National Strategic Plan for the Advancement of Women (2013–2022), the government has signaled its interest in promoting women’s empowerment and gender equality in Myanmar. However, a lot remains to be done. Very few women currently serve in political positions. Women in the Union government account for only 13.6 percent of elected

70 Article 257 of the Constitution states that subnational governments “may form Civil Services organizations” and “appoint the required number of Civil Services personnel.”

71 Based on partial evidence, as the government does not yet publish information on race and religion in the civil service.

72 See, for example, Cifuentes 2016 (UNDP) and Hook et al. 2015.

(i.e., nonmilitary) MPs. At the subnational level, women account for 12.7 percent of elected MPs, though there is considerable variation between states and regions, and some areas are without women representatives at all (table 4-2) (Minoletti 2016). The gender inequality of electoral representation is even starker at local levels than at the Union and subnational levels. Currently, there are only 101 women in the elected tier of 16,829 ward/village administrators (Batcheler 2018). Studies have shown that women are less likely to participate in ward meetings or meetings concerning development projects or other community issues (Reid 2006; UNDP 2014). The exclusion of women from the political sphere is symptomatic of gender inequality more broadly, although some gender indicators have improved in the recent years. Chapter 4.2 documents such inequalities in greater detail, but knowledge gaps persist regarding gender differences and the impact of gender norms across the country.

Table 4-2 | Female representation in government

State/Region	Elected MPs	Elected MPs who are women	Women as % of elected MPs	Military MPs	Total MPs	Women as % of total MPs
Mon	23	6	26.1%	8	31	19.4%
Yangon	92	18	19.6%	31	123	14.6%
Ayeyarwady	54	10	18.5%	18	72	13.9%
Sagaing	76	14	18.4%	25	101	13.9%
Magway	51	8	15.7%	17	68	11.8%
Bago	57	8	14.0%	19	76	10.5%
Kachin	40	5	12.5%	13	53	9.4%
Kayin	17	2	11.8%	6	23	8.7%
Tanintharyi	21	2	9.5%	7	28	7.1%
Mandalay	57	4	7.0%	19	76	5.3%
Shan	103	7	6.8%	39	142	4.9%
Chin	18	0	0.0%	6	24	0.0%
Kayah	15	0	0.0%	5	20	0.0%
Rakhine	35	0	0.0%	12	47	0.0%

Source: Minoletti 2016.

169 **Women are also underrepresented at senior levels of the civil service.** Women accounted for around 55 percent of all Union-level civil servants in 2015/16. At senior levels, women accounted for 45 percent of deputy directors or higher positions. However, the aggregate figures mask considerable variation between ministries. In the Ministry of Home Affairs (MoHA), for instance, which until 2018 included the GAD, women only accounted for 6 percent of senior positions (Minoletti 2016). In general, women tend to be absent from the most senior civil service positions of director general, deputy director general, and permanent secretary. There is only one woman among over 30 permanent secretaries in the Union government. Initiatives to promote gender equality in political representation are bearing some fruit, however. The NCDDP, for example, mandates equal representation of men and women in village committees, raising the participation of women in public institutions.

170 **Women are underrepresented in the peace process.** Throughout the negotiation of the Nationwide Ceasefire Agreement, women working in Myanmar's peace process fought hard to make their voices heard. The NCA, which was signed by the government and some EAOs in October 2015, stated that it would include a "reasonable" number of women in the subsequent process. The Framework for Political Dialogue, agreed to a few months later, went further, specifically stating that 30 percent of those participating in the peace process should be women. In reality, however, women made up 13 percent of the participants in the first Union Peace Conference (UPC) and 17 percent in the second UPC (Warren et al. 2018), and some of the ceasefire negotiating and monitoring committees had no women members (Alliance for Gender Inclusion in the Peace Process 2015).

171 **The risk of violence against women and girls is heightened in situations of conflict or vulnerability.** Although there is currently no reliable data available on the prevalence of violence against women in Myanmar (ADB et al. 2016), small-scale studies suggest that gender-based violence and intimate-partner violence continue to affect women's lives (Kyu and Kanai 2005).⁷³ There is evidence of rape and other forms of sexual violence against women and girls in conflict-affected areas.⁷⁴

Binding Constraints

The peace process has stalled, and violence has intensified in many areas; control over natural resources and illicit activities both fuel and finance conflicts.

Highly centralized decision-making, and institutions that do not fully reflect Myanmar's diversity, limit the country's ability to meet the different needs and aspirations of the population across the country, generating grievances and widening inequalities.

Social exclusion of ethno-linguistic and religious minorities, noncitizens, and persons without identification documents persists across the country. There has been limited progress in resolving challenges specific to Rakhine, which include tensions between state and Union institutions, underlying conditions that perpetuate exclusion, and uncertain prospects for long-term development.

4.2. People: Human Resources and Social Development

172 **Developing human capital is critical to ending extreme poverty, sustaining economic growth, and creating a more inclusive society.** Human capital comprises knowledge, skills, and health that people accumulate throughout their lives. It is what enables people to realize their potential as productive members of society. Essential for human capital are nutrition, health care, quality education, and skills. A child born in Myanmar today can expect to be only 47 percent as productive when he/she grows up, given the prevailing risks of poor health and education that limit human capital formation (figure 4-3). In other words, the future GDP per worker in Myanmar could be twice as high if the country reached the benchmark of complete education and full health. More should be expected of Myanmar, given its current level of GDP per capita (figure 4-2).

173 **Myanmar has recently taken steps to build its human capital through increased public investment in basic services.** Human development outcomes, however, remain poor and extremely uneven across the country and population groups. These translate in low skills for use in the labor market. Myanmar has the opportunity to invest in its human resources now to both sustain the momentum of recent growth and limit the risks to social sustainability linked to widening inequality and perceptions of exclusion. Missing the opportunity to address this now could have consequences for generations.

⁷³ See also Breaking the Silence Project 2013 for research in five Yangon townships.

⁷⁴ In 2008, the Committee for the Elimination of Discrimination Against Women (CEDAW) expressed its concern about the high prevalence of sexual and other forms of violence, including rape, perpetrated against women in Kachin, Kayin, Rakhine, and Shan States. More recently, reports from the UN, including the UN Women 2017 Gender Brief on the Rohingya Refugee Crisis Response in Bangladesh, have emphasized the widespread sexual violence endured by the Muslims in Rakhine, particularly women and girls, during the recent crises. The report indicated that "almost every woman and girl in the Balukhali makeshift settlements in Cox's Bazar is either a survivor of or a witness to multiple incidents of sexual assault, rape, gang rape, murder through mutilation, or burning alive of a close family member or neighbor" (p. 1).

Figure 4-2 | Human Capital Index vs. GDP per capita, Myanmar and comparators, 2017

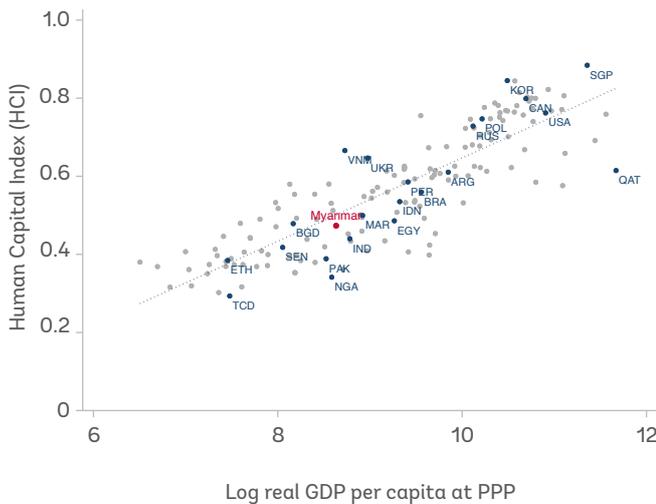
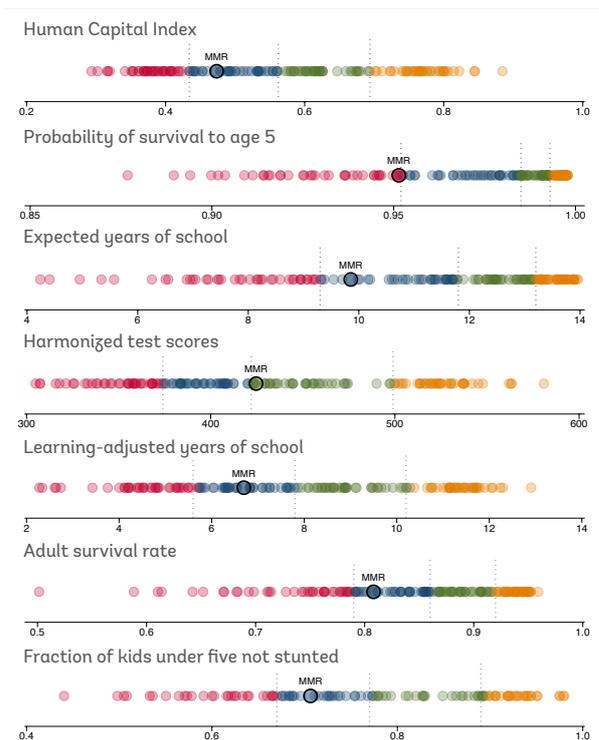


Figure 4-3 | Myanmar's performance on the Human Capital Index, by component, 2017



Source: World Bank, Human Capital Index–Myanmar Brief, October 2018.⁷⁵

Efforts to strengthen basic services have paid off, but access and quality are still low

Nutrition, Health, Water and Sanitation

174 **Myanmar's human capital is hampered by poor sanitation and health from the early years of life, with malnutrition a persistent outcome with long-term consequences.** Infant mortality has been declining rapidly since 2000, but at 61.8 deaths per 1,000 live births it remains the highest in the EAP region (figure 1-16). In 2012, life expectancy in Myanmar was 66 years (63 years for men and 68 for women), just above Lao PDR's 65 but well below Vietnam's 75. Despite big improvements, one in three children under five years old is stunted (figure 4-4). Maternal health, nutrition, and education are key predictors of stunting, making improvements in women's human capital critical to reducing the burden of stunting. Children in poorer households with more limited access to maternal care, and those with less educated mothers, are indeed more likely to be affected (figure 4-5). Those with mothers of short stature due to their own malnutrition in childhood and adolescence, are six times more likely to be stunted.

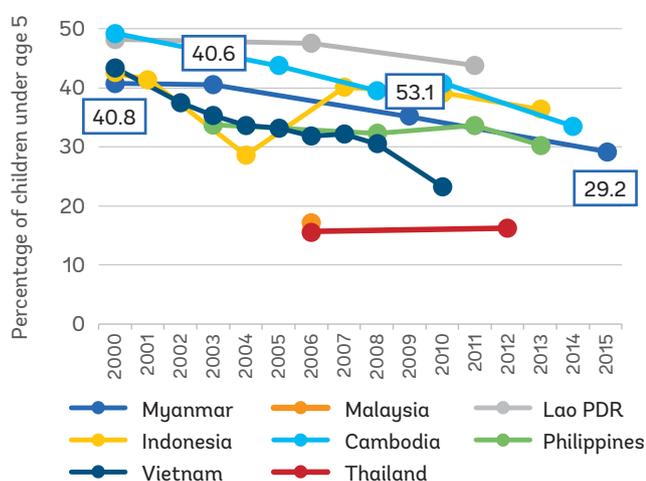
175 **Suboptimal infant and young-child feeding (IYCF) practices, key causes of stunting, reinforce this malnutrition trap.** While almost all children are breast-fed at some time, only 51 percent of infants aged zero to five months are exclusively breast-fed (MOHS and ICF International 2016), the World Health Organization's minimum target. Fewer than 16 percent of children of age six to 23 months meet the minimum standards for all three IYCF practices: breast-fed or minimum number of milk feeds, minimum meal frequency, and minimum dietary diversity. The relative unaffordability of a high-quality diet, poor knowledge, and traditional norms and practices appear to influence complementary feeding, the transition from exclusive breast-feeding to solid foods. Only half of 18- to 24-month-old children and 17 percent of those aged six to eight months are fed meat,

⁷⁵ For detailed methodology: <http://www.worldbank.org/en/publication/human-capital>.

fish, or poultry (MOHS and ICF International 2016), and the traditional Myanmar diet does not usually include adequate sources of alternative or vegetable protein. Government efforts like the maternal and child cash transfer (MCCT) program for pregnant mothers and children under two, promoting high-quality diets and better nutritional practices through education and empowerment of women, are a positive step to tackle some causes of malnutrition.

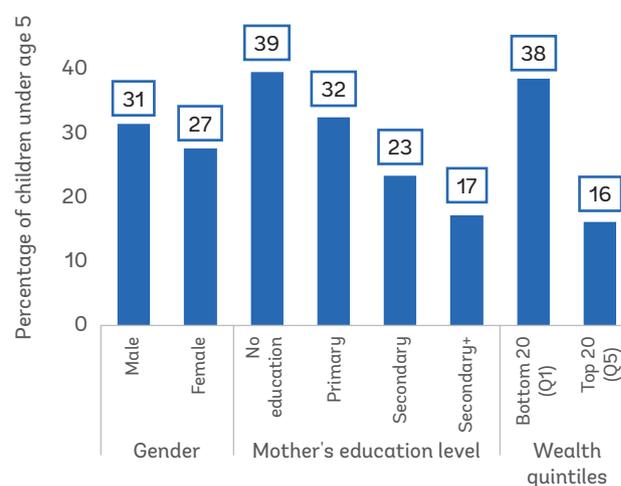
176 **Beyond inadequate feeding practices, poverty and food insecurity also lead to poor nutrition outcomes.** Access to sufficient, safe, and nutritious food eludes poorer households, despite Myanmar's overall food self-sufficiency, reflected in its export of rice, pulses, and other food items. Poorer households tend to consume a lower quality diet than richer ones, with fewer calories, more basic carbohydrates, and less protein. They in fact derive 60 percent of their calories from rice, a low-quality diet. In the poorest quintile, 44 percent of households with children under the age of five reported having to limit nutritious food, and 29 percent reported children going hungry (MOPF and World Bank 2017a).

Figure 4-4 | Stunting rate among children under five, Myanmar and EAP, 2000–2015



Source: World Development Indicators.

Figure 4-5 | Stunting rates, by gender, mother's education, and wealth quintile, 2015

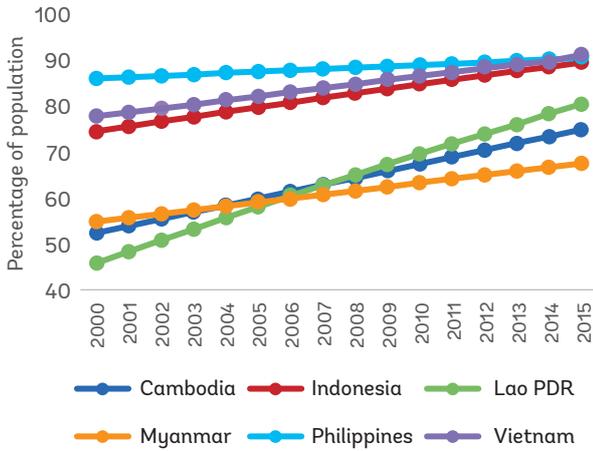


Source: Calculations based on DHS 2015/16.

177 **Exposure of children and families to environmental pathogens and diarrhea is high, contributing to stunting and poor health.** Basic access to fresh water and sanitation remains lower than in most EAP comparators, despite an improving trend in the last decade (figure 4-6). This deprivation increases the risk of water-borne and soil-borne diseases and exposure to feces. Nearly seven in 10 people in Myanmar have access to improved water year-round, but water access is affected by location and seasonal variability, especially in rural areas. The spread of improved sanitation appears to have stagnated in the past decade, with a fourth of rural residents still lacking access to improved toilet facilities in 2015. Open defecation remains a particularly acute problem in some states and regions, as indicated in figure 4-7.

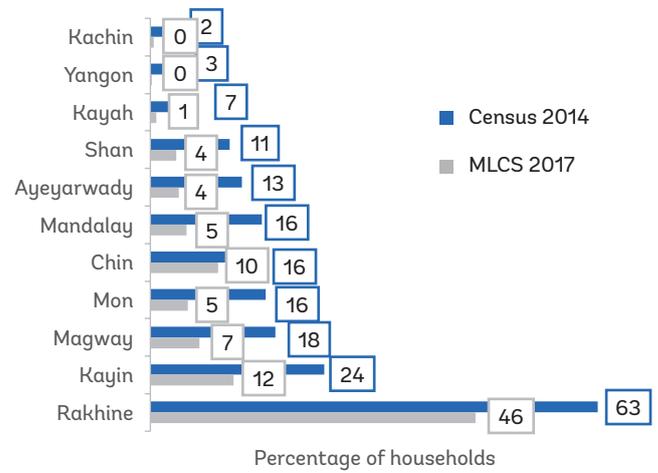
178 **The availability of essential health and nutrition services, especially those critical for women and children, remains low and inequitable.** National averages hide large disparities across socioeconomic status and location. About 55 percent of children under two have received all basic vaccinations, 41 percent among the lowest wealth quintile, and 77 percent among the highest. Ayeyarwady has the lowest rate (34 percent), and Mandalay has the highest (81 percent). In Myanmar, 60 percent of deliveries are attended by a skilled professional, and only 37 percent of women give birth in health facilities (MOHS and ICF International 2016). Among the poorest, the latter figure drops to 17 percent, but reaches 83 percent among the best-off. Institutional delivery rates are the lowest in Chin and Rakhine, at 15 and 19 percent, respectively.

Figure 4-6 | Share of population with access to at least basic drinking water, Myanmar and EAP comparators, 2000–2015



Note: The definition refers to the percentage of people using at least basic water services. This indicator encompasses both people using basic water services and those using safely managed water services. Basic drinking-water services are defined as drinking water from an improved source, provided collection time is not more than 30 minutes for a round trip. Improved water sources include piped water, boreholes or tube wells, protected dug wells, protected springs, and packaged or delivered water.
Source: World Development Indicators.

Figure 4-7 | Share of households reporting “bush/field” or “none” as main toilet facility, by state/region, 2014 vs. 2017



Source: CSO, UNDP and World Bank 2018.

179 **Chronic underinvestment in health services has long prevented the delivery of adequate basic services to all and has increased households’ vulnerability.** Despite substantial growth in recent years, government spending on health remains low with respect to GDP (figure 4-9). As a share of total public spending, public-sector health spending went from 1 percent in 2009/10 to about 4 percent in 2015/16 (World Bank 2017a). People continue to face high out-of-pocket expenditures on health (74 percent of total health spending in 2015, the seventh highest in the world). The high, and often unpredictable, cost of even basic health care results in care foregone, the ability to work and earn a living diminished, and even outright impoverishment and catastrophic health-care spending. Three percent, or 1.7 million people, were pushed into poverty by health spending in 2015. Moves towards a universal health-care package to provide basic services free of charge to all are ongoing, but they have not yet generated measurable results.

Figure 4-8 | Total expenditure on health, Myanmar, EAP, and World, 2016

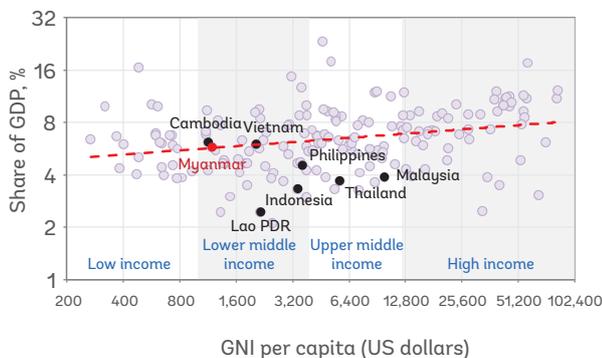
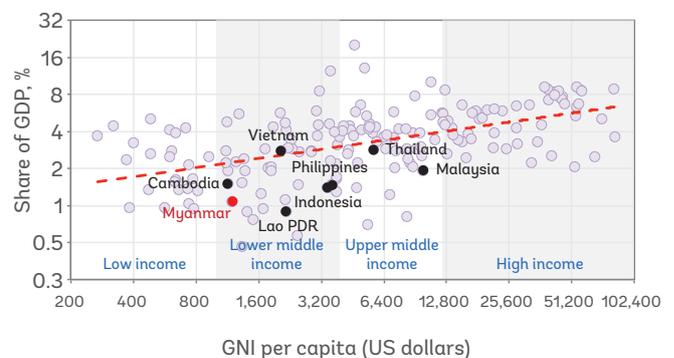


Figure 4-9 | Public expenditure on health, Myanmar, EAP, and World, 2016



Source: World Development Indicators and WHO Global Health Expenditures Database.
Note: Both axes are logged.

Social Protection

180 **Social protection, and particularly social assistance, is a nascent area of focus in Myanmar, and one where rapid and impressive progress has been made, but more can be done to protect the most vulnerable and invest in their future.** Starting with a negligible budget only a few years ago (an estimated 0.3 percent of GDP for social assistance in 2015), social assistance programs have expanded significantly to protect vulnerable categories of people. Their share of GDP is still low compared to the average spending on social safety nets in Vietnam and the EAP region (1 percent of GDP) or to countries like Mongolia and Timor-Leste, where it reaches respectively 2 and 6.5 percent of GDP (World Bank 2018c). Social pensions, disability allowances, and, more recently, an MCCT program in Chin, Rakhine, Kayah and Kayin were introduced and strengthened. The government intends to expand these programs and to introduce further programs (e.g., a child allowance). The commitment to building systems and prioritizing areas of greater need is commendable, but limited fiscal and human resources may jeopardize some of the ambitious expansion plans. An approach targeting the most vulnerable first, accompanied by significant investments in operational capacity at all levels, might be a more efficient use of the nation's expanding but still limited resources.

