

Executive Summary: Myanmar Country Strategy Note

Economic and Political Context

Decades of military rule in Myanmar came to an end in 2011, with the arrival of a new administration led by President U Thein Sein and the Union Solidarity and Development Party (USDP). This administration remained in office until 2015 when following the first free, fair, and widely contested elections in several decades, the National League for Democracy (NLD), led by Daw Aung San Suu Kyi, swept into office. Most recently (in the November 2020 elections) the NLD has been returned to office for another five-year term with an even stronger parliamentary majority.

Since 2011 successive Government of Myanmar (GoM) administrations have promoted liberalization and economic reforms which have been outlined via a range of plans and policy documents, including the on-going Myanmar Sustainable Development Plan (MSDP) as well as the complementary COVID-19 Economic Relief Plan (CERP). These reforms have helped drive rapid economic growth (5-7% annually until 2020) as well as significant reductions in poverty from 48% in 2005 to 25% in 2017. But the economic and social impacts of the COVID-19 pandemic have been substantial. Compared with neighbouring countries, per capita income in Myanmar is also still relatively low and the country remains in the medium human development category with a ranking on the Human Development Index (HDI) of 145 out of 189 countries.

In addition, Myanmar still suffers from ethnic conflict as dramatically illustrated in October 2016, when the killing of several police officers by the newly emerged Arakan Rohingya Salvation Army in Rakhine State led to a crackdown by the military and 725,000 civilians fleeing to refugee camps in Bangladesh. In spite of the fact that peace and reconciliation has been a central priority of the NLD administration, fighting has also intensified in some other parts of the country and weaknesses in the peace conference process and fundamental disagreements between Ethnic Armed Organizations (EAOs), the military and the government have meant that little progress has been possible.

Looking ahead Myanmar's growth potential remains strong due to its abundance of natural and agricultural resources and a highly favourable location between two of the world's largest economies. But realizing that potential in full and particularly the potential for inclusive growth will depend very much on progress with respect to peace and reconciliation.

In the more immediate term agriculture and rural development will likely be the foundation for inclusive growth and will require continued efforts to address constraints in such areas as land governance, agricultural marketing, and credit availability as well as greater investments in irrigation, roads and other supporting infrastructure.

The growth potential in many other sectors (for example garments, wood products and agribusiness) is also strong but will require improvements in infrastructure, investing in human capital and adopting new technologies and innovations (building for example on the tremendous success Myanmar has had in rolling out mobile phones and mobile money). It

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will also be important that urbanization is properly managed to drive productivity and growth and to not end up as a major missed opportunity.

Lastly, institutions matter; simplifying complex legislation and procedures and building the capacity of institutions in both the public and private sectors will remove constraints on growth. While less understood, the political economy of Myanmar, with a small number of highly influential and economically powerful elites, could also act as a brake on growth.

Country Programme:

Overview

IGC's engagement in Myanmar began in 2012 with a visit by IGC's Director Paul Collier and two subsequent visits by IGC Director Robin Burgess. Since its establishment, the Myanmar programme has been highly successful, having established a wide range of close working relationships with government counterparts and playing a significant role in supporting the economic reform efforts of successive administrations. The Myanmar team includes Country Director Ian Porter, Lead Academic Rocco Macchiavello, Myanmar-based Country Economists, an Office Manager, and research and policy associates and project managers as well as internationally based researchers and academics.

IGC Myanmar: Recent Work and Impact

"Economic Governance" has become one of the most prominent themes in IGC Myanmar's portfolio. Responding to requests from policymakers and other stakeholders and together with other partners, IGC Myanmar has been engaged in major independent evaluations of the Maternal Child Cash Transfer (MCCT) Programme and more recently the National Community Driven Development Project (NCDDP) as part of its broader work to support GoM in improving the availability and quality of public services. In the area of 'political economy', IGC Myanmar has provided analytic support to the EAOs Economic Working Committee around the economic dimensions of the peace process and to the Ministry of Natural Resources and Environmental Conservation (MONREC) on artisanal jade mining; and in 2019 organized a large-scale event on State Fragility in collaboration with the Institute for Strategy and Policy (ISP). IGC Myanmar has also provided support to the Union Internal Revenue Department (IRD) of the Ministry of Planning, Finance and Industry (MOPFI) on effective income tax rates as well as helped deepen understanding around the critical issue of informal taxation in Myanmar and responded to a range of requests from the Planning Department of MOPFI, including on social discount rates.

IGC Myanmar has developed diversified clusters of work across the "Trade and Productivity" theme. IGC has achieved particular success in its work in the Ready Made Garments (RMG) sector, including through the digitisation of an integral component of the import license process. The project was conducted in partnership with the Ministry of Commerce (MOC) and the Myanmar Garment Manufacturers Association (MGMA) and launched in 2018. IGC's work in the garments sector has also included work on industrial relations and minimum wages in collaboration with the Confederation of Trade Unions of Myanmar (CTUM). A second major area of IGC's Trade and Productivity work has been on the Thilawa Special Economic Zone

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(SEZ) including the completion of firm and worker surveys, the digitization of the import license application process and research on the potential spillovers of the SEZ including work on language frictions as a major barrier to knowledge transfers. On export promotion, IGC Myanmar has also concluded a survey of rice mills in Myanmar in collaboration with the Myanmar Rice Federation (MRF) to support MOC in upgrading quality in the sector.