181 **Social insurance is also in a nascent stage, and the current pensions system obsolete and fiscally unsustainable.** The legacy civil service pension system, inherited from the British colonial era, has seen a significant increase in spending recently, adding to fiscal pressures. It requires changes to align it with international good practice, including parametric reforms such as extending the averaging period, gradually increasing the retirement age, and automatic price indexation. These reforms should be coordinated carefully with the overall strategy for public administration reform. The government recently acknowledged the urgency of pension reforms, forming a special inter-ministerial committee tasked with introducing a national pension scheme. Looking forward, a new national pension scheme that covered both public and private sector workers would encourage labor market mobility and would take advantage of economies of scale in pension administration. To the extent that the design of the new scheme avoided the creation of unfunded pension liabilities, it would also contribute to long-term fiscal sustainability.

182 **Systems to mitigate and respond to shocks are particularly important in a country so prone to natural disasters; yet, Myanmar has no national strategy to build disaster and climate resilience at scale.** As noted in chapter 5, the country is highly vulnerable to weather-related, seismic, and other shocks. Despite the high level of vulnerability, however, the existing legal and institutional structure for disaster risk management (DRM) does not adequately focus on ex-ante risk reduction and preparedness, while the social protection system has limited capacity to respond to shocks or shelter the vulnerable when disasters hit. The preparedness and resilience agenda faces complex challenges, highlighted in chapter 5.

Education, Skills and Employment Support Services

183 **Stepped-up investment in basic education has resulted in more children going to school, although the poorest continue to be left behind.** Public resources devoted to education have increased fivefold since 2013, allowing for much-needed investment in new schools, upgrades, and hiring new teachers. This is a remarkable increase, though at 7.8 percent of government expenditure and 2.1 percent of GDP in FY2017/18, public education spending remains considerably lower than in neighboring and comparator countries. For example, already in 2012, Vietnam was spending 6.6 percent of GDP on education. Myanmar built more schools, which shortened the distance to the nearest school and allowed previously excluded children to attend. As a result, enrollment in primary education is now almost universal (94 percent in 2017) for both boys and girls. Educational attainment patterns are also comparable for adult men and women, with similar shares of both sexes graduating from primary, secondary, and tertiary schools. Figure 4-10 indicates that the gap between urban and rural areas of Myanmar has been closed. Net total middle school enrollment has also increased remarkably since 2010, but at just 71 percent in 2017 it remains low, with those living in rural areas falling behind significantly. Poverty limits children's progress to higher grades, as school expenses mount and children need to contribute to the family income or take on care duties in the household. One in four of the poorest children drop out before completing primary school, compared to one in ten for better-off children, as shown in figure 4-11. While the gap is striking,

the fact that many better-off children also drop out of school prematurely signals a widespread issue that deserves further examination.

184 Progress on fundamentals is under way, but greater access to education must begin to translate into better learning outcomes and stronger foundational skills. While inputs have increased, students display poor acquisition of foundational skills. Figure 4-12 shows results of early-reading tests of oral reading fluency, which indicate that about 13 percent of second graders cannot read a single word.⁷⁶ Poorer students and boys display weaker outcomes than children from better-off households and girls, respectively. From the early years, children do not receive the quality of education they need to become productive workers and engaged members of society. Factoring in what children actually learn, a child born today in Myanmar can expect to attain the equivalent of just 6.7 years of schooling (Human Capital Index). This is apparent in their skills, which employers find to be inadequate for the needs of the labor market (World Bank 2016b), as outlined in chapter 3. The acquisition of skills is hampered by low enrollment in preschool or early childhood development (ECD) programs, where critical socio-emotional skills are developed. The Ministry of Education has recently rolled out kindergartens nationally, but net enrollment among three- to five-year-olds is only about 25 percent and remains mostly concentrated in urban areas. Socio-emotional and even literacy skills remain a constraint among the adult population. Gender gaps in literacy are particularly striking among older generations (figure 4-13).

185 The acquisition of vocational skills and technical competencies is not responsive to the evolving needs of the labor market. The provision of technical and vocational education and training (TVET) is limited.⁷⁷ In higher education, enrollment is also lower than desirable, at about 1,240 per 100,000 inhabitants (compared to about 2,900 in Vietnam in 2014). Training is virtually nonexistent in rural areas, and in construction, mechanical, or industrial skills. Training is also particularly limited for students from underprivileged backgrounds. Quality and relevance are also wanting in vocational training and higher education. Curricula are outdated and irrelevant to the labor market, teaching and learning resources and equipment are limited and obsolete, and teaching methods and examinations are based on rote learning, resulting in poor learning outcomes. Quality has also suffered significantly from Myanmar's years of isolation. Despite recent progress in reforming teaching methodologies, student assessment systems, and internal quality assurance, and in partnering with international institutions, much remains to be done. This includes fully embracing reforms to strengthen flexibility in responding to demands from labor markets, improving research and teaching capacity,⁷⁸ and channeling more resources into distance learning, which accounts for more than half of enrollment in higher education.

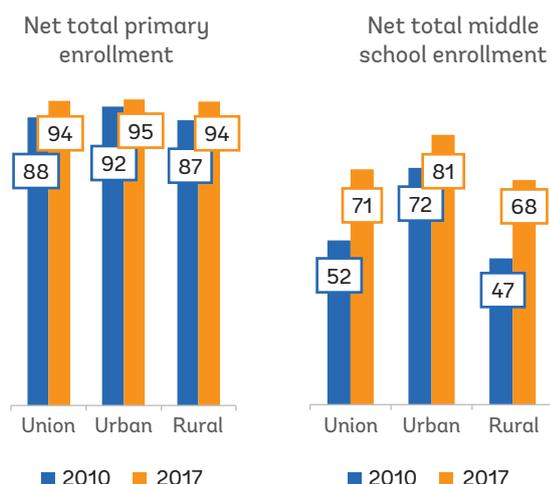
186 People in Myanmar often move to seek employment, whether at home or abroad. As of 2014, 11 million people reported that they had moved from the township where they were born. The vast majority moved within Myanmar, mostly from the Delta (especially Ayeyarwady and Bago) and the Dry Zone (especially Magwe). Yangon is, unsurprisingly, the most popular destination, in keeping with observed trends in urbanization. In addition to domestic migration, 4.25 million people are estimated to be working outside the country according to MOLIP, most of them living in Thailand (70 percent) and Malaysia (15 percent). Two-thirds are from the border states of Mon, Kayin, Shan, and Tanintharyi. While men and women are equally likely to move within Myanmar, men are more likely to go abroad: about 48 percent of those who moved internally in the last five years were men, compared to 62 percent of those who moved internationally. What both sets of migrants have in common is their reason for moving. Fifty-six percent of internal migrants reported their primary motivation was work, according to MPLCS 2015 data. Almost all international migrants said work or the search for work was the reason they moved abroad. Both internal and international migrants are employed mainly in low-skilled occupations. Evidence on climate-induced migration is limited. Going forward, it is possible that climate impacts on key resources (e.g. water, crop production, sea-level rise) may increasingly drive migration patterns (Rigaud 2018).

⁷⁶ Based on an early-grade reading assessment carried out in 2015 in selected townships in all states and regions, except in Yangon.

⁷⁷ TVET is provided by the relevant line ministries, Ministry of Education departments, and the private sector through 372 TVET centers.

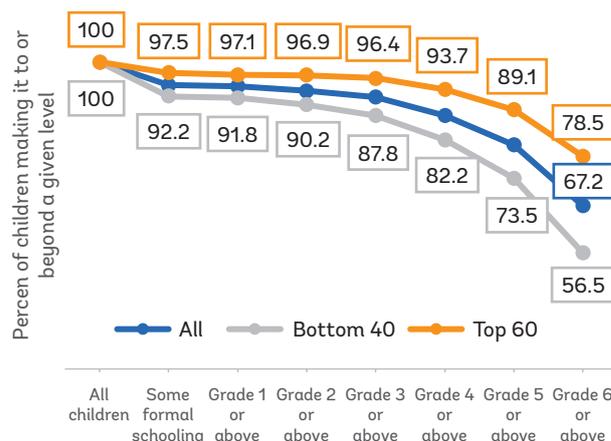
⁷⁸ Fewer than 50 percent of academic staff are involved in research that results in the publication of papers or reports.

Figure 4-10 | Enrollment rates, 2010 and 2017



Source: CSO, UNDP and World Bank 2018.

Figure 4-11 | Grade completion rates among 13- to 18-year-olds, 2015



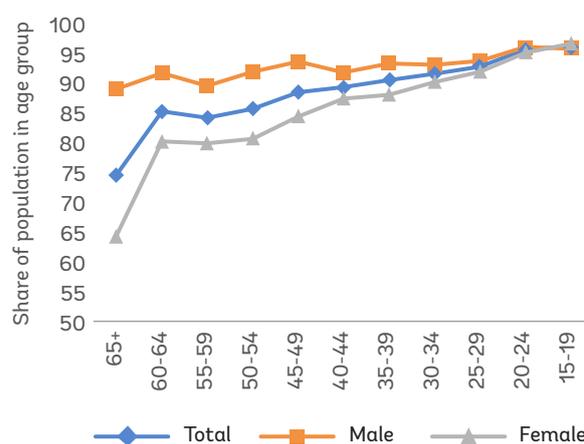
Source: MOPF and World Bank 2017, based on MPLCS 2015.

Figure 4-12 | Share of students who could not read a single word in grade 2, in different samples and years, and according to wealth



Source: Early Grade Reading Assessment (EGRA).

Figure 4-13 | Literacy rates, by age group, 2017



Source: CSO, UNDP and World Bank 2018.

187 **International migration from Myanmar is predominantly informal. The limited support migrants receive increases the cost of migrating.**⁷⁹ The country's long border, weak border enforcement, significant labor demand in Thailand, and the disruptions of political and ethnic conflict make undocumented migration attractive. Adding to these incentives is a formal migration process, under a Memorandum of Understanding (MOU) with Thailand, involving lengthy and complex bureaucratic procedures that cost migrants time and money. A survey of 5,027 Myanmar migrants in seven provinces in Thailand found that just 0.5 percent had used the formal MOU recruitment channel (IOM 2013). As of February 2016, over 900,000 previously undocumented migrants from Myanmar had been registered under Thailand's nationality verification process, while just 143,461 had received work permits under the MOU (IOM 2016).

188 **The government increasingly recognizes the importance of labor mobility for poverty reduction and economic development, as well as the barriers and risks that migrants face.** The government has worked to develop institutions to support jobseekers within Myanmar and formal migration of Myanmar workers abroad. Some services were opened for people on the move, including Migration Resource Centers and predeparture

79 This paragraph draws upon World Bank 2018b.

orientation centers. However, convoluted procedures, limited program coverage, lack of awareness, and the widespread presence of informal brokers has limited the effectiveness of these initiatives (Moroz 2017). As a result, Myanmar's migrant workers face several challenges. First, workers often end up in jobs that don't fit their skills and interests, because two-thirds of jobs are found through informal networking (Cunningham and Huertas 2017). Second, a large proportion of these labor migrants are undocumented, having used less costly but more risky irregular channels. This is particularly true for female migrants who have been victims of high-profile cases of abuse in the past (MOLIP and UN WOMEN 2017). To address these issues, over the last few years Myanmar has imposed bans that prohibit workers from migrating as domestic workers to Singapore and Hong Kong SAR, China and Malaysia. However, recent research (Napier-Moore 2017) shows that the 2016 Malaysia ban resulted in more undocumented migration of female workers, with less access to protection, increased migration costs and more vulnerability to exploitation. This is in line with findings from other countries showing that such restrictions tend to be ineffective or even have negative effects (Testaverde et al. 2017). Third, recruitment costs are high, and migrants face the real danger of falling into a debt trap. Fourth, Myanmar migrants have low levels of education, making them less competitive than workers from other countries. Fifth, migrants gain skills when they migrate, but in most cases they do not use them when they return. Lastly, while remittances account for at least 5 percent of GDP, most migrants use informal channels to remit, pointing to cost and other difficulties in accessing more efficient formal channels.

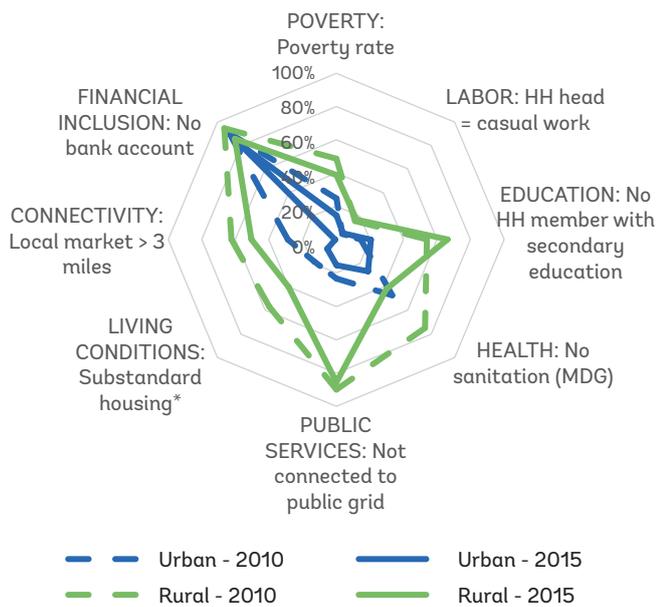
New approaches are needed to ensure more equitable human development

189 Access to services varies widely across the country, as do development outcomes, and some areas appear to be falling behind. There are significant disparities along the urban-rural divide and across income groups, as noted above. Rural areas consistently score worse than urban areas on a number of key indicators of inclusion, and they have seen less improvement than urban areas, as outlined in chapter 1 and rendered in figure 4-14. These patterns of exclusion are not unique to Myanmar, but they are serious obstacles to peace and shared prosperity. There is also striking variation among the states and regions (figure 4-15). The infant mortality rate in Ayeyarwady is 86 per 1,000 live births, similar to Somalia or Chad, among the worst-performing countries in the world. It is 45 in Yangon and 42 in Mon, roughly the average for low-middle-income countries.⁸⁰ Rates of stunting around the country show similar disparities (figure 4-16). Half or more of the population of Rakhine and Ayeyarwady lacks access to improved water during the dry season, compared to just 5 percent in the capital city, Nay Pyi Taw. Even where there has been national progress, as in access to modern sanitation, not all have benefited equally. Between 2014 and 2017, households in Rakhine reporting open defecation fell from 63 to 46 percent. But Kachin and Yangon, with lower rates to start, eliminated open defecation altogether (figure 4-8), while Mandalay and Ayeyarwady lowered open-defecation rates by two-thirds.

190 Some states and regions, and townships within them, consistently display deep deprivations across multiple dimensions. The two states with the highest poverty rates in 2010 were Chin (77 percent) and Rakhine (73 percent). Recently released MLCS data confirm that Chin and Rakhine continue to be the poorest states in Myanmar in 2017. Ayeyarwady and Kayin, followed closely by Thanintharyi, Chin, and Shan, clearly stand out in nonmonetary indicators of disadvantages in water, sanitation, and hygiene (WASH), health, education, housing, and other measures (see figure 1-19, above). Rakhine is the most remarkable outlier. Here, households are significantly more likely than anywhere else to be at a disadvantage across multiple dimensions (figure 1-19). But these disparate outcomes can be seen not just among the states and regions but within them. Some areas in Yangon and Kachin, which do well on average, include townships as badly off as in highly deprived Ayeyarwady and Shan (figure 4-17).

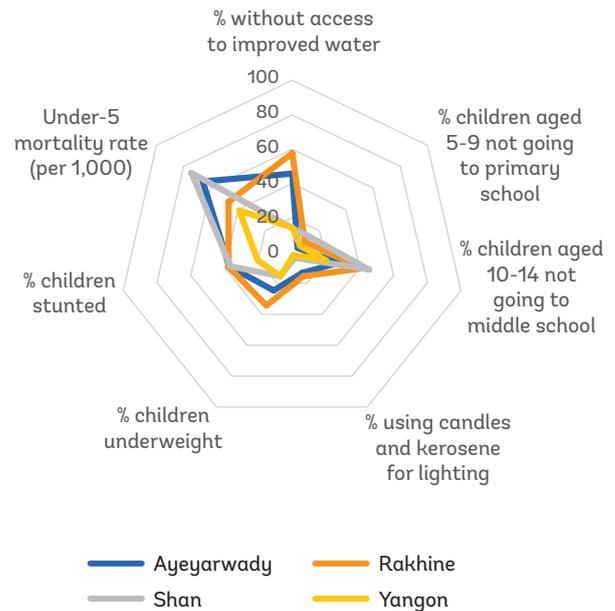
⁸⁰ The exact rates presented here are based on the 2014 census and allow for international comparisons. They may, however, differ from 2017 household survey data shown elsewhere. The extent of the variation across the states/regions nonetheless remains relevant.

Figure 4-14 | Selected indicators of social inclusion: urban/rural divide, 2010 and 2015



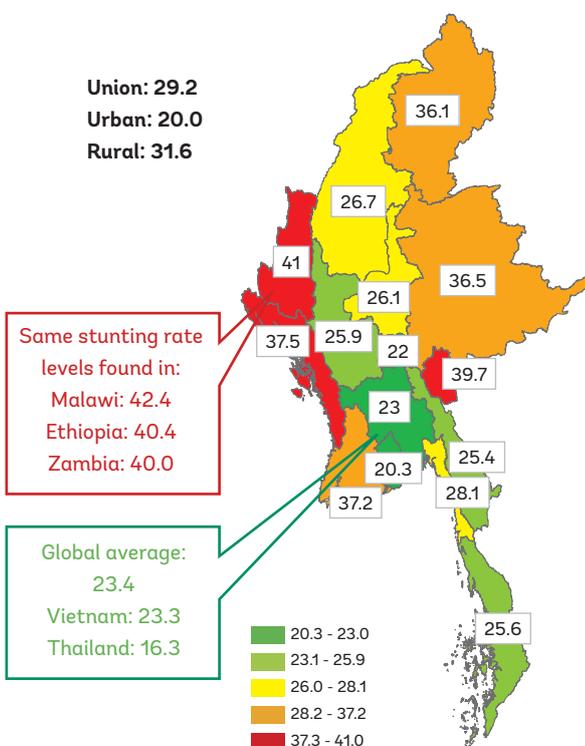
Source: IHLCA-I, IHLCA-II, MPLCS, and author's computations.
 Note: Substandard housing is defined as having a thatch roof, thatch/bamboo walls, and bamboo floor.

Figure 4-15 | State/region performance on nonmonetary indicators of wellbeing, 2017



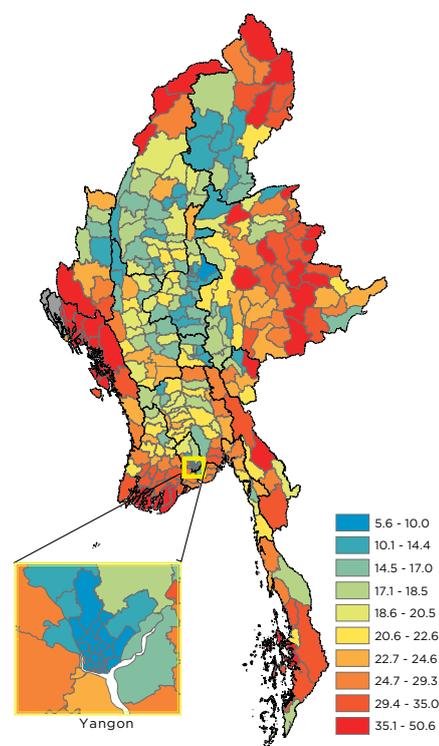
Source: Authors' calculations based on MLCS 2017 and DHS 2015/16.

Figure 4-16 | Stunting rates for children under 5 years old, by state/region, 2015



Source: For Myanmar, calculations based on DHS 2015/16. Global comparisons from WDI database.

Figure 4-17 | Multidimensional disadvantage index at the township level, 2014



Source: MOLIP and World Bank 2018.
 Note: mapping colors are based on township-level MDI decile thresholds. Due to the limited number of enumerated population, three townships in Rakhine (Maungtaw, Buthidaung, Yethedaung) are highlighted in gray.

191 **Many factors interact to create such deep disadvantage, and conflict and patterns of social exclusion based on language, religion, or citizenship status may play a role in preventing progress.** Factors such as location, gender, language, religion, or lack of a citizenship card are associated with monetary poverty, exclusion from essential services, and poor human development outcomes (see chapter 1.4 above). Identity and geography often overlap and compound the disadvantage.

192 **Nonpublic providers of basic services, particularly health and education, play a vital role in areas and among populations where social exclusion is high.** In self-administered areas and areas controlled by EAOs, such as in Kayin, Kayah, Mon, Shan, and Kachin States, health services are primarily delivered by the health and social-welfare branches of the EAOs themselves, or by community-based organizations affiliated with them, collectively referred to as Ethnic Health Organizations (EHOs). Approximately 500,000 people in southeastern Myanmar receive health services from about 4,000 EHO health-care workers (Health Convergence Core Group 2014).⁸¹ Most of these services focus on primary health care, with an emphasis on immunization, maternal and child health, and the most common communicable diseases. Collaboration and dialogue between the EHOs and MOHS have accelerated in recent years under the universal health coverage (UHC) agenda, which seeks to provide a basic package of essential health services to everyone in the country. Concrete examples of this collaboration can be seen in immunization services for children in EAO-controlled areas, harmonization of training curricula and accreditation for EHO health workers, and consultations with EHOs in the development and implementation of the National Health Plan (2017–21).

193 **Similarly, a sizable nongovernment sector delivers basic education services in areas the MOE cannot or does not reach.** Nonstate education providers include religious organizations (mostly monastic Buddhist institutions, but some Christian and Islamic groups as well) and non-Bamar ethnic groups linked to EAOs. The monastic system, comprising over 1,500 schools, delivers the MOE curriculum and provides room and board for almost 297,000 children from the poorest households and communities. Ethnic organizations reach over 300,000 children, with well-established systems operating in Kayin, Mon, Kachin, and Kayah States. A significant number of temporary learning centers operate in IDP camps in Rakhine and elsewhere or serve returnees, mostly from Thailand.⁸² Among nonstate providers, only monastic schools are included in state-financed programs, as their curricula are mostly aligned with the government's.

194 **Lack of common standards and accreditation for nonstate providers results in unequal opportunities for children outside the formal education system.** There are substantial differences between MOE and non-MOE schools. Most of the major ethnic systems have their own policies, management, curricula, assessment frameworks, and teacher recruitment and development strategies. Lack of accreditation and differences in quality standards make it difficult for non-MOE students to transfer to other systems or find skilled employment. A political dialogue to address these problems was initiated under the NCA, but has yet to pay dividends. The MOE and some nonstate educators do collaborate in various ways, but none have reached the level of formal partnerships.

195 **Although rural areas face overwhelming disadvantages, steady urbanization is creating a different set of challenges for service delivery and human capital accumulation.** While urbanization has brought a surge of new employment opportunities for city dwellers, urban planning, infrastructure development, and the provision of basic services have not kept pace with the needs of the growing urban population, leading to pollution, congestion, sprawl and slums. Welfare indicators at urban level do not reflect the severe disadvantages affected many urban communities. The lack of affordable housing is leading to the growth of informal settlements, which almost doubled in Yangon between 2010 and 2017 (ADB 2018), and clean water supplied by the Yangon City Development Committee (YCDC) reaches only a third of Yangon's population. There is no systematic collection or treatment of domestic wastewater in the city, apart from a small piped sewerage system in the old downtown business district. The lack of basic services like WASH, solid waste management and drainage represent a public

81 The draft Policy Paper is available from: http://themimu.info/sites/themimu.info/files/documents/Report_Federal_Devolved_Health_System_for_BurmaMyanmar_HCCG_March2014.pdf.

82 It is estimated that there are roughly 100,000 Myanmar refugees still in Thailand, and the United Nations High Commissioner for Refugees also estimates that as many as 15,000 have already returned outside of formal channels.

health risk. But affordable and reliable access to infrastructure and services is also important to livelihoods and jobs in urban areas. It is estimated that 80 percent of the urban workforce in Myanmar is employed in micro enterprises and almost half of them operate from home. Given its vulnerability to natural disasters, Myanmar also needs resilient urban infrastructure. With approximately 30 percent of its population now living in urban areas, Myanmar is still considered to be at an incipient stage of urbanization. This is a critical moment for the country to establish a strong foundation for urban growth that is both inclusive and sustainable.

Binding Constraints

Poor infant and child feeding practices, unaffordability of an adequate diet, inadequate coverage of nutrition services, and high exposure to disease (due to limited access to safe water, sanitation, and hygiene) contribute to high levels of malnutrition and poor health beginning in the early years of life, with productivity implications for future workers.

Low coverage of health, nutrition, and social protection services, and weak service delivery systems, leave many areas and minority groups underserved; and even where available, quality and affordability challenges limit chances to protect and boost human capital for growth in the longer term.

Basic education is still elusive for many, especially those who are poor, live in underserved areas, or belong to minority groups.

Greater access to education is not translating into improved learning outcomes; the acquisition of foundational and technical skills is limited and does not meet the needs of the labor market, often resulting in unprotected migration and limiting potential for growth.



Sustaining Progress for Future Generations

196 **Myanmar is extremely rich in natural endowments, which make a significant contribution to its economy and the welfare of its people.** Its natural resources range from great biodiversity, forests, fisheries, water, and land to gems, minerals, gas, and oil. As much as 40 percent of the country's GDP comes from primary industries including agriculture, forestry, and fisheries (ADB 2014). Extractives provide 20 percent of state revenues (2015/16). Export earnings are estimated at US\$1.7 billion in 2014 for forestry timber⁸³ and US\$536 million for fisheries. Forests are also responsible for household welfare, as they provide food, medicines, fuel, and household earnings of US\$2,287 million. Similarly, fisheries are estimated to generate economic gains of US\$848 million in the form of food and income from aquaculture (Emerton and Aung 2013).

197 **These resources are not being used to their full societal potential, however, threatening the sustainability of improvements in welfare.** To the contrary, the transition created opportunities for a small elite to control and benefit from land and natural resources, including extractives. Other sectors with potential for sustainable use have not been developed. Meanwhile, the planet is bearing the cost of environmental degradation, which also affects the livelihoods and well-being of the entire population—the poorest in particular. Climate change will only exacerbate these vulnerabilities. Myanmar needs to use its natural resources more efficiently, for the benefit of all, today and in the future.

5.1. Planet: Natural Resources and the Environment

High reliance on rich natural endowments is unbalanced towards nonrenewable resources

198 **The country is highly dependent on natural resources, which are often exploited in an unsustainable manner; oil, gas, and mineral extraction is one example.** Myanmar relies on extractives (oil and gas, mining, gems, and jade) for 6 percent of its GDP and 47.6 percent of exports (EITI 2018). It has proven oil reserves of 50 million barrels and gas reserves of 10 trillion cubic feet (EITI 2018). The country is the source of 90 percent of the world's rubies and the single largest source of jade (EITI 2018), and has large deposits of metallic minerals, including copper, gold, and nickel. A full tally of Myanmar's mineral resource base is difficult due to the absence of reliable statistics on mineral exploration since the 1960s. Out of almost 1,500 registered companies, only 79 jade and other mining companies published production and revenue statistics in 2016 (EITI 2018). This suggests that much of the economic activity in the extractive industry is unreported. A complicated and opaque permit process that favors local elites has curbed the interest of international mining companies and discouraged investment. Better management and monitoring of production and sales could boost the revenues collected annually by the state above the current US\$2 billion.

199 **Economic and social returns from land use are below potential, due to uncertain legal frameworks and concentrated control that excludes the poorest.** Land tenure is extremely insecure, due to outdated and fragmented legal frameworks, incomplete land records, and poor administration services (survey, cadaster, and registration) (World Bank 2018d). Landowners tend to be men, as land titles are most often registered in the head of household's name, and women's access to land ownership remains insecure. Current law makes no clear provision for joint property ownership by husbands and wives (ADB et al. 2016). Expropriation of land by the state or by elites without adequate compensation, and the contestation of landholdings in conflict areas, are also sources of insecurity. This insecurity affects households and businesses alike (see chapter 3), because it discourages efficient use and long-term planning and investment. In turn, the rural poor, who rely

83 Data from the International Tropical Timber Organization (ITTO).

on agricultural land, are unable to improve their welfare by using land more productively. Community land-use decisions, such as which crops to grow, are also constrained (World Bank 2018d). In urban areas, the lack of well-functioning, transparent land markets and efficient land use affects urban development and obstructs the creation of sustainable, competitive, and inclusive cities.

200 Forestry has traditionally played a major economic role, dominated by commercial teak exports, but its economic contribution is underestimated. Commercial timber has been extracted in huge volumes over the last century. Today, forestry is less prominent in formal GDP estimates. In 2015/16, it accounted for just 0.2 percent of GDP, and forest exports earned US\$270 million⁸⁴ or 2.5 percent of total export earnings.⁸⁵ Formal statistics tend to vastly underestimate the economic importance of forests, and there is only limited information on the value of forest ecosystem services. Estimates put the value of unlicensed or illegal timber exports at four times the documented value (Raitzer and Nam 2015; UNODC, 2013). In 2014, a log export ban and a partial logging ban were imposed, accompanied by other sector reforms. As a result, commercial over-extraction of timber from the Permanent Forest Estate was reduced significantly, with timber export dropping to US\$443 million in 2016 from a peak of US\$2.2 billion in 2011 (FAOStat 2018).

201 Fisheries make a similar contribution to Myanmar's economy, but its full potential is unrealized. Though accurate data is scarce, the United Nations Food and Agriculture Organization (FAO) estimates that Myanmar produced 3 million metric tons of fish in 2016, with production divided fairly evenly between marine-capture fisheries, inland fisheries, and aquaculture. The economic gains from policy reforms and better governance in the capture-fisheries sector could be significant. It is estimated that a better-managed fisheries sector in Myanmar could add US\$1.5 billion to Myanmar's economy. The World Bank report *The Sunken Billions Revisited* (World Bank 2017c) used 2012 landings data to calculate that ecologically and economically well-managed fisheries could produce an additional US\$54.8 billion in value throughout all of Asia. In 2012, Myanmar reported 1,131,500 MT of marine-capture fisheries production, or 2.7 percent of the total marine-capture fisheries production in Asia (41,205,165 MT). This underscores the importance of better data to understand the potential gains to Myanmar from well-managed fisheries.

202 Beyond their direct economic contribution, natural resources provide other essential benefits through ecosystem services, but data paucity makes it difficult to manage them. Overall, forest ecosystem services are valued at US\$7.3 billion (Emerton and Aung 2013)—56 times their contribution to GDP. In the hills and coastal areas in particular, forests help to maintain stream flow in the dry season; they retain sediments and thus purify water, particularly in coastal regions and in the northern, mountainous part of the country; and they help mitigate the impact of climate change. Similarly, the roughly 500,000 hectares of mangroves remain particularly important for livelihoods and climate resilience, despite being far fewer than historical levels. Between 60 and 90 percent of commercial fish comes from mangroves. They protect an estimated 350,000 people from storms, tidal surges, cyclones, erosion, and other natural hazards. Recent modeling work has estimated that mangroves reduce the impact of natural disasters on the coast by an average of US\$165 million per year (Losada et al. 2018). The total value of marine and coastal ecosystem services was estimated at US\$8.5 billion a year, almost 60 percent contributed by mangrove and coral reef ecosystems (Emerton 2014).

203 Myanmar's abundant water resources are also not making their full potential contribution to society. The country is rich in water, thanks to six major water basins and a long coastline. Total renewable water resources are estimated at 1,168 billion cubic meters per year.⁸⁶ A sign of the huge, untapped potential is that water withdrawal is less than 5 percent of the renewable resources available. According to FAO data, over 90 percent of withdrawals are surface water, pointing to the potential for more groundwater use. The National Water Policy, issued in 2014, calls for Myanmar to be water efficient by 2020. It focuses on water resource management, water security, and flood protection, and it lists priorities for water supply and sanitation. However, this vision has not yet produced concrete action. The use of water as a source of renewable energy is also below

⁸⁴ All U.S. dollar values referred to in this section are expressed in constant 2018 dollars, deflated using the Consumer Price Index for that year and then converted at the 2018 exchange rate.

⁸⁵ Data for 2016 reported by Myanmar's Central Statistical Organization.

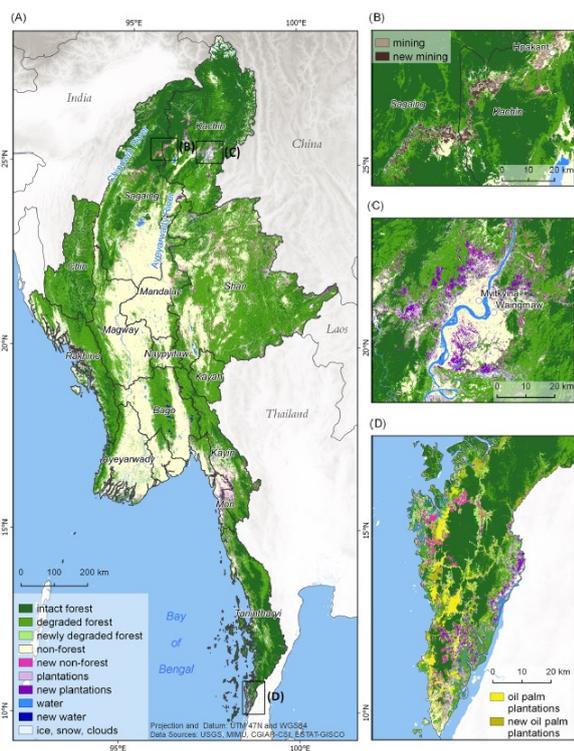
⁸⁶ FAO Aquastat 2014.

potential, and hydropower represents an important opportunity for more sustainable management of natural resources.

Current use is depleting natural assets and compromising the environment

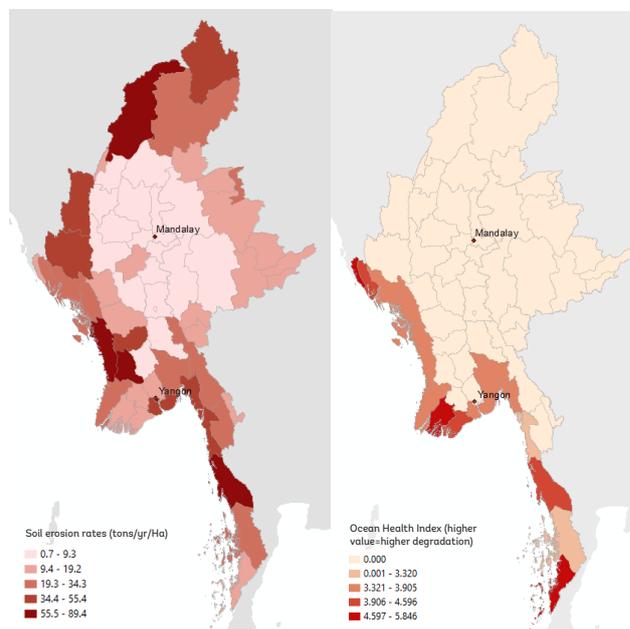
204 Myanmar’s natural capital base is running down fast. Both forestry and fisheries show signs of significant overexploitation.⁸⁷ Deforestation has accelerated with GDP growth, making Myanmar the country in South East Asia with the highest deforestation rate in the period between 2010 and 2014 (ADB 2015). It is estimated that 20 percent of forest cover was lost between 1990 and 2010.⁸⁸ Figure 5-1 shows the extent of deforestation across different areas in the country from 2002 to 2014, with over-extraction of timber one of the main drivers. Timber extraction has drastically declined in recent years partly due to the inevitable decline in availability, and partly due to policy reform. Forest loss remains a major concern especially outside the Permanent Forest Estate (PFE), driven by small-holder and large-scale agricultural expansion, conversion for infrastructure, wood-fuel demand and timber theft. Only 41 percent of Myanmar’s total forest area (29 million hectares) is within the PFE (Enters 2017), with remaining land designated as “vacant, fallow, and virgin” (MONREC). Mangrove areas have been deteriorating, but at different rates in different areas, with the Delta area seeing an earlier and more rapid degradation. Scientific fisheries surveys in 2013 showed a marked decline in marine and coastal fish stocks since the previous surveys in 1979/80. They revealed an 80–90 percent decline in the biomass of demersal and pelagic fish species, as well as a significant shift from large, long-lived, highly valuable species to small, shorter-lived species of lower commercial value.⁸⁹ Continuing the current trend in marine and coastal ecosystem exploitation would cause an estimated at US\$15 billion in losses in the next 25 years (Emerton 2014), as shown in figure 5-3.

Figure 5-1 | Forest cover and loss, 2002–2014



Source: Bhagwat et al. 2017.

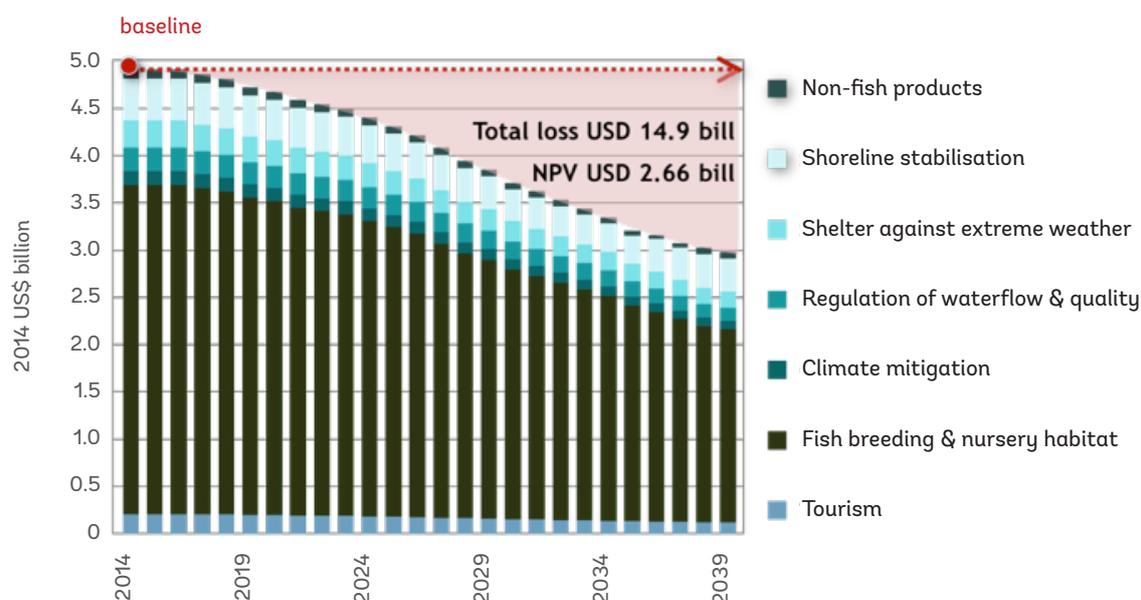
Figure 5-2 | Soil and marine degradation, latest available year



Sources: (left) World Bank staff using Naipal et al. 2015 and Hidden Dimensions of Poverty Dataset (2017), average annual erosion, latest available year for each area; (right) World Bank staff, Halpern et al. 2015, and Hidden Dimensions of Poverty Dataset (2017), latest available year.

87 This section draws on the draft World Bank’s Myanmar Country Environmental Analysis, which was under preparation at the time of writing this SCD and expected to be published in June 2019.
 88 See for example Economist Intelligence Unit, April 2017, citing FAO data. From: <http://country.eiu.com/article.aspx?articleid=1238107907&Country=Myanmar&topic=Politics&oid=428062626&flid=1318257115>
 89 Results reported following the research cruise by the Norwegian vessel Dr. Fridtjof Nansen in 2013, cited in World Bank’s Myanmar Country Environmental Analysis on Fisheries, which was under preparation at the time of writing this SCD.

Figure 5-3 | Cost of continuing current pattern of use of marine resources



Source: Emerton 2014.

205 Air and water quality are also declining as industrial and mining discharge and urban waste bring new and growing environmental health issues. Yangon and Mandalay have the highest PM10 concentration of all cities in Southeast Asia (ADB 2015). While the national economic transition has introduced more efficient machinery to the mining industry, mining activity has increased, intensifying pressure on water resources and competition for land. Regular monitoring of air quality by local authorities has been taking place in Yangon since 2008. But the capacity for environmental management has not kept pace with growing investor demands—as illustrated by the backlog of environmental impact assessments at the Ministry of Natural Resources and Environmental Conservation (MONREC).

206 Waste-management infrastructure is old, causing poor water quality and perpetuating a worrisome disease environment; and institutions are not effective. There are only three wastewater treatment networks operating in the entire country (Yangon, Nay Pyi Taw, and Mandalay), and even these do not currently function as designed. The lack of fecal-sludge management is a hazard that raises serious concerns about water quality. The National Water Resource Committee and the Ministry of Health developed drinking-water standards, but guidelines and enforcement are still missing. There is little reliable information on water quality, but available evidence points to serious health hazards from arsenic, fluoride, and fecal coliform in sampled water sources (Sakai et al. 2013). Pilot efforts such as those conducted in Mon state in 2016 to monitor water quality are commendable, but better evidence on water quality nation-wide is needed. Water- and wastewater-management agencies are fragmented and ineffective. Responsibility is divided among three ministries, several departments, and city development committees. This institutional weakness prevents much-needed improvements in service delivery, health outcomes, and livelihoods for those relying on fishing, agriculture, and forestry.

207 Rapid urban growth in Myanmar generates additional pressures linked to solid-waste generation. The growing urban population and rising living standards have increased the generation of solid waste, both by households and by industry. In 2016/2017, Yangon City collected 880,000 tons of solid waste at its dumpsites, a 23 percent increase from the previous year.⁹⁰ It is estimated that an equal amount each year never reaches dumpsites, ending up instead fouling rivers and streams and strewn around the city. Plastic litter is increasing, contributing to drainage blockage and ocean pollution. Mandalay faces the same problem on a somewhat smaller scale. In both Yangon and Mandalay Cities, the largest proportion of the waste-management budget goes to labor and the manual handling of waste, due to limited availability of machinery, with consequences for worker health.⁹¹ Modern waste treatment and sanitary landfill procedures are rare, even in formal landfills.

⁹⁰ Myat Nyein Aye (2017), "Runaway rubbish threatens to overwhelm Yangon," Myanmar Times, June 13. From: <http://www.mmmtimes.com/index.php/national-news/yangon/26351-runaway-rubbish-threatens-to-overwhelm-yangon.html>. Accessed on August 4, 2017.

⁹¹ Institute for Global Environment Strategies 2017.

The financial and environmental sustainability of solid waste management needs to be significantly increased. Plastic management policies and investments will be important to reduce negative environmental impacts, including marine plastics, and increase the cost recovery of waste services. The enactment of the National Waste Management Strategy and Master Plan for Myanmar (2018–2030) will offer a useful roadmap to tackle some of these challenges.

208 Risks linked to pollution pose a threat to human health, with consequences for future productivity and growth. Household air pollution and ambient air pollution are the fourth- and fifth-most frequent causes of death among all environmental, occupational, behavioral, and metabolic risks in Myanmar; this is similar to Cambodia, but much higher than Thailand or Indonesia.⁹² Fine particulate matter is the air pollutant that causes the most significant health effects, including cardiovascular and respiratory diseases.

209 Steps to manage environmental degradation are not happening quickly enough. Myanmar made huge progress introducing legal and regulatory frameworks for environmental management in recent years. These include the Environmental Conservation Law in 2012, the Environmental Impact Assessment Procedures in 2015, and the National Environmental Policy in 2016, to name just a few. But policy implementation has lagged. The Environmental Impact Assessment (EIA) system is struggling to review and approve a large backlog of EIAs, and is currently ineffective in ensuring adequate mitigation of environmental and social risks. There is little public investment in fisheries management or extension services, as the focus on revenue capture rather than managing stock productivity is unsustainable. State intervention in the inland fisheries sector, for example, is dominated by a system that auctions to the highest bidder large productive fishing areas and large fixed fishing gear.

Mismanagement of natural resources has negative equity and peace implications

210 Depletion of natural resources and environmental degradation have significant equity implications. Many households, especially poor ones, depend on forest and coastal resources for their livelihoods. Ecosystem services (water, energy, soil protection, and resilience against climate change, sea-level rise, and natural disasters) are also particularly important to the poor. With such high reliance on natural resources, the poor suffer most from their degradation or depletion. Some 520,000 rural households were estimated to be living next to forests in 2012 (Emerton and Aung 2013), and many more depend on forests. Wood is by far the most important energy source in rural areas, and nontimber forest products are a major source of income and housing materials for the poor. The forest sector is fundamental to household livelihoods, providing as many as 886,000 jobs in 2015/16 (EITI 2018) and generating up to MMK14.3 billion in wages in 2016.⁹³ Similarly, 1.9 million households lived in divisions and townships in the coastal zone, mostly dependent on marine and coastal resources (Emerton 2014). Myanmar's fisheries sector accounts for 800,000 full time and 2.4 million part time jobs (Worldfish 2018). Regional participation varies considerably, with the coastal states and regions showing much greater employment in the sector than most inland areas. Fish production is also critical for nutrition and public health, as it accounts for half of the animal-source foods consumed in Myanmar (Belton et al. 2015). The process of transferring inland fisheries management to regional governments, and the participatory planning of regional fishery legislation in recent years, are positive trends that could contribute to more equitable inland fisheries and aquaculture production.

211 How natural resources are managed affects the prospects for peace. There is much overlap between conflict-affected areas and areas with abundant natural resources. Opaque and militarized management, combined with revenues from natural resources that do not benefit local communities, lead to tensions and mistrust. Depletion of resources that support livelihoods can fuel community conflict over deprivation and perceptions of unfairness. In addition, contested land rights are a factor in many of Myanmar's ethnic armed conflicts, yet tools for resolving these issues—restitution, protection measures, and customary tenure, for example—have not been fully explored, undermining stability and trust in government.

⁹² Global burden of disease comparisons from Institute for Health Metrics and Evaluation (IHME) website, Vig Hub data visualizations, "GBD Compare." From: <https://vizhub.healthdata.org/gbd-compare/>, accessed February 7, 2019.

⁹³ The average monthly wage is given as MMK134,490 (EITI 2018).

Disaster and environmental risks are high and exacerbated by degradation, urbanization patterns, and climate change

212 Myanmar is extremely prone to climate-related shocks such as floods, storms, landslides, and droughts. Myanmar ranks third out of 187 countries in the 2019 Global Climate Risk Index for the 1998–2017 period (Eckstein et al. 2018) and has the fourth highest level of natural risk out of 191 countries in the INFORM Index for Risk Management.⁹⁴ Tropical Cyclone Nargis in 2008 was the worst natural disaster in Myanmar's recent history, killing approximately 140,000 people,⁹⁵ displacing over 800,000 (Government of the Union of Myanmar, ASEAN and UN 2008), and causing billions of US\$ in total damage.⁹⁶ Some 90–95 percent of buildings, livestock, farmland, and fisheries in affected areas were lost to storm surges and flooding. Damages from the recent Cyclone Komen, vigorous monsoon and heavy rainfall were estimated at 3.1 percent of GDP in 2015 (Government of the Union of Myanmar 2015) and disproportionately affected some of the poorest areas of the country. Chronic events and acute climate-related changes are taking a toll, including late and unpredictable monsoons, saline intrusion, changing hydrology and temperatures in fisheries, and coastal erosion. Chronic drought is a key hazard, particularly in the central part of the country in the Ayeyarwady Basin dry zone.

213 A large part of the country's population and economic activity are concentrated in climate- and disaster-vulnerable areas, and the risks are intensifying with urbanization. Coastal, dry, and delta areas are highly exposed to hazards, and have both high poverty levels and low response capacity. The dense, low-lying delta areas are especially vulnerable to flooding, saline intrusion, and coastal retreat, which threaten to displace communities and have long-term implications for peace and security (MONREC 2017). At the same time, urbanization is concentrating people and assets in hazardous areas, which, coupled with haphazard construction, increases seismic and flood risks in major cities such as Yangon and Mandalay (World Bank 2015b).⁹⁷ These two major cities, as well as Nay Pyi Taw, are in fact located along the Sagaing fault, which makes them extremely vulnerable to earthquakes. And the underlying disruptions to climate are intensifying: temperatures in Myanmar have increased by an average of about 0.08 degrees centigrade per decade since 1950 (MONREC 2019), most notably in the northern and central regions; average annual rainfall in coastal areas has increased by about 4.5 percent per decade; and sea level is projected to rise by 20 to 41 cm by 2050 (Horton et al. 2017).

214 Disasters negatively affect shared prosperity and aggravate poverty. Disasters have significant short- and long-term impacts on people, livelihoods, the economy, and the public budget. Catastrophic floods and landslides in 2015 caused estimated production losses to the 2015/16 economy of 1.7 percent of the previous year's GDP (Government of Myanmar 2016). Disasters also affect government resources and fiscal standing. Myanmar's annual expected fiscal burden from natural disasters is estimated to be 2.5 percent of government expenditure, the greatest in the ASEAN region. A preliminary financial risk assessment estimated expected annual economic losses of over US\$184 million due to natural disasters, equivalent to 0.9 percent of GDP—again, the highest in the ASEAN region (World Bank 2017d).⁹⁸

215 Natural disasters could also induce a complex emergency, and exacerbate exclusion and social cohesion concerns. Managing the impact of natural disasters is complex in itself, but it can be particularly challenging in a context of transition, fragility and conflict. In areas where limited response capacity meets high levels of mistrust and lack of confidence in government, emergencies—including those induced by natural disasters—can deepen fragility, fuel additional grievances and potentially drive violence. These risks, visible in particular in excluded and conflict-affected areas, point to the need to both improve response capacity and risk mitigation measures, but also to the need to adopt conflict-sensitive procedures and responses to emergencies.

94 Inter-Agency Standing Committee (IASC) and European Commission 2019. [http://www.inform-index.org/Portals/0/InfoRM/2019/Inform%202019%20WEB%20spreads%20\(3\).pdf?ver=2019-02-07-113610-123](http://www.inform-index.org/Portals/0/InfoRM/2019/Inform%202019%20WEB%20spreads%20(3).pdf?ver=2019-02-07-113610-123). Accessed Feb. 25, 2019.

95 Estimated death toll varies, with most sources citing UN-Habitat's 140,000 (see for example <http://mirror.unhabitat.org/content.asp?cid=6368&catid=357&typeid=6>). In the immediate aftermath of the event, the Post-Nargis Joint Assessment reported the official death toll stood to be 84,537 with 53,836 people still missing, and 19,359 injured (Government of Myanmar, ASEAN and UN 2008).

96 Total damage is widely estimated at about US\$10 billion (see for example: Swiss Re 2009). Government estimates are around US\$4 billion.

97 World Bank 2015b provides the following information: "Between 2000 and 2010, Myanmar saw large absolute gains in urban population density. The population in urban areas increased from 4.7 million in 2000 (10 percent of the population) to 6.2 million in 2010 (13 percent of the population). In Yangon, population grew much faster than its area, at 2.6 percent a year, from 2.6 million people to 3.4 million, which led to an increase in density in the urban area, from 7,100 people per square kilometer to 8,800 people."

98 Drawing on evidence in World Bank 2012.

216 In the aftermath of 2008's Cyclone Nargis, a comprehensive, disaster-risk-management policy framework was established. It emphasizes risk information, reduction, preparedness, financing, and community resilience. The Standing Order on Natural Disaster Management in Myanmar formalized a national disaster management plan in 2009. Between approving and updating the Myanmar Action Plan on Disaster Risk Reduction (MAPDRR) in 2012 and 2017, respectively, the government also approved the National Disaster Management Law (2013), the related Disaster Management Rules (2015), and the Myanmar National Framework for Community Disaster Resilience (2017). Institutional mechanisms for implementation have also been set up at the national and subnational levels, led by the National Disaster Management Committee (NDMC).

217 Implementation of policy frameworks remains a challenge, however. Institutions are predominantly focused on postdisaster assistance. Mainstreaming risk reduction into planning and development is conducted by line ministries on an ad hoc basis, but this is constrained by inadequate technical knowledge and limited budget allocations for DRM. A national strategy could coordinate investment decisions. It would help Myanmar be financially prepared when a disaster occurs, and improve its rapid-response, post disaster financing capacity. Stronger social protection systems would ensure that the most vulnerable were sheltered when disasters hit. Inadequate financial and human resources have further limited Myanmar's ability to advance the resilience agenda thus far. Recent World Bank research indicates that Myanmar could significantly reduce the losses in public welfare if it had faster, more robust, and more inclusive recovery processes (Hallegatte et al. 2018).

218 Environmental risks linked to pollution and degradation of natural resources are also intensifying. Air and water pollution and solid-waste-management challenges will continue to grow with rapid urbanization in Myanmar in the absence of greater investments in prevention and mitigation. Economic growth, spurred by the liberalization process, also poses a challenge to the sustainable management of natural resources. In particular, commercial land concessions, the expansion of road networks, and the return of refugee populations, if not planned and managed well, may have a severe impact on forests and their ability to support other productive sectors, including agriculture, hydropower, and tourism. Myanmar's nascent environmental assessment and management systems urgently need investment to respond to the growing number of projects. As of September 24, 2018, some 2,523 reports had been submitted to the Environmental Conservation Department (of MONREC), and only 180 reports had been approved.⁹⁹ Despite these challenges, peace may create opportunities for progress by encouraging participatory management of natural resources.

219 Delayed action on environmental protection and preservation will exacerbate climate impacts and their economic consequences. Climate change and environmental degradation threaten key growth sectors such as agriculture and fisheries. Forests and marine ecosystems' depletion could severely increase risks and require additional social protection and other mechanisms to shelter those most affected. The growing tourism sector represents a valuable opportunity for economic growth and employment, but it can also damage natural and cultural assets. The travel and tourism sector has been growing rapidly since 2011, and it now contributes 2.7 percent of GDP directly and 6.6 percent once the sector's indirect contribution is included (e.g., hotel construction, purchases from suppliers, etc.).¹⁰⁰ But the growth in tourism and related infrastructure puts stress on the environment and cultural assets. Large-scale tourism can expose popular historical and cultural destinations to pollution and damage if badly managed. Coastal tourism, which is also developing, is exposed to climate risks.

220 Despite commitment to ambitious actions to tackle climate change, climate considerations are not fully incorporated in sectoral policies. The Myanmar Climate Change Strategy and Master Plan, 2018-2030, and its National Determined Contribution (NDC) set in 2017, spell out a broad vision of how to address climate change. But these actions are contingent on the country receiving further support, defining actionable steps, and quantifying expected emissions reductions. Opportunities for increased implementation of identified NDC objectives include the following:

- **Forestry** is a key pillar of Myanmar's NDC, for both protection against extreme events and preservation of biodiversity. The government has established a National Reforestation and Regeneration Program

99 Thirty-four out of 291 submitted environmental impact assessments, 38 out of 514 submitted initial environmental examinations, and 108 out of 1,715 submitted environmental management plans.

100 World Travel and Tourism Council 2018.

and has promoted the development of community forestry. Nevertheless, forest resources continue to decline in Myanmar, and significant additional investment is required to convert the sector into a net greenhouse gas sink.

- **Energy**-sector reform is the other major pillar of Myanmar’s climate mitigation efforts, but progress to date has been partial. There is considerable hydropower potential, but projects have developed slowly amid concern about environmental and social impacts. Community-level development of renewable energy mini- and microgrids, using solar PV or hydropower, is progressing well, but costs are still too high for poor rural communities. There has been very little progress on energy efficiency, and low penetration of efficient cookstoves. Although a target for non-hydro renewable energy has been established, there are no plans for implementation.
- In the **transport** sector, motorization and greenhouse gas emissions continue to increase rapidly. The number of registered vehicles in Yangon rose to 824,000 in 2017, a 9 percent increase over the previous year. The average speed of city traffic at rush hour has dropped from 30 km/h to as little as 15 or even 10 km/h over the past decade as a result of increasing congestion. There have been some new investments in public transport, however.
- **Sustainable urbanization** is limited by a lack of integrated urban planning and management, limited capacity, and limited investments in sustainable infrastructure.
- **Solid-waste** disposal is largely in open pits, without methane capture.
- A number of steps are needed to improve climate adaptation in the **agriculture** sector and rural areas generally: improved forecasting, response, and financing for extreme events (including the El Niño–Southern Oscillation); crop diversification; risk mapping, identification of vulnerable populations, and improved social safety nets; and hardening of rural infrastructure.
- **Hydrological changes** are affecting fisheries and increasing saline intrusion, but projections of the effects of climate change on flooding and groundwater recharge are uncertain.
- Little is being done to address climate-related **health** challenges.
- End-to-end **disaster early warning systems** and multipurpose cyclone shelters need to be established in vulnerable coastal areas.
- National **Coastal Resources** Management Committee (NCRMC)¹⁰¹ has been formed, headed by the vice president and including subnational-level committees headed by chief ministers, but policy and implementing frameworks have not been developed.

Binding Constraints

Current reliance on nonrenewable assets and mismanagement of natural resources are depleting natural capital (minerals, fisheries, forests), to the benefit of those controlling land and without generating gains for the population at large.

Natural-resource practices, solid-waste management, the growing use of plastics, and pollution pressures are accelerating environmental degradation and affecting water and air quality, with consequences for livelihoods and health, in particular for the poor.

Preparedness to mitigate the impact of natural disasters, to which the country is highly exposed, is not adequate; current patterns of environmental degradation, urbanization, and climate change are likely to heighten the risk of shocks.

¹⁰¹ It includes Union ministers from the Ministry of Agriculture, Livestock, and Irrigation (MOALI) and the Ministry of Natural Resources and Environmental Conservation (MONREC); high-ranking officers from the Navy; chief ministers from Bago, Mon, Rakhine, Yangon, Tanintharyi, and Ayeyarwady; a deputy attorney general; permanent secretaries from various ministries such as MOALI, Transport and Communication, Electricity and Energy, Planning and Finance, MSWRR, Hotels and Tourism, and MONREC; and directors general from the Forest Department and the Department of Fisheries.



6

OVERARCHING CONSTRAINT: STATE CAPABILITY AND EFFECTIVENESS

Overarching Constraint:

State Capability and Effectiveness

221 **Myanmar’s “triple transition” over the last decade has been accompanied by improvements in the country’s governance indicators; however, Myanmar continues to lag behind its regional and income-level peers.** The country improved, albeit from a very low base, on several Worldwide Governance Indicators (WGIs), including voice and accountability, government effectiveness, regulatory quality, rule of law, and control of corruption. In each case, Myanmar’s percentile rank in 2017 rose by at least 10 percentage points from 2012. The indicator for voice and accountability, which was among the lowest in 2012, increased by 20 percentage points. Despite this progress, Myanmar remains well behind the EAP region, and the average of lower-middle-income countries, across all WGIs.

222 **In many respects, Myanmar continues to bear the hallmarks of a dominant, discretionary political settlement (Levy 2014), making it increasingly difficult for the state to advance deeper structural reforms.** The extended period of military rule was characterized by the consolidation of political power by the military and the distribution of illicit and resource-economy rents (natural resources, extractives, and illicit-economy proceeds) to armed insurgent groups to mitigate conflict and obtain ceasefire agreements. Formal institutions and rules were eroded, and major social and economic policy decisions in Myanmar were discussed exclusively within the internal advisory mechanisms of the military leadership, with minimal civilian input.

223 **The shift to a democratic, civilian government in 2015 provided the underpinnings of a new political settlement.** The continued influence of the military, the weak foundations of the social contract, and the legacy of top-down decision-making in Myanmar create formidable obstacles to the complex reform agenda and the further progress of the triple transition. These obstacles compound the challenges linked to capacity, strategic vision and coordination faced by civilian authorities new to governing, which hinder further the adoption and implementation of reforms, even in areas—delivery of education, health, and agriculture services; development of infrastructure; and reform of institutions of economic governance etc.—where they have the unconstrained mandate to act.

6.1. Structural Impediments to State Capability

Continued influence of the military creates distortions in the political and economic space

224 **The military still holds a dominant position in formal state institutions, maintaining its influence over policy formulation and implementation.** While the 2008 constitution introduced a multiparty democratic system, it also secured a dominant formal position for the military in domestic affairs.¹⁰² With a fixed allocation of one-quarter of the seats in both the national and state/region legislatures, the military is able to wield veto power over amendments to the constitution and protect its own budget.¹⁰³ The military also controls three major ministries—Defense, Border Affairs, and Home Affairs—and the commander in chief of the armed forces can appoint high-ranking, active-duty military officials as ministers. The enduring influence of the military is still visible in the civilian bureaucracy. Under military rule, serving or former military officers held almost all senior positions, in a widely practiced policy of “parachuting” military officials into the bureaucracy (Hook et al. 2015). Retired military officers continue to make up a significant part of the civilian bureaucracy, and until recently the

102 A “genuine, disciplined, multiparty democratic system” was introduced, but the military is “mainly responsible for safeguarding the constitution.” Enabling the defense services to participate in the national political leadership role of the state is another basic principle. The military is also tasked with “safeguarding the non-disintegration of the Union, the non-disintegration of national solidarity, and the perpetuation of sovereignty.”

103 At the Union level, around one-quarter of the total budget is spent on defense, which is higher than the share of resources allocated to health and education in 2017.

military controlled the General Administration Department (GAD), extending military influence to the outermost reaches of state administration across the country (see box 6-1). In late 2018, all 14 state secretaries, the most senior civil servants in the states and regions, were former military officers.

Box 6-1: Changes to the General Administration Department

The GAD is the backbone of state administration, a ubiquitous bureaucracy that reaches from the Union government down to the village level. Modeled on the law-and-order-oriented system of district administration introduced by the British, the GAD was formally established by the State Law and Order Restoration Council (SLORC) in 1988. The GAD manages the country's hierarchical and geographically defined administrative units (state/region, district, township, and village) and provides the key mechanism of central control over subnational administration.

The recent decision to transfer the GAD to civilian control is a notable reform of Myanmar's governance architecture that warrants close attention as it unfolds. The reform shifts more than 36,000 GAD staff from military control to the civilian Ministry of the Union Government Office. While the objectives of this reform may take years to realize, the move has the potential to improve civilian oversight and strengthen downward accountability, particularly at the grassroots level where the GAD's presence is most salient.

225 **This outsized military influence, combined with a complex web of vested interests often tied to the military, has created distortions in the policy and economic arena.** As the transition from direct military rule began, former military-controlled firms and connected cronies secured dominant incumbency positions. The concentration of market power and access to scarce capital (often from illicit sources) allowed these companies to crowd out competition in the private sector and protect their market position by rent-seeking and erecting costly barriers to entry (Egreteau et al. 2018). There are signs, however, that these incumbents are slowly ceding ground, and a new and more diverse class of entrepreneurs is emerging. Vested interests in the natural resource economy prevent the state from optimizing revenues and raising much-needed capital. It is estimated that the government captures only 10 percent of the market value of jade, one of the most valuable natural resources in Myanmar along with oil and gas (NRGI 2018).¹⁰⁴ Yet reforms to enhance transparency and improve the governance of state-owned enterprises (SOEs) in the natural resources sector have been frustrated by this elite capture (see also chapter 5). The challenges of policy capture are equally evident in the property tax system. Property taxes are low by international standards—typically equivalent to the price of a few cups of tea paid every six months (McDonald and Hein 2017).

Foundations for building a social contract are fragile

226 **The foundations of the prevailing social contract are anchored in a narrow conception of the role of government. Focused on the suppression of separatist movements, Myanmar's military rulers built a minimally functioning state, with low taxes and few public services.** The role of government was predicated upon compliance and coercion, rather than accountability to the needs of the population. Three characteristics underscore the continued influence of this legacy.

- i. **Myanmar's civil service is comparatively small.** Civil service wages in 2014/15 were an estimated 3.5 percent of GDP. While this does include wages for military, local, and temporary workers, the total is still likely to be lower than the average for lower-middle-income countries (9.3 percent) or for countries in the East Asia and Pacific region (8.8 percent) (figure 6-1 and figure 6-2).
- ii. **Efforts to broaden the tax base and increase public spending on social sectors have progressed slowly.** As indicated in chapter 3, Myanmar's tax-to-GDP ratio is around 7 percent, much lower than the 10–20 percent in countries at similar income levels. It is also lower than other fragile states, where tax

104 Official figures may understate the true value of government revenue generated from natural resources.

collections range from 14 to 16 percent of GDP. At the same time, spending on social services is increasing in absolute terms, but it remains low and has declined as a proportion of the expanding economy. Citizen trust in government remains low.¹⁰⁵ In a vicious cycle, inadequate public services engender resistance to paying taxes, which in turn limits spending on public services. The tax recording system is still largely manual, heavily centralized, lacking a legal basis,¹⁰⁶ and focused on the LTO and MTO. While there are weaknesses in tax administration, the greatest obstacle to higher tax revenues in Myanmar is the deeply ingrained culture of not paying taxes or seeking negotiated tax settlements.¹⁰⁷ Great effort will be required to change this culture and inculcate the public with a positive view of taxpaying (Owen and Htun 2017).¹⁰⁸ In the City Life Survey (Owen and Htun 2017), more than 60 percent of respondents said they would support tax increases if there were improvements in public services.

iii. **The prevailing institutional ethos values bureaucratic compliance over public service.** Partly as a result of the large military presence in the civil service, the bureaucracy is relatively disciplined and functional. Administrative issues such as absenteeism that typify poor service delivery in many developing countries are not significant in Myanmar. Administrative policies are often underpinned by well-observed regulations and procedures, though these are slow, paper-based, and inefficient. Recruitment, training, promotion, and discipline are governed by explicit rules. This inward focus on compliance, however, has come at the expense of an outward focus on service to the public. Businesses and individuals continue to face petty corruption in their interactions with the state.¹⁰⁹

Figure 6-1 | Civil-service wage bill as a percentage of GDP, 2015

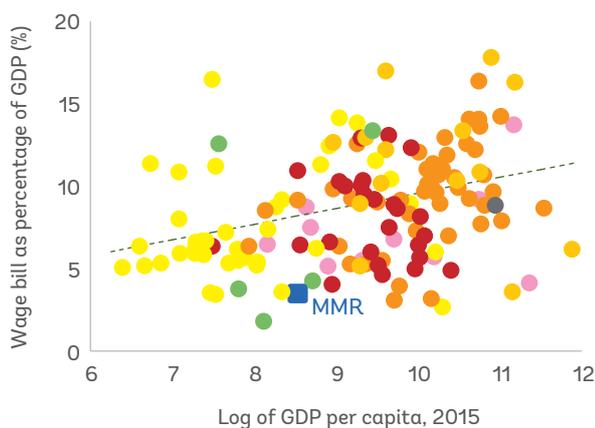
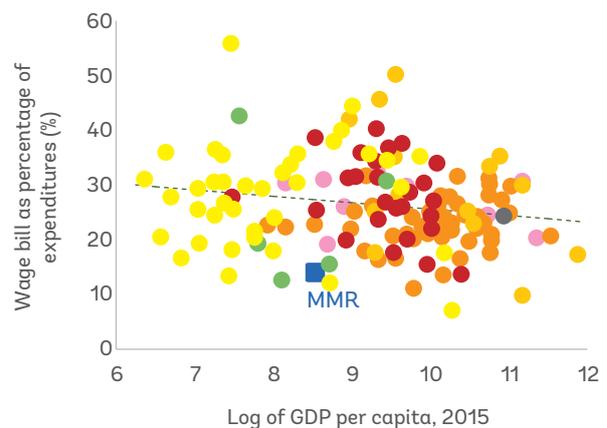


Figure 6-2 | Civil-service wage bill as a percentage of expenditures, 2015



Sources: Data from the “Myanmar Labour Force, Child Labor, and School to Work Transition Survey 2015”; World Development Indicators; Worldwide Bureaucracy Indicators 2017.

105 In a survey on the government’s performance, around 46 percent of respondents said that politicians make unfulfilled promises (PACE 2018).
 106 At the time of writing, the tax administration procedures law was under preparation.
 107 In a survey on tax perceptions, only 47 percent of respondents said they feel confident that their taxes go where they are needed most. This is a stark contrast to the 85 percent of respondents in the same survey who expressed confidence that their donations go where they are needed most. Data from the 2017 City Life Survey (Owen and Htun 2018).
 108 In the cited report, the researchers argue that Myanmar’s urban citizens are not strongly antitax. Ninety-four percent of respondents in the 2017 City Life Survey agree that paying taxes is a duty.
 109 Two-fifths of businesses expect to be asked for a bribe when requesting a construction permit or when trying to secure a government contract, and a further one-fifth expect to pay bribes during meetings with tax officials, according to the Enterprise Survey (World Bank 2016). Citizens also find they are still being asked to pay bribes, often called “under-table money” or “tea money” or even “donations” when receiving public services (Aung 2017).

227 Rebuilding a social contract based on accountability to taxpaying citizens will be challenging, but there are signs of a shift towards more responsive and transparent governance. Government efforts to share information and strengthen transparency on revenues and public spending have led to the publication of previously inaccessible budget information, as well as the introduction of Citizen's Budgets, both at the Union level and in six states and regions,¹¹⁰ and the release of three reports under the Extractive Industries Transparency Initiative (EITI). The NLD government has attempted to crack down on corruption, expanding the authority of the Anti-Corruption Commission (ACC) and increasing its own authority, including the right to initiate its own investigations.¹¹¹ At the subnational level, state and region chief ministers and legislatures are becoming more assertive in their oversight roles, and efforts have been made to further involve citizens through representation at the village level¹¹² and participation in the Township Development Affairs Committees (TDACs).¹¹³ Social media are also facilitating accountability. There are some 30 million Facebook accounts in the country, and citizens and governments both actively use the platform to report news, share information, and make comments. Most Union ministries and subnational governments have established social-media mechanisms for receiving and responding to complaints. On the other hand, the role of the media in promoting accountability is coming under severe pressure, after they made significant contributions early in the transition.

Decision-making is highly centralized

228 Since the transition, the authorities have struggled to articulate strategies and set clear priorities. Faced with competing and divergent visions as to how the transition ought to unfold, the state lacks both the traditions and the institutions to develop sophisticated policy solutions. This diminishes the credibility of the government's commitment to reform and damages the public's trust, as noted above. During the decades of authoritarian rule, core-executive decisions were made by the military ruler or a small group of generals at the top of a rigid hierarchy. Policymaking was an inherently secretive and insular endeavor that did not involve the wider government apparatus. Since 2011, the formal institutional arrangements for high-level decision-making have changed dramatically, with a civilian-controlled core executive and cabinet of ministers officially mandated to make policy decisions. In practice, however, decision-making continues to be highly centralized in the hands of the de facto leader of the country, the state counsellor,¹¹⁴ and her office, though this is a source of tension with the military due to the constitutional ambiguities in the state counsellor's position. The lack of coordination between ministers limits their ability to develop consistent, whole-of-government policy solutions. At the same time, the administration rarely plays a role in presenting data in support of policy options or evaluating policies to inform decision-making. A study of permanent secretary (PS) candidates in 2015 found that ministers still dominate a process of executive decision-making that has been described as "one-man policy coordination" (Aung and Arnold 2018). In the absence of an institutional culture of pluralism in policymaking, MPs, the civil service, policy institutes, and other key stakeholders have limited experience engaging meaningfully in government policymaking (Aung and Arnold 2018).

229 Efforts have been made to build more-effective strategic policymaking institutions. The consolidated Ministry of Planning and Finance (MOPF) was created in 2017 to coordinate with different ministries and develop the country's national plans based on annual, short-term (five-year), and long-term (20-year) goals. The MOPF's stewardship of the Myanmar Strategic Development Policy was an important achievement. In 2016, a national-level committee was formed to coordinate national economic policy between the government and the private sector. The National Economic Co-ordination Committee (NECC) comprises governmental officials, independent economists, economic advisors from the private sector and parliamentary representatives to help guide the government processes for policy creation and negotiations. The state counsellor's decision to reinvigorate the economic policymaking role of the NECC in May 2018, following a change in the co-chair Minister of Planning

¹¹⁰ These are Kayah State, Kayin State, Tanintharyi Region, Bago Region, Mon State, and Ayeyarwaddy Region.

¹¹¹ From September 2017 to October 2018, the ACC received 8,984 complaint letters from all regions and states as well as Nay Pyi Taw. Some 7,644 cases have been identified, while the rest are still under scrutiny.

¹¹² Ward and Village Tract Administration Law, 2012.

¹¹³ TDACs have decision-making powers and their own budgets, and they are responsible for setting municipal priorities, ensuring coordination with other government actors and communities, deciding on local development projects, and conducting public outreach. See Arnold, M., et al. 2015.

¹¹⁴ The State Counsellor also occupies the role of minister of the President's Office and member of the NDSC. Daw Aung San Suu Kyi chairs or sits on over a dozen executive-level committees, covering everything from the coordination of aid spending to management of the peace process.

and Finance has resulted in the acceleration of some economic policy commitments, particularly in the banking sector and with respect to public investment appraisal/prioritization and infrastructure financing. However, it remains to be seen whether the small, yet influential committee has the bandwidth to extend the scope of its focus, while actual implementation of strategic economic policies will require coordination and engagement of ministries.

6.2. Challenges to Effective Implementation of Policy

230 Small in size and relegated to a compliance and surveillance role for many decades, the public administration functions at a minimal level that is ill suited to the need for efficiency, innovation, and collaboration in a modern state system. Institutions of day-to-day public administration exhibit poor capacity to deliver public goods and services, coordinate government agencies, effectively enforce rules and regulations in a uniform manner, and gather and analyze information under various policy frameworks. A combination of coordination challenges, cumbersome and outdated systems, weak performance incentives, and ill-adapted skillsets limit effective policy implementation.

Coordination among central Ministries, and between central and local institutions is ineffective

231 Public administration in Myanmar is characterized by rigid ministerial and bureaucratic silos. Individual ministries have traditionally operated as isolated fiefdoms that are internally heavily departmentalized. Systems and processes, including procurement and even debt management, are developed at the ministerial level, leading to fragmentation between ministries. Some efforts are now underway, such as the development of a uniform procurement code across the administration to support the shift to a competitive tendering system. The military mindset of sharing information on a need-to-know basis still limits information sharing between agencies and departments. A key reform to strengthen civil-service coordination was the introduction of permanent secretaries in 2015 as the top civil servants in each ministry. The PS role is designed to establish a clear distinction between the political role of ministers and the apolitical, professional role of senior civil servants. It appears to have had limited effect, however, with the PS viewed more as a first in a group of DGs than as the chief of policy coordination among several DGs within the ministry (Aung and Arnold 2018).

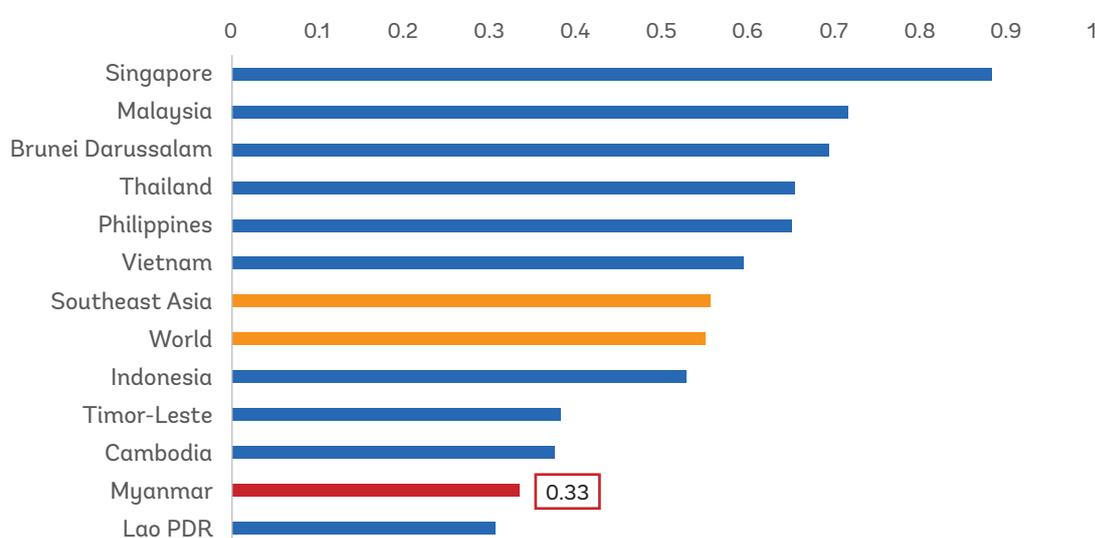
232 There are also problems of coordination between the Union and state/region levels of government. The constitution assigns to state and region governments both obligatory and permissible oversight functions. Article 256(b) permits states and regions to “supervise, inspect, and coordinate” subnational departments of Union ministries. Article 219 permits the Union government to assign additional responsibilities to subnational governments in the future. However, the specific division of responsibilities among departments at different levels of government is not always clear, which blurs the lines of accountability between the civil service and subnational ministers.

233 With its ubiquitous administrative presence across Myanmar, the GAD has proven effective in both horizontal and vertical government coordination at the local level. GAD plays a key role in coordinating, convening, and monitoring local government activities around the country. The constitution mandates that a senior GAD administrator for each state and region be the executive secretary of the state/region government (deputy-director-general level). This “horizontal” presence at the state/region level ensures that all correspondence and administrative needs of the executive branch of state/region government remain dependent on the GAD. GAD also plays a key role in collecting and analyzing administrative, socioeconomic, institutional, and security information from the ward/village, township, district, and state/region levels. Whether the reassignment of the GAD from military to civilian control enhances or inhibits its coordination role remains to be seen.

Use of efficient digital systems is below potential

234 **The lack of comprehensive digital information management systems presents an enduring challenge to the efficiency and quality of analysis and reporting.** In 2018, Myanmar ranked 157 out of 194 countries on the UN E-Government Development Index (figure 6-3). Financial-management information systems are being introduced, but they are fragmentary and have poor user interface. Digital databases of residents, taxpayers, businesses, and land records are still widely lacking. Data has typically been viewed as a monitoring tool to measure progress towards a target rather than as a way to inform and guide public policies and spending priorities. Though the state continues to collect vast amounts of administrative data, data reporting is generally paper based, administratively burdensome, and slow, focusing only on the aggregate level. Analysis of collected information is rudimentary, limiting its usefulness for formulating policy or coordinating and monitoring government functions. In the budgeting process, expenditure rules are usually rigorously enforced, but the close analysis of receipts, expenditures, planning, and performance is generally lacking.

Figure 6-3 | 2018 E-Government Development Index



Source: UN E-Government Knowledge Base: <https://publicadministration.un.org/egovkb>

Poor incentives will limit retention of the most capable civil servants

235 **While demand for civil-service positions is high, poor remuneration could eventually make it difficult to attract and retain the most highly qualified and effective civil servants.** Myanmar is one of a handful of countries that do not offer a public-sector wage premium. The average premium for lower-middle-income countries is 7 percent; for East Asia and Pacific countries it is 24 percent; and for South Asian countries it is 27 percent (figure 6-4). Civil servants responsible for advising on policy and making decisions—managers, professionals, skilled workers, and those with a tertiary education—are generally paid much less than their counterparts in the private sector. Managers have a 43 percent disadvantage in basic pay and social security benefits (table 6-1). Those with a tertiary education fall short of private-sector wages by 21 percent. However, given the limited availability of secure, permanent jobs in the private sector, the safety net of government employment and the lingering notion that public sector jobs carry prestige may explain the fact that the number of applicants for civil-service positions still significantly exceeds the number of available positions, and turnover rates remain low. However, without more competitive salaries the government will eventually find it difficult to attract and retain workers with critical skill sets. Already, government is finding it difficult, according to anecdotal evidence, to hire and retain personnel with specialized skillsets, such as auditors and information technology specialists, who already have better alternative options in the private sector.

Figure 6-4 | Public-sector wage premium, 2015

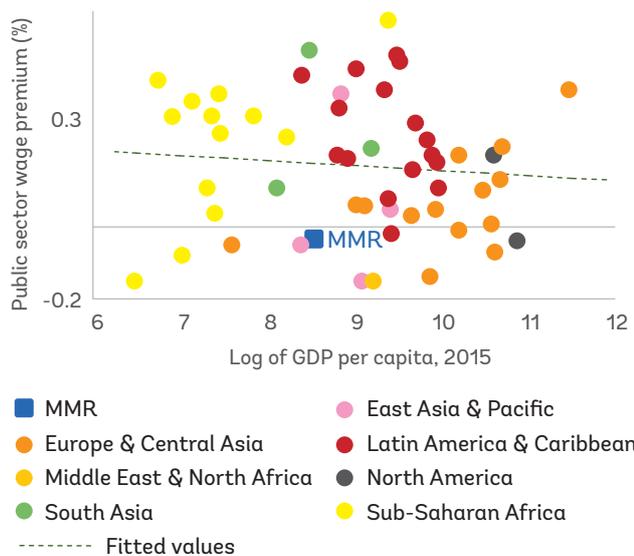


Table 6-1 | Public-sector wage premium for various employment characteristics, 2015

Labor Force Characteristic	Public Sector Wage Premium
No education	61%
Female	61%
Other states/regions	42%
Rural	40%
Elementary occupations	35%
Male	16%
Urban	14%
Yangon	6%
Technicians and associate professionals	0%
Professionals	-16%
Tertiary educated	-21%
Managers	-43%

Sources: Data from LF-CL-SWTS 2015; World Development Indicators; Worldwide Bureaucracy Indicators.
 Note: Only basic pay is compared.

236 **Performance evaluations of civil servants are a regular feature in Myanmar; however, the focus of evaluations, together with perceived biases in the system, reduces the motivation of civil servants.** Recruitment and promotion processes are well regulated. However, performance evaluations rewards compliance rather than service quality, with significant risks that critical inquiry and innovation may not be encouraged. Surveys also show that civil servants think the performance-management processes is not transparent and that evaluations are open to bias and used as a tool of control.

Skills shortages among civil servants are acute

237 **The secondary and tertiary education system does not produce enough high-calibre civil servants.** The default instructional method in Myanmar is rote learning. As part of its attempt to suppress dissent, the military broke up universities and took deliberate steps to reduce students' exposure to critical thinking, debate, and international experiences.

238 **Skills shortages in remote areas are particularly acute.** The government introduced hardship allowances in 2012 to encourage civil servants to accept postings in remote areas, but the strategy has not been very successful, and many leave their remote postings after the mandatory one year. At a cost of US\$45 million (or 3 percent of the total wage bill), allowances were not well-targeted, nor did they adequately compensate for the many nonpecuniary difficulties: housing, transportation, conflict, and language barriers. Moving forward, the authorities must develop a long-term, government-wide strategy to address skill shortages and recruit ethnic minorities in remote areas, where inaccessibility and poor public services present key challenges.

State institutions suffer from legacy practices and structural challenges that limit their ability to deepen reforms and implement effective and equitable policies. Such challenges include the continued influence of the military, highly centralized and poorly coordinated decision-making, and slow modernization of administrative processes. Skill gaps and misaligned performance incentives also limit the effectiveness of the civil service. These have impacts on both the provision of public goods and the promotion of private-sector-led growth.



7

PRIORITIES FOR ACCELERATED, INCLUSIVE AND SUSTAINABLE PROGRESS

Priorities for Accelerated, Inclusive and Sustainable Progress

239 This SCD argues that Myanmar can capitalize on recent progress to sustain and spread more widely the benefits of its economic transition. The country's opening—both *inwards*, through democratic reforms, and *outwards*, through trade, investment, and people's movement—delivered immediate gains. Myanmar's economy grew at extraordinary speed, improving living standards and helping to lift millions out of poverty. But progress has been uneven across the country and across income and population groups. Weakness in the political and peace transitions has undermined the success of the economic transition. The transition from military to civilian rule has been only partial, while the transition from conflict to peace has seen limited progress. Large inequalities persist, and exclusion dynamics have fueled violence in many states. After slowing down in recent years, economic reforms have more recently picked up. This momentum should be sustained. Decisive steps taken most recently include raising electricity tariffs towards cost recovery levels while considering impacts on the poor and businesses, and opening of the insurance sector to foreign investment. Today, in the face of emerging challenges and a difficult legacy, Myanmar has a chance to revive medium-term momentum for economic transition, continue to reap the benefits of the deep changes it has initiated, and share these benefits more widely and sustainably. Doing so will require bold policies, and farsighted and inclusive institutions.

240 Economic reforms now need to go deeper for continuous, strong growth. Thus far, Myanmar has largely focused on getting the fundamentals right. Reducing fiscal deficits and financing less of those deficits from a more independent central bank have lowered inflation and supported the unification of the exchange rate. Opening sectors such as telecommunications and manufacturing to investment, especially from abroad, and deregulating trade have shrunk the trade deficit, grown employment, and made a wider range of goods and services available at lower prices. But sustaining long-term economic progress requires strengthening these foundations and building on them. Second-generation reforms to support infrastructure and efficient markets, such as ensuring electricity tariffs reach cost-recovery levels while compensating low-income users or following through on well-regulated foreign investment in the banking, insurance, and retail sectors while deregulating bank interest rates, will be harder, but the benefits can be long lasting. These reforms will raise the potential for growth by stimulating the private sector through the power of competition, connecting people to services and markets without discrimination, and promoting sustainable resource use.

241 Myanmar needs a greater focus on inclusion to take full advantage of opportunities to reduce poverty and promote shared prosperity. Sharing the benefits of the transition more widely across geographic and income groups is not only an end in itself, but will also increase the potential for sustained growth going forward. Progress on peace and social cohesion will be critical to foster investor confidence and prevent tensions that can reverse the economic advances of recent years. Reducing poverty will require reaching excluded and remote households, especially in worse-off states and regions and among disadvantaged ethnic minorities. An institutional setup that balances power and responsibilities between the center and the states and regions can help stabilize the country and ensure that service delivery meets the diverse needs of different areas. Effective and equitable investments in improved service delivery will result in a stronger human capital base. In turn, this will unleash greater productivity and economic growth for decades to come.

242 Taking environmental sustainability into account is also critical for long-lasting and inclusive growth. Growth and welfare improvements should not come at the expense of future generations. Nor should they deplete natural resources or damage the environment in a way that is deleterious to the safety and livelihoods of the population today, particularly the poorest. Unfortunately, past and current use of resources is doing exactly that. Furthermore, steady urbanization is exacerbating sustainability concerns by causing pollution and putting pressure on waste management. In addition to changing the management and use of its rich natural assets, Myanmar can do more to control environmental degradation and poor water quality. It can even go further

and work to reverse losses, through rehabilitation of its forestry and fisheries for example. In the meantime, it must prepare to withstand the growing threat of natural disasters and climate change, and to mitigate their consequences.

243 Strong institutions need to be in place to successfully pursue this broad and challenging agenda. Implementing the priority reforms highlighted in this SCD—and the MSDP vision on which it builds—requires better-performing public institutions to coordinate and monitor policy formulation and implementation. Structural impediments linked to institutional capacity, at both the central and the local levels, constrain the implementation of policies in all areas, from those promoting private-sector growth to those enabling the public sector to deliver services better and manage Myanmar’s natural assets.

244 Policy priorities emerging from this SCD aimed at sustaining and spreading the benefits of Myanmar’s transitions were discussed with stakeholders. Rigorous analysis of the evidence revealed the key binding constraints and the opportunities to move Myanmar along a successful path to long-lasting economic development (summarized at the end of each chapter and in annex E). The emerging priority areas were discussed with a variety of stakeholders through a process of external consultations (see annex D). These were both face-to-face, with representatives of government, the private sector, academia, civil society, and the international community, and online, to reach a wider public audience. The World Bank received inputs that helped to define the interventions needed for progress, and to gauge the relative urgency and impact of proposed priority areas.

7.1. Pathways for Progress and Priority Areas for Policy

245 The analysis above identifies the most critical constraints to progress towards accelerated, inclusive, and sustainable growth. The section below turns to pathways for progress, priority areas for each pathway, and more specific policy actions within each priority area. Priority areas are summarized in table 7-1, reflecting: (i) their expected contribution to sustaining growth, reducing poverty, and promoting social inclusion and peace; (ii) the urgency of action and the time horizon of impact; and (iii) whether they are foundational and/or complementary to other priority areas. Each priority area is described further in the narratives that follow below, with reference to these main criteria. Based on these considerations, priority areas are ranked by a level of Highest, High, Medium, Low (see annex E for details). Priority areas with higher ranking warrant particular attention, but rapid advances in others may be as critical in sustaining the transition. Different stakeholders may also weigh criteria differently or have other criteria altogether.

246 Reforms will take time, especially those that lay the ground for long-term sustainable progress, but quick wins are needed too. The full benefits for poverty reduction and shared prosperity of, for example, expanding access to basic education, improving connectivity, and transparent management of natural assets will become visible only in the longer term. While these reforms mature, they should be balanced by short- and medium-term “wins” to maintain support for the reform agenda. Interventions that improve maternal and child health and nutrition, build small-scale infrastructure to connect rural communities to markets and services, or improve the business environment for SMEs to grow and hire will do that. Reforms also need to be accompanied by progress on foundational priorities for the transition: advances towards peace through increased representativeness and decentralization, macro-fiscal stability, and state institutions better able to deliver on the ambitious reform agenda.

247 For each priority area, this SCD identifies the three most important policy actions, along with critical steps to achieve them. The analysis in the previous chapters generates a granular view of necessary policy actions, and the critical steps—or interventions—to advance each of them (table 7-2, table 7-3, table 7-4 and table 7-5). The most urgent and feasible interventions for the next couple of years, which can help revive and sustain the reform momentum, are highlighted in the narrative for each priority area below. This policy discussion is based on analysis through April 2019, and may thus not reflect the most recent reforms.

Table 7-1 | Expected timing and impact of Priority Areas

	Priority Area	Time horizon of impact (years) short = 1–2 medium = 3–4 long = 5+	Urgency	Foundational for progress in several other areas (yes/no)	Impact on sustaining growth	Impact on poverty reduction	Impact on social inclusion, social cohesion, peace	Main Synergies	PRIORITY LEVEL
1.1	Maintain fiscal balance and macroeconomic stability.	SHORT	MODERATE	YES	HIGH	MODERATE	HIGH	2.1, 2.2, 2.3, 3.1	HIGH
1.2	Develop a sound, efficient, and inclusive financial system.	MEDIUM	HIGH	NO	HIGH	MODERATE	LOW	1.3, 3.2	MEDIUM
1.3	Strengthen the environment for investing and operating businesses.	SHORT	HIGH	NO	HIGH	MODERATE	LOW	1.1, 1.5, 2.3	MEDIUM
1.4	Close the gap between supply and demand for infrastructure and technology.	LONG	MODERATE	YES	HIGH	MODERATE	MODERATE	1.3, 1.5	HIGH
1.5	Improve income-generation opportunities and accessibility in rural areas.	SHORT	MODERATE	NO	MODERATE	HIGH	HIGH	2.1, 3.1	HIGH
2.1	Foster peace, social cohesion, and more inclusive governance institutions.	LONG	HIGH	YES	MODERATE	MODERATE	HIGHEST	1.1, 2.2, 2.3, 3.1	HIGHEST
2.2	Strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives.	MEDIUM	HIGH	NO	MODERATE	HIGH	HIGH	1.1, 2.1, 3.2	HIGH
2.3	Ensure education for all and skills for productive employment.	LONG	HIGH	YES	HIGH	HIGH	HIGH	1.1, 1.3, 2.1	HIGHEST
3.1	Manage land and natural resources transparently, equitably, and sustainably.	LONG	MODERATE	YES	HIGH	MODERATE	HIGH	1.1, 1.5, 2.1, 3.2	HIGH
3.2	Build resilience to disasters and mitigate the impact of environmental degradation.	SHORT	HIGH	NO	LOW	HIGH	MODERATE	1.4, 1.5, 2.2, 3.1	MEDIUM
4.1	Improve effectiveness, transparency, and accountability of public-sector institutions.	MEDIUM	MODERATE	YES	HIGH	MODERATE	MODERATE	ALL	HIGH

Pathway 1: Strengthening economic and financial-sector management to sustain growth and job creation

Priority Area 1.1: Maintain fiscal balance and macroeconomic stability

248 **Strengthening the fiscal capacity of the state while maintaining macroeconomic stability is foundational to progress across many priority policy areas.** The government relies on fiscal policy to support people and the economy, particularly when monetary policy options are limited by a weak financial system. But low revenues limit fiscal policy options and raise macroeconomic risks, as the government must finance its spending by borrowing from the CBM, which causes inflation. Hence, the government needs to collect more revenues to meet Myanmar's urgent development needs and borrow responsibly from sources other than the CBM through more developed debt markets and concessional sources. This will be easier if capital markets are developed, government institutional processes are strengthened, the extraction of jade and gems is better recorded and regulated, and better fiscal terms are established for oil and gas production. Collecting more and spending better would help to achieve better outcomes in social services like, health and education and in infrastructure and agriculture, and to mitigate climate risks and respond to natural disasters. Over the next couple of years, two interventions under this policy area are particularly feasible and impactful in sustaining the transition: gathering better information on the tax base and preventing leakages from it, and continuing redirecting defense spending towards social sectors and capital spending.

Priority Area 1.2: Develop a sound, efficient, and inclusive financial system

249 **Myanmar's savings are predominantly informal, and the financial system must modernize to capture more formal savings and direct these to the right investments.** Macroeconomic stability and lower inflation would, in theory, allow Myanmar's banks to lend to productive investments and help people smooth their spending on basic needs such as health and education and mitigate risk. In practice, many Myanmar people and many businesses, the majority of which are small and medium size, are excluded from financial markets by regulated interest rates, weak commercial banks, and lending requirements that borrowing be fully collateralized by land, the value of which is unclear due to weak land-management systems. These market failures also impede long-term financing of infrastructure projects, which stunts economic development. Interventions to strengthen compliance with international banking standards are low-hanging fruits which can be implemented over the next couple of years with significant impact.

Priority Area 1.3: Strengthen the environment for investing and operating businesses

250 **The government can accelerate the growth of Myanmar's private sector by lowering barriers to the entry and expansion of firms such as the cost of land, skills, finance, and logistics.** Exponential growth in the number of firms in Myanmar is attributable to deregulation and legislation enacted since 2011. This has created thousands of new, formal jobs, and supported poverty reduction, especially in urban areas. A thriving and competitive private sector stimulates innovation and demand for infrastructure services. It also widens the tax base, allowing the state to collect more revenues to provide essential public goods that in turn support the private sector. Critical next steps include removing, simplifying, and automating trade- and business-license requirements, taking a risk-based approach to customs clearance, and supporting entrepreneurs' capacity to prepare and execute business plans. Intensifying the dialogue between the private and public sector can improve the quality of public-policy formulation and implementation. In the next couple of years, the intervention that bears the most promise for rapid advances entails simplifying and automating documentary clearance for cross-border trade and product inspection and certification.

Priority Area 1.4: Close the gap between supply and demand for infrastructure and technology

251 **Closing the energy and connectivity infrastructure gap is critical to support economic development and to bring tangible improvements in quality of life to the poorest and most vulnerable.** While significant progress has been achieved in recent years to build infrastructure, substantial challenges remain to reach those

who live far from the main transport and energy corridors and to connect people to services and firms to markets. Substantial investments will be required to tackle these challenges, and limited public resources must therefore be allocated wisely and transparently to least-cost projects based on sound planning and leveraging private financing when possible. Finally, following recent bold increases, a system of regular adjustment of electricity tariffs is needed to improve the financial viability of the power sector, reallocate expensive public subsidies, and protect poor consumers. Interventions that address transport infrastructure along economic corridors and those that improve the financial viability of the energy sector are indeed the most actionable and potentially impactful in the immediate future.

Priority Area 1.5: Improve income-generation opportunities and connectivity in rural areas

252 **Supporting people and firms in rural areas is essential to reducing poverty and inequality in both agricultural and nonagricultural activities.** Most of Myanmar’s poor are in rural areas, often where conflict affects livelihood opportunities. Policies to diversify cultivated areas, crops, and livestock in Myanmar, promote good land-use practices, and support farmers’ access to finance and quality inputs are critical to raising productivity, exports, and incomes and mitigating environmental risks. The public sector should remove barriers to allow the private sector to fulfill its critical role in this regard. Advances along two sets of interventions deserve particular attention in the immediate future: focusing more on profitability and sustainability of agricultural production and extending productive value chains in agro-food systems, and increasing investment in connective and productive infrastructure in villages.

Table 7-2 | Policy Actions for Priority Areas under Pathway 1

Pathway 1: Strengthening economic and financial-sector management to sustain growth and job creation			
PRIORITY AREA	POLICY ACTION 1	POLICY ACTION 2	POLICY ACTION 3
Maintain fiscal balance and macroeconomic stability.	<p>Collect more revenues.</p> <ul style="list-style-type: none"> - Gather better information on the tax base (conduct self-assessments and audits) and prevent leakages from the tax base (reduce tax exemptions and incentives), with special attention to natural resource extraction and fiscal terms. - Standardize the way State Economic Enterprises contribute revenue to the budget. 	<p>Spend more and better.</p> <ul style="list-style-type: none"> - Continue redirecting defense spending towards social sectors and capital spending. - Support capital spending with multiyear budget commitments and strengthened systems for project selection and implementation. - Collect and release more timely data on budget execution. 	<p>Manage macro-fiscal risks.</p> <ul style="list-style-type: none"> - Maintain fiscal deficit below 5 percent of GDP and eliminate central bank financing of the deficit. - Monitor and release information on contingent liabilities (publish a fiscal risk statement with the budget). - Update and publish the Medium-Term Debt Strategy.
Develop a sound, efficient, and inclusive financial system.	<p>Maintain financial-sector stability.</p> <ul style="list-style-type: none"> - Strengthen compliance with international banking standards. - Continue to build financial sector supervision and regulatory capacity. 	<p>Deepen the financial market.</p> <ul style="list-style-type: none"> - Liberalize interest rates. - Support development of capital markets and long-term financial products. 	<p>Pursue financial access.</p> <ul style="list-style-type: none"> - Explore fintech applications to leverage digital infrastructure.

Pathway 1: Strengthening economic and financial-sector management to sustain growth and job creation			
PRIORITY AREA	POLICY ACTION 1	POLICY ACTION 2	POLICY ACTION 3
Strengthen the environment for investing and operating businesses.	Improve connectivity and integration with international markets. <ul style="list-style-type: none"> - Simplify and automate documentary clearance for cross-border trade and product inspection and certification, with greater focus on risks. - Further unlock potential for connecting producers/suppliers with consumers/markets through transport and digital infrastructure (e-commerce). 	Increase coherence in investment policies and investment promotion. <ul style="list-style-type: none"> - Improve policy and administrative procedures for investment promotion and permit at MIC, and business registrations at the municipal/township level. - Strengthen public-private dialogue and follow up. 	Promote inclusion in developing the private sector. <ul style="list-style-type: none"> - Improve workers' skills and capacity of producers/suppliers, and support entrepreneurs in frontier states/regions. - Facilitate the use of moveable assets as loan collateral and improve the process for transferring and registering land and property titles.
Close the gap between supply and demand for infrastructure and technology	Accelerate delivery of quality electricity services to reach all people in Myanmar by 2030. <ul style="list-style-type: none"> - Implement activities for universal access by 2030 through (i) responsible and viable public and private investments, (ii) more affordable connections for the poor, and (iii) faster rollout of power network developments. - Further improve the financial viability of the sector by implementing tariff reform to reach cost-recovery levels while protecting the poor through the implementation of an adequate lifeline tariff. 	Expand and improve transport connectivity. <ul style="list-style-type: none"> - Improve transport infrastructure along economic corridors and modernize the logistics system with the private sector. - Develop and implement a phased national program for universal rural accessibility by 2040 with central and subnational governments, communities, and the private sector. - Implement sustainable and integrated urban mobility with public transportation supporting access to quality jobs and services, particularly for the urban poor. 	Catalyze growth of the digital economy, for jobs and to prepare for the 4th Industrial Revolution. <ul style="list-style-type: none"> - Increase access to and quality of broadband internet services to businesses by providing high-quality, fixed-line infrastructure. - Promote the growth of digital entrepreneurship and businesses by (i) strengthening the policy and regulatory framework for data privacy and portability, innovation and technology law, and intellectual property rights for ICT, and (ii) strengthening the digital innovation ecosystem.
Improve income-generation opportunities and accessibility in rural areas.	Improve productivity and diversification. <ul style="list-style-type: none"> - Go beyond a focus on expanding agricultural output to emphasize profitability, risk management, and sustainable resource use, extending productive value chains in agro-food systems beyond the farm gate. - Improve the delivery of key agricultural services, including through ICT and PPPs, and secure plant and animal health and food-safety regulatory oversight. - Reorient public agricultural spending and programs beyond rice-based systems to support market-led agriculture and exploit Myanmar's diverse agricultural environments. 	Match resources with the needs of rural communities. <ul style="list-style-type: none"> - Increase investments in connective and productive infrastructure between villages and productive areas or markets. - Improve capacity, participation, and inclusion of village structures and institutions that support local development planning and implementation. 	Enhance competitiveness. <ul style="list-style-type: none"> - Improve the enabling environment for agribusiness investment and value-chain coordination, including access to financial services. - Support collective action in the farming and agribusiness communities to address emerging challenges and opportunities. - Help farmers and food enterprises adopt safe and sustainable practices demanded in the market and by trade partners.

Pathway 2: Building inclusive institutions and human capital to foster peace and shared prosperity

Priority Area 2.1: Foster peace, social cohesion, and more inclusive governance institutions

253 **Achieving a durable nationwide peace is vital for Myanmar's sustained development.** In the next few years, progress on the transition from conflict to peace is likely to remain bumpy and nonlinear. Conflict-affected areas will continue to lag in human and economic development, undermining progress on social inclusion, social cohesion, and equitable growth. Territorial integrity and a sense of national identity divorced from ethnicity and religion will be needed for all communities to enjoy economic opportunities and contribute to Myanmar's prosperity. Achieving the vision of a peaceful, multiethnic Myanmar will require inclusive institutions, a clear roadmap for decentralization, and removal of formal and informal barriers to inclusion of ethnic and religious minorities in the economy and society. The benefits of a durable peace will only materialize in the longer term, but action today to build the credibility of the peace process and spur Myanmar's democratic transition is a foundational priority for progress in many areas. Strengthening the peace process will create a more certain macroeconomic and business environment for investment and sustainable growth. It will also promote advances on inclusive and equitable service delivery, by permitting public institutions to engage with nonstate providers in conflict areas. Finally, efforts to improve the inclusiveness of institutions must be accompanied by efforts to strengthen governance and institutional capacity in general, especially at the subnational level. Three interventions are particularly urgent to revive momentum towards inclusive and sustainable growth: developing and implementing a clear and agreed-upon path towards decentralization in decision-making and fiscal control; removing barriers to accessing services and markets, such as citizenship, identification, and movement restrictions throughout the country, including in Rakhine; and stepping up outreach and trust-building efforts with EAOs that are not signatories of the NCA.

Priority Area 2.2: Strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives

254 **Myanmar can build on recent progress in service delivery to foster a healthier population.** Recent progress in the provision of basic services and sheltering the most vulnerable needs to continue and deepen. The focus should be on both coverage and quality of delivery systems. Extending social services to excluded populations and conflict-affected areas, especially in cooperation with local EAOs, can promote institutional legitimacy and, along with the decentralization process, strengthen perceptions of inclusion, thus fostering reconciliation and peace. The impact of these policies on growth and poverty reduction will emerge over the long term, as successive generations benefit from human capital investments in the early years, and their productivity increases. But these investments need to start now. Meanwhile, shorter-term impacts will be visible on wellbeing and preventing reversals in poverty reduction following shocks. It is important to devote adequate fiscal resources to service delivery while improving institutions' ability to implement and monitor interventions. Interventions to protect human capital from shocks are closely linked to those aimed at building resilience, under the third pathway. Interventions that improve nutrition for the most vulnerable represent low-hanging fruits for immediate implementation with significant long-term impact.

Priority Area 2.3: Ensure education for all and skills for productive employment

255 **Building on recent achievements, Myanmar should go a step further to ensure that access to quality basic education reaches all; at the same time, it should ensure that students of all ages acquire skills for the future and then reap returns from work.** Education is fundamental to promote peace and an inclusive vision of the country's future. Collaboration with nongovernment education providers can have a significant impact on peace by building trust and inclusiveness. Smart allocation of fiscal resources to this sector will be key, particularly in areas where the need is dire. Barriers to state effectiveness need to be addressed, including, importantly, at the local level. Building a skilled workforce will support stronger private-sector growth, which is also closely linked to progress on priorities around jobs. Improving vocational training and facilitating job searches and safe migration can increase productivity and improve people's incomes. These policies will produce

substantial growth and poverty reduction in the long term, as new generations grow to utilize the acquired knowledge and skills, but only if investments begin today. Interventions that improve the quality of basic education are urgent in the immediate future. They are needed to enable further progress across all actions in this priority area, and are highly actionable given ongoing efforts.

Table 7-3 | Policy Actions for Priority Areas under Pathway 2

Pathway 2: Building inclusive institutions and human capital for all to foster peace and shared prosperity			
PRIORITY AREA	POLICY ACTION 1	POLICY ACTION 2	POLICY ACTION 3
Foster peace, social cohesion, and more inclusive governance institutions.	Strengthen inclusiveness and representativeness of institutions, including through decentralization. <ul style="list-style-type: none"> - Develop and implement a clear and agreed-upon path towards decentralization in decision-making and fiscal control. - Increase representation of women, ethnic and other minorities in the political space and civil service. 	Promote social cohesion and social inclusion for durable solutions, including in Rakhine. <ul style="list-style-type: none"> - Remove barriers to accessing services and markets, such as citizenship, identification, and movement restrictions. - Develop interventions that leverage shared economic interests to promote mutual trust between communities. - Implement Rakhine Advisory Commission recommendations. 	Reinvigorate the national peace process under the NCA. <ul style="list-style-type: none"> - Step up outreach and trust-building efforts with EAOs that are not signatories of the NCA. - Revive political dialogue with NCA signatories. - Address challenges faced by displaced populations and create the conditions for their safe, voluntary, and dignified return (e.g., in Kachin, Shan, Rakhine, and the southeast).
Strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives.	Increase the effective coverage of essential services for those lagging behind. <ul style="list-style-type: none"> - Expand interventions that improve nutrition for the most vulnerable. - Promote universal health coverage. - Expand WASH services, solid-waste management, and drainage in high-burden areas, including slums. - Ensure more equitable allocation of resources for basic services and infrastructure across the country. - Engage nonpublic providers in conflict-affected areas through stepped-up efforts in accreditation and contracting. 	Improve the quality of basic services. <ul style="list-style-type: none"> - Improve human and physical capacity for service delivery at the local level. - Strengthen delivery and monitoring systems, including by leveraging ICT solutions such as data collection, gathering feedback, interoperable MIS systems, and information sharing. 	Address vulnerabilities and prevent the reversal of gains in human capital assets. <ul style="list-style-type: none"> - Prepare to withstand and respond to shocks, including by laying out an adaptive social protection system. - Support, through transfers and targeted interventions, all categories at risk (e.g., migrant workers, vulnerable women, disabled people, pensioners).
Ensure education for all and skills for productive employment.	Expand access to quality basic education, to ensure that all children get a fair start. <ul style="list-style-type: none"> - Help poor children and children in remote areas to enroll and stay in school, through financial support and/or by providing safe travel options. - Improve the quality of basic education (e.g., teaching methods, teacher skills, class size, infrastructure). - Engage nonstate providers in harmonizing standards and accreditation. - Increase provision of ECD. 	Foster acquisition of needed skills through higher education and TVET. <ul style="list-style-type: none"> - Improve curriculum and acquisition of competencies in higher education. - Offer more vocational training opportunities that match the demand for technical skills in the labor market. 	Match people to jobs, and secure returns on investments in human capital. <ul style="list-style-type: none"> - Provide services that connect people to safe and productive employment domestically and internationally, including by involving private-sector providers and using technology.

Pathway 3: Managing natural endowments sustainably and building resilience for long-term prosperity

Priority Area 3.1: Manage land and natural resources transparently, equitably, and sustainably

256 **Myanmar's natural resource wealth can be used for the greater benefit of society and future generations.** A shift in the way land, forests, fisheries, water, and extractive resources are managed and used will ensure that more people benefit from the country's resources. It will also ensure that these resources do not degrade or deplete too rapidly. The benefits of action may only be visible in the longer term. The cost of inaction, however, will be felt in the short and medium term, with irreversible outcomes. A change in approach is urgently needed, and is expected to yield a significant positive impact on peace and social inclusion. More inclusive and transparent management of natural resources will build greater trust in government, especially in ethnic minority areas. Similarly, a peace dividend will be secured by addressing land disputes in peacebuilding and recognizing customary ethnic land and resource tenure systems. Local communities bear a disproportionate share of the burden of environmental degradation. Including them in the management of local resources and ensuring that they share in the benefits of resource development must be part of building inclusive institutions and advancing decentralization. Advancing this priority area will also sustain state revenues. Three concrete interventions are foundational for progress across this priority area, and deserve immediate attention: implementing natural wealth-accounting tools, enhancing monitoring systems and technical capacity for government to track the use of natural wealth, and implementing the 2016 National Land Use Policy.

Priority Area 3.2: Build resilience to disasters and mitigate the impact of environmental degradation

257 **Myanmar can be better prepared to withstand the impact of natural disasters, environmental degradation, and climatic shocks.** The foundations to withstand shocks need to be laid well in advance. Given the high likelihood of natural disasters and the pace of environmental degradation, action is urgently needed. Myanmar also has a window of opportunity to mitigate risks related to urbanization, which has not yet reached the level or pace of other Asian cities. The impact on social inclusion is likely to be significant, as shocks can further entrench disadvantage or increase challenges in reaching those living in remote areas. Progress in this policy area is closely linked to several others. For example, progress in managing natural resources better can help mitigate some of the risks addressed here. Sustainability and resilience considerations should inform actions to strengthen infrastructure and connectivity, especially in urban areas, and the creation of livelihood opportunities in rural areas. The two critical and actionable interventions in the very short term are immediate investments in pollution reduction and waste management, and steps to ensure that new physical infrastructure and land-use changes are risk-informed.

Table 7-4 | Policy Actions for Priority Areas under Pathway 3

Pathway 3: Managing natural endowments sustainably and building resilience for long-term prosperity			
PRIORITY AREA	POLICY ACTION 1	POLICY ACTION 2	POLICY ACTION 3
Manage land and natural resources transparently, equitably, and sustainably.	<p>Improve monitoring of natural resource production and use for better management of stocks and revenues.</p> <ul style="list-style-type: none"> - Enhance monitoring systems and technical capacity for government to track the use of natural wealth, in order to manage sustainably the remaining stocks and adequately tax production volumes and sales values in forestry, fisheries, and the extractive industries. - Implement natural-wealth accounting tools for better management of land and natural resources. 	<p>Strengthen legal frameworks, and their implementation, for equitable resource use.</p> <ul style="list-style-type: none"> - Increase comanagement and local control of natural resources and related enterprises (e.g., community forests and fisheries). - Implement the 2016 National Land Use Policy to improve security of tenure and efficient use of land, especially VFV land. - Establish an enabling environment and create incentives for sustainable green enterprises (e.g., aquaculture, forestry, tourism) and use of water resources, and promote climate-smart livelihoods. - Enforce seasonal and equipment restrictions in fisheries. 	<p>Halt and reverse depletion of natural capital and environmental degradation.</p> <ul style="list-style-type: none"> - Rehabilitate degraded ecosystems (e.g., forest and mangrove restoration under the National Forest Rehabilitation and Restoration Program). - Invest in and shift towards hydropower and other renewable sources of energy.
Build resilience to disasters and mitigate the impact of environmental degradation.	<p>Mitigate risks arising from environmental degradation.</p> <ul style="list-style-type: none"> - Invest in pollution reduction, especially waste-management systems (including reforms to improve cost recovery), plastic management, and air quality, with a focus on urban areas. - Scale up capacity for implementation of the environmental impact assessment system and management systems for new investments. 	<p>Foster disaster and climate resilience.</p> <ul style="list-style-type: none"> - Ensure that new physical infrastructure and land-use changes are risk-informed: identify hazards and mitigate them through appropriate siting, design, construction, and maintenance. - Improve forecasting and early-warning systems. 	<p>Strengthen emergency response and recovery.</p> <ul style="list-style-type: none"> - Strengthen planning and coordination of emergency response, recovery, and reconstruction. - Invest in nature-based solutions for climate resilience. - Provide adequate social safety nets to shelter those affected by disasters.

Cross-cutting: Reforming public institutions for effective and equitable policy implementation

Priority Area 4.1: Reforming public institutions for effective and equitable policy implementation

258 **The complexity of Myanmar’s triple transition requires a strong and capable government supported by a professional civil service, efficient public finance mechanisms, and modern IT systems.** A better functioning public-sector will have positive effects across all policy areas, facilitating macroeconomic and fiscal management, financial-sector stability, and private investment, including in essential energy resources and connective infrastructure. Public institutions that represent Myanmar’s diversity and are more responsive to the needs of the population can also use public resources more effectively to improve human capital, rural livelihoods, and natural resource management. This will in turn enhance inclusion and support the peace process. Hiring, training, and appropriately remunerating a merit-based civil service that can support and implement policy in coordination with public and private agencies is critically important. Interventions that strengthen coordination and information sharing at all levels of government, strengthen public procurement, and improve management and oversight of SEEs are particularly urgent in the next couple of years. They can build on ongoing efforts and revive the economic transition, laying the foundations for progress across priority areas.

Table 7-5 | Policy Actions for Priority Areas under the Cross-cutting theme of Public Institutions

Cross-cutting: Reforming public institutions for effective and equitable policy implementation			
PRIORITY AREA	POLICY ACTION 1	POLICY ACTION 2	POLICY ACTION 3
<p>Improve the effectiveness, transparency, and accountability of public sector institutions.</p>	<p>Increase the responsiveness and inclusiveness of policymaking.</p> <ul style="list-style-type: none"> - Strengthen coordination and information sharing among ministries at all levels of government. - Develop and implement a clear and agreed-upon path towards greater decentralization in decision-making, fiscal control, and service delivery (see Policy Actions under 2.1). - Enhance statistical capacity to strengthen evidence-based policymaking. - Systematically incorporate citizen engagement and beneficiary feedback systems into service delivery and development programs. - Increase the participation of women in the senior tiers of policymaking in all ministries. 	<p>Strengthen public financial-management systems and administrative processes, including by leveraging ICT.</p> <ul style="list-style-type: none"> - Strengthen public procurement institutions and capacity. - Improve management and oversight of SEEs. - Enhance tax-administration capacity (tax-audit capacity, international taxation, e-service, and e-commerce taxation). - Promote the use of risk-based audit and control systems. - Enhance the efficiency and transparency of government decisions and administrative processes through publication of key documents (e.g., budget and audit information) and the coordinated introduction of integrated e-governance systems (procurement systems, financial management systems, etc.). - Digitize databases with interoperability standards (e.g., businesses database) or laying the foundations for such efforts (e.g., land records). 	<p>Improve quality and effectiveness of the civil service.</p> <ul style="list-style-type: none"> - Improve recruitment, compensation, training, and management to attract and retain talent in the public sector. - Create processes for delegation and informed risk-taking to encourage innovation in middle management. - Build systems for local hiring for low-level skills, including pools of local professionals in remote ethnic areas.

7.2. Data and Knowledge Gaps

259 **The opportunity and demand for evidence-based policymaking has increased in recent years.** Prior to the transition, data was understood and used mostly as a tool to monitor progress on set targets, and public discussion of data and evidence was extremely restricted. Investments in the statistical system, and thus the ability to make use of timely data, were limited. Recent administrations have shown interest in establishing more solid underpinnings for policymaking and program development.

260 **While decades of underinvestment and a weak tradition of data generation still affect Myanmar today, the country can now draw on an unprecedented body of evidence.** This includes a credible population count, a reliable census (in 2014, the first in 31 years), two quality household surveys (2015 and 2017), macroeconomic surveys, and several additional socioeconomic datasets. Further information is available in annex C. More reliable data, especially at the subnational level, increases the ability to monitor and evaluate processes and outcomes across all issue areas. Supported by development partners, the Central Statistical Organization (CSO) and several ministries have acquired tools and skills to better use evidence in making and executing policy. Several ministries have begun to develop or modernize their information-management systems.

261 **Despite the remarkable advances, knowledge gaps remain in several areas:**

- (i) How conflict, poverty and exclusion, and the economy interact, including insights on the cost of conflict on human capital and economic growth
- (ii) The link between deforestation and changes in land use, agricultural growth, and poverty reduction
- (iii) The value of natural resources under the *Wealth of Nations* methodology
- (iv) An in-depth grasp of the country's political economy, including the channels for economic actors to influence political processes at the local and central levels
- (v) The prospects for economic progress and poverty reduction in each state and region
- (vi) Fiscal data on taxes, subnational spending, private investment, and firm-level productivity to support planning and resource-allocation
- (vii) Gender gaps—especially in land ownership, public voice and participation, and GBV—and the social norms that underlie them, including regional and ethnic differences.

262 **More and better evidence has allowed deeper analysis than was possible when the first Myanmar SCD was written, particularly about growth, poverty, and socioeconomic development.** Rapid growth in the past decade has reduced poverty significantly, although growth has moderated somewhat in the past two years. Most importantly, long-standing patterns of exclusion and conflict based on geography and ethnicity—coupled with over-exploitation of natural resources—have undermined the benefits and sustainability of Myanmar's economic transition. To ensure rapid growth that is both inclusive and sustainable in the future, the country is advised to focus on priorities within three interrelated pathways: i) strengthening economic and financial-sector management to sustain growth and job creation; ii) building inclusive institutions and human capital to foster peace and shared prosperity; and iii) managing natural endowments sustainably and building resilience for long-term prosperity. Progress on these three pathways will depend on cross-cutting reform of public institutions for effective and equitable policy implementation. Myanmar needs a modern state to become a peaceful and prosperous nation.

Annex A: Timeline of Political and Economic Developments

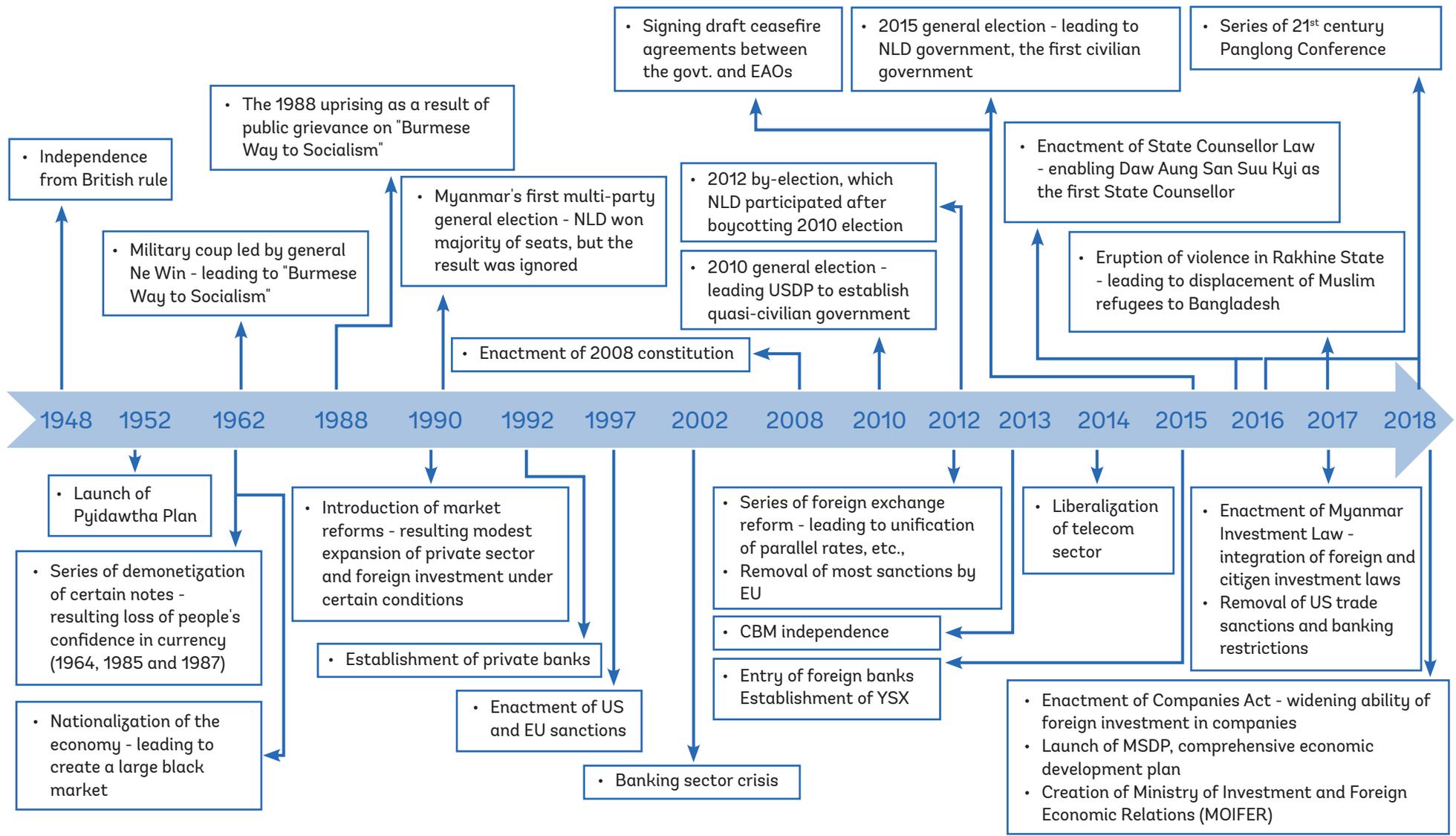


Table a | Political and economic developments by period

Development	1948–1961 (After Independence)	1962–1988 (Burmese Way to Socialism)	1989–2010 (Military Regime)	2011–2015 (USDP Government)	2016–2018 (NLD Government)
Political development	<ul style="list-style-type: none"> • Independence from the Britain (1948). • Split of the ruling Anti-Fascist People’s Freedom League (AFPFL) party, resulting Myanmar to be governed by caretaker government led by General Ne Win (1958). • Victory of U Nu’s Clean faction of AFPFL party in the 1960 general election. 	<ul style="list-style-type: none"> • Military coup by General Ne Win, introducing “the Burmese Way to Socialism” (1962). • Enactment of the 1974 constitution, resulting transfer of power from the military to U Ne Win’s Socialist Programme Party (1974). • The 1988 general uprising – leading to end the “Burmese Way to Socialism”, repeal of the 1974 constitution, and establishment of the State Law and Order Restoration Council (SLORC) (1988). 	<ul style="list-style-type: none"> • Country name changed from Burma to Myanmar (1989). • Landslide victory of National League for Democracy (NLD) in the general election but result was ignored (1990). • Myanmar becomes a member of ASEAN (1997). • SLORC was renamed as State Peace and Development Council (SPDC) (1997). • Nay Pyi Taw becomes new capital (2005). • Adoption of new constitution, leading to the 2010 general election (2008). • Victory of Union Solidarity and Development Party (USDP) in the general election (2010), resulting a quasi-civilian government after many years of military’s rule. 	<ul style="list-style-type: none"> • Signing a ceasefire agreement between the government and Karen ethnic armed groups (2012). • NLD’s participation in the 2012 by-election, leading the west to recognize political reforms under the USDP government. • Signing of a draft ceasefire agreement between the government and 16 ethnic armed groups (2015). • Landslide victory of NLD in the 2015 general elections, enabling them to form the first civilian government (2015). 	<ul style="list-style-type: none"> • Enactment of State Counsellor Law, appointing Daw Aung San Suu Kyi as the first state counsellor (2016). • Series of 21st Century Panglong Conference to promote peace process (2016, 2017 and 2018). • The government’s announcement of “Seven Steps Roadmap for National Union Peace” (2016). • Rakhine crisis: ARSA attacks on security forces (25 August 2017) and military response. Eruption of violence against Muslims and displacement of 725,000 to Bangladesh.

Development	1948–1961 (After Independence)	1962–1988 (Burmese Way to Socialism)	1989–2010 (Military Regime)	2011–2015 (USDP Government)	2016–2018 (NLD Government)
Economic Development	<ul style="list-style-type: none"> • Launch of Pyidawtha Plan, one of the very first economic development plans of Myanmar (1952). 	<ul style="list-style-type: none"> • Government’s nationalization of the economy, leading to create a black-market economy (1962). • Series of demonetization of certain notes with no warning and little or no compensation, resulting a loss of confidence in kyat with leading people to save gold, jewelry and real estate instead of currency (1964, 1985 and 1987). 	<ul style="list-style-type: none"> • Introduction of market reforms, resulting modest expansion of private sector and foreign investment under certain conditions (1990). • Establishment of private banks (1992). • Enactment of EU and US sanctions (1997). • Banking sector crisis, resulting three private banks to completely collapse (2002). 	<ul style="list-style-type: none"> • Foreign Exchange reform, resulting unification of parallel rates, managed float enacted, foreign currency auctions intermediated by CBM to manage FX, transfer of reserves to CBM (2012). • The Central Bank Independence, transferring regulatory responsibilities to the CBM from Ministry of Finance (2013). • Enacting the Foreign Investment Law (2012) • Promulgating the Myanmar Citizens Investment Law (2013) • Introduction of SEZ Law, resulting creation of SEZs such as Thilawa SEZ (2011 and revision in 2014). • Lift of most sanctions by the EU, enabling Myanmar to increase its exports to the EU (2013). • Authorization for entry for foreign banks in wholesale banking (2014). • Introduction of Yangon Stock Exchange Law, resulting the creation of Yangon Stock Exchange in 2015 (2014). • Liberalization of telecom sector, increase in mobile penetration rate following a decline in sim card price (2014). 	<ul style="list-style-type: none"> • Development of a domestic bonds market with floating interest rate (2016). • Removal of most US trade sanctions and banking restriction (2016). • Myanmar Investment Law, integrating both Foreign (2012) and Citizens Investment (2013) Laws and creating level-playing ground for both foreign and domestic investors (2017). • Enactment of Myanmar Companies law, aligning the regulatory framework with international practices improving compliance and the environment for foreign investment, facilitating company registration with the Myanmar Companies Online (MyCo). (2017). • CBM’s issuances of license for the first Credit bureau (2018). • Launch of Myanmar Sustainable Development Plan (MSDP), a comprehensive development plan under the NLD government (2018). • Establishment of Ministry of Investment and Foreign Economic Relations (2018).

Annex B: ---

Overview of the First Myanmar SCD (2014)

Myanmar has seen substantial political and economic change since the first SCD in 2014 and the country's knowledge base has expanded, justifying preparation of a comprehensive second SCD. The first SCD was written prior to the historic elections of 2015, at a time when the National Ceasefire Accord was still being negotiated, and before the large population displacements of recent years affecting Kachin, Rakhine and Shan. From a data perspective, it was written at a time when the population was estimated to be 20 percent greater than it was. The evidence base in Myanmar has expanded, allowing for a deeper assessment to be conducted.

Based on the available evidence then, the 2014 SCD identified the following pathways and prerequisites for progress (see table b). The focus on fundamentals, such as strengthening institutions, public-sector capacity and governance, maintaining macroeconomic stability, and access to basic services are still relevant today. But advances in these and other priorities now call for a deeper focus on second generation economic reforms, and greater attention to quality of services and infrastructure, in addition to equitable coverage across the country and greater access for all communities. The present SCD offers an opportunity to learn from the transition thus far, given the longer time-span covered since the country's opening in 2011.

An important difference between the 2014 and 2017 SCD documents is a greater understanding of conflict and exclusion challenges based on data and systematic knowledge now available. These issues not only permeate all pathways of the current SCD, but also warrant stand-alone analysis, given they affect transition prospects and policy reforms directly as well. Additionally, new evidence and policy efforts in the field of natural resource management, together with the increased urgency of action to prevent further negative impact from their unsustainable use, made the topic a more central one to the diagnostic and policy priorities identification than was the case in the past SCD.

Table b | Priorities of Myanmar's first SCD (2014)

Prerequisites	<ul style="list-style-type: none"> • Facilitating the political transition • Social inclusion • Maintaining macroeconomic stability • Strengthening public sector capacity and governance 	
Prerequisites	<p><i>Promoting universal access to basic services and empowerment for inclusive growth, particularly in rural areas</i></p> <ul style="list-style-type: none"> • Ensuring universal access to social services • Expanding rural infrastructure networks • Increasing access to safety nets and reducing vulnerability 	<p><i>Promoting openness and sustainable private sector led growth for more jobs</i></p> <ul style="list-style-type: none"> • Opening trade and foreign investment • Increasing agricultural productivity • Improving Myanmar's overall productive efficiency and competitiveness • Ensuring sustainability through improved and more integrated environmental and natural resource management

Source: World Bank, 2014.

Annex C:

Data Sources, Limitations and Gaps

The data available in Myanmar has expanded considerably since the first SCD was conducted. The 2014 Population and Housing Census filled a 31-year gap in population statistics, and resulted in a downward revision of the population of Myanmar from 60 million in 2014 to 51.4 million. This revision reflects the overall change in data climate in Myanmar: revisions of key data series are ongoing, as methodologies are updated and greater scrutiny of source data is occurring.

Myanmar had a Statistical Capacity Indicator (SCI) score of 62.8 in 2017 (out of 100), up from a low of 46.7 in 2014.¹¹⁵ Between 2009 and 2017, Myanmar’s SCI has been considerably lower than the average for IDA countries. Based on the assessment undertaken for the SCI, the key challenge for Myanmar is the methodology underlying key macro and financial indicators (e.g. consumption, jobs and other non-monetary indicators of well-being) and data openness. Myanmar’s SCI has improved as a consequence of the recent completion of core statistical products including the Population and Housing Census 2014, and subsequent key health, labor and living standards surveys and the updating of the base year for National Accounts.

General Information about the Statistical System

Legal status of CSO	Agency under the Ministry of Planning and Finance
Statistical Legislation (latest)	Statistical Law of 2018
NSDS/Statistical masterplan	Strategic Plan currently in draft form

Overview of data available

Table c | Available surveys and censuses

Name	Latest (Year)	Second Latest (Year)	Representation	Data Access	Disaggregation		
					Sex	Religion	State/Region
Censuses							
Population and Housing Census	2014	1983	Township	Reports and excel tables	Y	N	Y
Agricultural census	2010	2003	S/R	PDF reports	N	N	Y
Household surveys							
Living Conditions Survey – Integrated Household Living Conditions Assessment (IHLCA)	2010	2005	S/R	Micro data	Y	Y	Y
Living Conditions Survey – Myanmar Poverty Living Conditions Survey (MPLCS)	2015		Zone	Micro data	Y	Y	N
Living Conditions Survey – Myanmar Living Conditions Survey (MLCS)	2017		S/R	Micro data	Y	Y	Y
Demographic Health Survey (DHS)	2016		S/R	Micro data	Y	N	Y
Labor force survey (LFS)	2017	2015	S/R	Reports	Y	N	Y

¹¹⁵ The SCI covers three dimensions of statistical capacity: methodology, source data and periodicity. For each dimension, a country is scored against specific criteria, using information available from the World Bank, the International Monetary Fund (IMF), the United Nations (UN), the United Nations Education, Science and Culture Organization (UNESCO), and the World Health Organization (WHO). A composite score for each dimension and an overall score combining all three dimensions are derived for each country on a scale of 0-100. A score of 100 indicates that the country meets all the criteria.

Name	Latest (Year)	Second Latest (Year)	Representation	Data Access	Disaggregation		
					Sex	Religion	State/Region
Enterprise and sector surveys							
Farm Production Economics	2017	2013	4 states	Micro data	Y	N	N
Enterprise Survey	2016	2014	Y	Micro data	Y	N	Y
Survey of Economic Conditions	Q4 - 17	Q1 - 17	-	Micro data	Y	N	N
Myanmar Business Survey	2015		S/R	Micro data	Y	N	Y
MSME Survey	2017		S/R	Report	Y	N	Y

Sampling and impacts on analysis in this report

The post-Census household surveys are all based on a sampling frame based on the 2014 Census, and included enumerated and non-enumerated populations living in conventional households. The two pre-Census household surveys, the IHLCA-I (2005) and IHLCA-II (2010), were based on the most updated population estimates available at the time. The sampling frame used in the IHLCA-I is described in substantial detail in the 2005 IHLCA Technical report (GOM et al. 2010). These two latter surveys were also unable to cover conflict affected parts of the country. While the post-Census and pre-Census surveys were sampled differently, a comparability assessment was conducted as part of the revision of poverty estimates to assess to what extent these differences could affect the poverty estimates and their trends. The assessment used time-invariant characteristics of populations to compare the two earlier surveys with the Census and the MPLCS. The assessment found sufficient overlap to continue, but noted that there are differences between the earlier sources and the Census, with the earlier analysis including fewer individuals with no education and more individuals with higher levels of education.

Overview of key indicators

Indicator	Notes
Poverty and Expenditure	
Expenditure aggregates	Due to incomparability across household surveys, expenditure aggregates were imputed across surveys.
Poverty estimates	The poverty estimates put forward in this SCD reflect revisions over previous measures used in Myanmar. The 2015 estimates were based on consumption data from 2015, using a new consumption basket and poverty line to reflect changes in consumption patterns for all households since 2010. The 2005 and 2010 estimates are imputed using multiple imputation techniques; this makes detailed profile comparisons difficult to conduct across survey rounds.
International poverty estimates	The international poverty estimates for Myanmar were released in late 2017. Overtime comparisons of these estimates are not possible, based on 2015 data.
Bottom 40 trends in expenditures	These were estimated using multiple imputation techniques, due to incomparable data sources.

Indicator	Notes
Macroeconomic and Financial	
National accounts and GDP growth	Based on comparisons with alternative sources of compiled GDP and growth numbers, it is very probable that official GDP growth data significantly overstates GDP and growth until 2011. Efforts have been taken to account for this, e.g. by using alternative sources, in particular to support the economic growth and productivity analysis in the SCD. The national accounts are undergoing revision to comply with SNA2008 but is unlikely to be ready for the SCD.
Fiscal data	While aggregate tables are now possible in GFS compliant form, challenges remain in compiling regional data – specifically knowing what the Union spends at state and region level. Confirmed actual spending data is only available with 6-12 month lags.
Balance of Payments	While improving, especially from the Central Bank source, the quality and comprehensiveness of data remains weak, especially on the financial account.
Macro-financial	Detailed private sector banking sector data is only gradually becoming available to the banking supervision authority, and not accessible to the World Bank. This is not unusual given the sensitivity of the data, but does preclude a full assessment of the solvency risk in the banking sector.

Annex D:

External Engagement and Consultations

A series of public consultations, combining face-to-face meetings and social media platforms, took place between January and February 2019. They had two key objectives:

- (i) To exchange views with government and other major stakeholders, and encourage public debate on the opportunities, constraints and priorities in the next 5 years for faster and sustainable poverty reduction and inclusive growth in Myanmar.
- (ii) To raise awareness about the World Bank and its analytical contributions by fostering evidence-based discussions.

These external engagements supported the WBG in ensuring an accurate diagnostic based on all available and most recent evidence. They are offered insights into how different stakeholders view policy priorities and how the reform agenda can be articulated.

Summary of face-to-face engagement

Seven consultation workshops were conducted with various stakeholder groups including representatives of Union Ministries, Yangon and Mandalay Regional governments and City administration, private sector, development partners, academia and civil society organizations. Around 110 representatives at Director General and Director level participated in a half day workshop, representing 24 Union Ministries. Eleven government departments from the Yangon Region attended a targeted consultation. As many as 44 participants from a variety of stakeholder groups participated and shared their views in the consultation workshop in Mandalay. Consultations in Yangon reached a large number of representatives from development partners, International Non-Governmental Organizations (INGOs), local Civil Society Organizations (CSOs), think tanks, academia, and the private sector.

During consultations, the team presented the emerging storyline, backed by evidence. It then asked participants to: (i) validate overall storyline, discuss any omission, report inaccuracies, contribute new evidence; (ii) discuss the emerging priority areas for policy, providing insights into key policy actions for progress along such areas; (iii) identify the most crucial policy areas for progress on inclusive growth, poverty reduction and sustainability.

Summary of online/social media engagement

Online engagement aimed to reach the broader public lasted for three weeks, using the World Bank Consultations page and the World Bank Myanmar Facebook page. On the website, a video was used to provide an overview of the WBG country engagement progress and nature of an SCD, and inform the public of the consultations web page with additional information. Within less than two weeks, this video reached 539,443 people. A short campaign promoting content related to the SCD was published on the World Bank Myanmar Facebook Page. Inputs were gathered via email.

Annex E: From Binding Constraints to Priority Areas for Policy

Overview of Key Binding Constraints	Priority Areas for Policy	Priority Level
Pathway 1: Strengthening economic and financial-sector management to sustain growth and job creation.		
Economic Stability: Sustaining economic progress through sound macro-fiscal management		
Slowing growth and recurring exchange-rate and inflation volatility are deterring investment and consumption, while low public-sector revenues and spending constrain government from supporting the economy and distributing income.	Maintain fiscal balance and macroeconomic stability.	HIGH
The financial sector does not adequately channel savings to investment opportunities, and individuals' access to finance is restricted by regulated interest rates and collateral requirements. While essential regulation is taking effect, vulnerabilities remain due to rapid credit growth, a history of short-term overdrafts that were often directed to related parties, concentration risk, lax reporting requirements, and limited loan-assessment capability.	Develop a sound, efficient, and inclusive financial system.	MODERATE
Job Creation: Supporting the creation of more, better, and inclusive private-sector jobs		
The private sector faces high costs to invest, trade, and operate businesses. Procedures for issuing licenses or permits vary, are focused on documentary formalities, and are not risk based. Poor trade facilitation, inefficient logistics services, low-quality infrastructure, and weak financial-sector intermediation are preventing firms from gaining from trade. Entrepreneurs and employees also lack the skills to innovate and grow.	Strengthen the environment for investing and operating businesses.	MODERATE
Myanmar has the lowest electricity access rate in East Asia. Those connected to the grid also suffer from low-quality service and interruptions, with firms resorting to costly backup generators that lower their competitiveness.	Close the gap between supply and demand for infrastructure and technology.	HIGH
Poor access to quality transport infrastructure impedes service access and commerce. Myanmar is ranked lowest in ASEAN on the Logistics Performance Index.		
While telecommunications and mobile broadband usage took off in 2012, constraints on digital development and the capabilities of telecom firms place Myanmar near the bottom of the global Networked Readiness Index, limiting opportunities for greater business efficiency and access to services.		
Agricultural productivity and diversification are low due to the undersupply of necessary public goods and technical services by the private sector. Poor coordination and logistical inefficiency within agricultural value chains exacerbate productivity gaps and market risks, and inhibit downstream investments in value-adding agricultural processing and food manufacturing.	Improve income-generation opportunities and connectivity in rural areas.	HIGH
Pathway 2: Building inclusive institutions and human capital for all to foster peace and shared prosperity		
Peace and Governance: Making inclusive institutions work for all people		
The peace process has stalled, and violence has intensified in many areas; control over natural resources and illicit activities both fuel and finance conflicts.	Foster peace, social cohesion, and more inclusive governance institutions.	HIGHEST
Highly centralized decision-making, and institutions that do not fully reflect Myanmar's diversity, limit the country's ability to meet the different needs and aspirations of the population across the country, generating grievances and widening inequalities.		
Social exclusion of ethno-linguistic and religious minorities, noncitizens, and persons without identification documents persists across the country. There has been limited progress in resolving challenges specific to Rakhine, which include tensions between state and Union institutions, underlying conditions that perpetuate exclusion, and uncertain prospects for long-term development.		

Overview of Key Binding Constraints	Priority Areas for Policy	Priority Level
People: Unlocking the full potential of all human resources		
Poor infant and child feeding practices, unaffordability of an adequate diet, inadequate coverage of nutrition services, and high exposure to disease (due to limited access to safe water, sanitation, and hygiene) contribute to high levels of malnutrition and poor health beginning in the early years of life, with productivity implications for future workers.	Strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives.	HIGH
Low coverage of health, nutrition, and social protection services, and weak service delivery systems, leave many areas and minority groups underserved; and even where available, quality and affordability challenges limit chances to protect and boost human capital for growth in the longer term.		
Basic education is still elusive for many, especially those who are poor, live in underserved areas, or belong to minority groups.	Ensure education for all and skills for productive employment.	HIGHEST
Greater access to education is not translating into improved learning outcomes; the acquisition of foundational and technical skills is limited and does not meet the needs of the labor market, often resulting in unprotected migration and limiting potential for growth.		
Pathway 3: Managing natural endowments sustainably and building resilience for long-term prosperity		
Planet: Using rich natural endowment sustainably and building long-term resilience		
Current reliance on nonrenewable assets and mismanagement of natural resources are depleting natural capital (minerals, fisheries, forests), to the benefit of those controlling land and without generating gains for the population at large.	Manage land and natural resources transparently, equitably, and sustainably.	HIGH
Natural-resource practices, solid-waste management, the growing use of plastics, and pollution pressures are accelerating environmental degradation and affecting water and air quality, with consequences for livelihoods and health, in particular for the poor.		
Preparedness to mitigate the impact of natural disasters, to which the country is highly exposed, is limited; current patterns of environmental degradation, urbanization, and climate change are likely to heighten the risk of shocks.	Build resilience to disasters and mitigate the impact of environmental degradation.	MODERATE
Cross-cutting: Reforming public institutions for effective and equitable policy implementation		
State institutions suffer from legacy practices and structural challenges that limit their ability to deepen reforms and implement effective and equitable policies. Such challenges include the continued influence of the military, highly centralized and poorly coordinated decision-making, slow modernization of administrative processes, and limits to civil servants' effectiveness. These have impacts on both the provision of public goods and the promotion of private-sector-led growth.	Improve effectiveness, transparency, and accountability of public-sector institutions.	HIGH

Prioritization process. The Priority Areas for Policy were classified according to the criteria reported in table 7.1. This process was based on the analysis and inputs received during consultations. Priority Areas for Policy with a higher balance in terms of (i) urgency, (ii) impact on growth, poverty reduction and social inclusion/social cohesion/peace, and (iii) foundational nature were classified at a higher level of priority.¹¹⁶

¹¹⁶ Each impact or urgency level classified as “high” warranted a priority area 2 points, “moderate” warranted 1 point, and “highest” an extra point; “foundational” Priority Areas received 2 points. Priority Areas with 9+ total points were classified as “highest priority”, followed by “high priority” areas (7-8 points), and “moderate priority” areas (below 7 points).

Annex F:

Priority Areas for Policy and Alignment with MSDP

Priority Areas for Policy	Link to MSDP Goals, Strategies and Actions	Relevant MSDP Strategic Outcomes
GROWTH: Strengthening economic and financial-sector management to sustain growth and job creation		
Economic Stability: Sustaining economic progress through sound macro-fiscal management	Goal 2	
Maintain fiscal balance and macroeconomic stability.	Strategy 2.2 (esp. Actions 4, 8) Strategy 2.3 (esp. Actions 2, 4, 8) Strategy 2.4 (esp. Actions 2, 3, 4, 5) Strategy 2.5 (esp. Actions 1, 4)	<ul style="list-style-type: none"> - CBM's financing will be reduced, and inflation will be stabilized - Tax collections will be more convenient - Tax revenues will be higher - Strong and transparent public financial management - SEEs operate on commercial principles with independence, transparency, and accountability
Develop a sound, efficient, and inclusive financial system.	Strategy 2.2 (esp. Action 6) Strategy 2.1 (esp. Action 8)	<ul style="list-style-type: none"> - Supply and demand for liquidity of the banks will be met - Local banks' demand for foreign currency will be met more easily
Job Creation: Supporting the creation of more, better, and inclusive private sector jobs	Goal 3	
Strengthen the environment for investing and operating businesses.	Strategy 3.2 (esp. Actions 1, 2, 3, 6) Strategy 3.3 (esp. Actions 1, 2, 5, 6, 8, 9)	<ul style="list-style-type: none"> - Legal and regulatory frameworks provide a clear and stable foundation for business activity and are applied fairly and transparently - Robust environment for sustainable trade and investment to grow inclusively; Enhanced role of SMEs in local, sub-national and regional development; - Our people enjoy safe, secure and equitable workplaces. - Improved transparency, predictability, and quality of the business environment - Legal and regulatory frameworks which provide a clear and stable foundation for business activity and are applied fairly and transparently - Robust environment for sustainable trade and investment to grow inclusively
Close the gap between supply and demand for infrastructure and technology.	Strategy 5.4 (esp. Actions 7, 8) Strategy 3.2 (esp. Action 8)	<ul style="list-style-type: none"> - Affordable and reliable energy supply to all categories of consumers, especially to those living in the remote areas that are currently without electricity - Robust PPP program created that gives the government a modality for procuring needed infrastructure services and achieving value for money
Improve income-generation opportunities and connectivity in rural areas.	Strategy 3.1 (esp. Actions 1, 3, 4, 7, 11)	<ul style="list-style-type: none"> - Increased Productivity and Farmers' Income - Enhanced Governance and Capacity of Institutions Responsible for Agricultural Development - Enhanced Market Linkages and Competitiveness

Priority Areas for Policy	Link to MSDP Goals, Strategies and Actions	Relevant MSDP Strategic Outcomes
INCLUSION: Building inclusive institutions and human capital to foster peace and shared prosperity		
Peace and Governance: Making inclusive institutions work for all people	Goal 1	
Foster peace, social cohesion, and more inclusive governance institutions.	Strategy 1.1 (esp. Actions 2, 3, 4, 5, 6) Strategy 1.5 (esp. Actions 1, 4, 7) Strategy 1.2, (Action 6)	<ul style="list-style-type: none"> - More inclusive and sustainable peace dialogue and processes - Strengthened foundation of Myanmar as a federal, democratic Union - More inclusive, participatory and representative decision-making - Decision making delegated to the local level in support of greater social cohesion and effective service delivery in post-conflict socio-economic reconstruction efforts - Promote socio-economic development in Rakhine state
People: Unlocking the full potential of all human resources	Goal 4 (some links with Goal 5)	
Strengthen systems for the delivery of equitable and quality services and risk protection that allow people to lead healthy lives.	Strategy 4.2 (esp. Actions 1, 2, 3, 4, 6, 7) Strategy 4.3 (esp. Actions 1, 4, 6, 10, 14, 15) Strategy 4.4 (Actions 1, 2, 3) Strategy 5.3 (Actions 2, 3, 5, 6)	<ul style="list-style-type: none"> - Improved quality of health services - Pregnant women and infants receive adequate care and nutrition - Improved nutrient intake across the population - Water resources are managed to support access to effective, efficient and affordable services for improved water supply - Domestic solid waste safely and effectively disposed to promote healthy communities - Children and young people have services to protect them against risk and support their development - Working age people are protected against risk and income loss, and poor populations with opportunities for employment - Vulnerability to disasters and their impact is lessened
Ensure education for all and skills for productive employment.	Strategy 4.1 Strategy 4.5 (esp. Actions 2, 3, 5)	<ul style="list-style-type: none"> - All students develop knowledge, skills, attitudes and competencies that are relevant to their lives and the socio-economic development needs of 21st century Myanmar - All children have access to, progress through and successfully complete a quality basic education - Teachers and education managers implement a quality assessment system to improve student learning outcomes - More learners can access TVET and graduate from quality-assured and labour market-responsive TVET programmes under a more effective TVET management system - Students have equitable access to a multilingual and multicultural quality education system which enables them to become productive members of a pluralistic society - Students of all ages benefit from more accessible and flexible quality education - Students have equitable access to quality learning at an early age, thus equipping them with the requisite tools to propel them toward lifelong quality learning - Increased contribution of migration towards development - Protect labour rights and promote safe and secure working environments for all workers, including migrant workers

Priority Areas for Policy	Link to MSDP Goals, Strategies and Actions	Relevant MSDP Strategic Outcomes
SUSTAINABILITY: Managing natural endowments sustainably and building resilience for long-term prosperity		
Planet: Leveraging rich natural endowments for sustainable and resilient development	Goal 5 (some links to Goal 1 and Goal 4)	
Manage land and natural resources transparently, equitably, and sustainably.	Strategy 5.1 Strategy 5.3 (Actions 1, 5, 6) Strategy 5.4 (Action 2) Strategy 5.5 (Actions 1, 2, 3, 4, 5) Strategy 5.6 (Actions 1, 6)	<ul style="list-style-type: none"> - Underlying causes of biodiversity loss are addressed through mainstreaming biodiversity across government and society - Reduce direct pressures on biodiversity and promote sustainable use - Enhanced benefits to all from biodiversity and ecosystem services - Water resources are managed to support access to effective, efficient and affordable services for improved water supply - Domestic solid waste safely and effectively disposed to promote healthy communities - Climate-resilient and low-carbon energy, transport and industrial systems promoted - Improved land governance - Prudent and transparent management of natural resources revenue - Environmental and social considerations mainstreamed into investment decisions
Build resilience to disasters and mitigate impact of environmental degradation.	Strategy 5.2 (Actions 1, 2, 3, 6, 7, 8, 9) Strategy 5.6 (Actions 2, 3, 9)	<ul style="list-style-type: none"> - Climate-resilient productivity and climate-smart responses promoted in the agriculture, fisheries and livestock sectors while also promoting resource-efficient and low-carbon practices - Enhanced ability of communities and economic sectors to respond to and recover from climate-induced disasters, risks and health impacts - Climate-resilient and low-carbon energy, transport and industrial systems promoted - Urban environment with more public spaces, improve public services, and preservation of cultural heritage - A robust environment for sustainable trade and investment to grow inclusively
CROSS-CUTTING: Reforming public institutions for effective and equitable policy implementation		
Improving effectiveness, transparency and accountability of public-sector institutions.	Strategy 1.1 (Actions 2, 6) Strategy 1.2 (Actions 2, 5) Strategy 1.4 (Actions 1, 3, 5)	<ul style="list-style-type: none"> - Strengthened foundation of Myanmar as a federal, democratic Union - Effective public service delivery (also at the sub-national level) - Balanced economic development across States and Regions - Integrity and accountability enhanced across our public sector - Increased transparency, predictability and accountability of government processes - Strong and transparent public financial management

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