IGC Myanmar's recent work in "Energy and Environment" has focused on access to electricity and electricity pricing. On access to electricity and at the request of the Ministry of Electricity and Energy (MOEE), IGC Myanmar developed a large-scale research project which is focusing on optimising electricity access through an update of the national grid expansion plan. IGC Myanmar was also closely involved with the electricity pricing and tariff reform process through policy briefs and presentations as well as frequent training of MOEE officials ahead of the major reform implemented in July 2019.

In the area of "Cities and Infrastructure", and at the request of the Mayor of Mandalay, IGC Myanmar conducted a study to better understand demand and funding for piped-water supply in the city, and supported the Mandalay City Development Committee (MCDC) to better understand key characteristics of the city such as: urban prices, commuting habits and employment. IGC Myanmar also engaged closely with the Revenue Department in Mandalay to improve its fiscal management and tax compliance.

IGC Myanmar: Outlook

Going forward, IGC Myanmar has the following objectives: (i) provide speedy, high quality and relevant responses to requests for policy advice and support in areas of our comparative advantage; (ii) work effectively and efficiently with key ministries and their advisors and with other stakeholders on the more fundamental constraints to productivity and inclusive growth which impact Myanmar's prospects in the medium and longer term; (iii) work in a way that builds ownership and capacity and focuses more directly on implementation to increase impact; and (iv) improve how we are organized and communicate so that we can work more effectively and efficiently to maximize our impact at minimum cost.

IGC Myanmar intends to stay engaged in all four of IGC's thematic areas and to maximize our impact by ensuring that we: (i) engage only where there is a clear demand for IGC support; (ii) can work effectively with other partners and build capacity; (iii) can leverage existing IGC knowledge and expertise; and (iv) have the capacity, where needed, to undertake more in-depth research.

Economic Governance will remain a major component of the work programme and will focus on at least four sub-themes which IGC feels are important for structural transformation and inclusive economic growth, and are closely aligned with the MSDP:

- **National Economic Development Strategy and Policies** - IGC Myanmar will continue to engage with MOPFI (especially the Planning Department) on issues related to national development planning, and more specifically with the

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implementation of the MSDP and CERP as well as the follow-up resilience and recovery plan now being finalized.

- **Public Sector Service Delivery** - IGC Myanmar will continue to engage with and further consolidate the relationships built with various government agencies (e.g. Department for Rural Development of the Ministry of Agriculture, Livestock and Irrigation (MOALI), the Project Appraisal & Progress Reporting Department of MOPFI, and the Department of Social Welfare of the Ministry of Social Welfare, Relief and Resettlement (MSWRR)) in the context of how best to build on both the MCCT and NCDDP evaluations.
- **Public Finance and Taxation** - IGC Myanmar will remain engaged on the tax policy front through the Tax Policy Working Group and further develop the existing relationship with the IRD to identify areas to provide support on both tax administration and tax policy.
- **Political Economy** - IGC Myanmar will increase focus on the broader political economy dimensions of reform in Myanmar and the peace process in recognition of the critical importance of better integrating these issues with the broader development agenda.
- **Organisational Effectiveness/Institutional Capacity Building** - IGC Myanmar intends to explore with concerned government agencies their potential interest in working with IGC on this crucial dimension of the overall issue of Economic Governance in Myanmar. In addition, the programme will continue carrying out research and other analytic work in a manner that enhances the capacity of government officials.

Trade and Productivity will also remain an important area of IGC's work. Proposed activities are in sync with the MSDP, particularly with the goal of supporting job creation, private sector-led growth, and its focus on the rights and productivity of Myanmar's human resources and supporting the diversification of Myanmar's exports from natural resources to more labour-intensive industries that can engender more inclusive growth. The two areas of expected focus are:

- **Trade and Investment incentives** - IGC Myanmar will respond to requests for research from the MOC and the Thilawa SEZ Management Committee (TSMC) as well as private sector associations (e.g. MGMA, MRF) and trade unions. These are likely to include: export facilitation and promotion; development of a competitive private sector; SEZs; and workplace communications and industrial relations. IGC Myanmar will consolidate and expand work in the garments sector and carry out further work in the rice and other agricultural sectors.
- **Financial access** - IGC Myanmar is exploring the possibility of providing further support on issues of agricultural value chain finance, where there is significant scope for evidence-based policy to help close the country's agricultural lending gap (recently estimated at over 90 percent).

Energy and Environment is an important area of IGC's work in Myanmar as it is of critical importance to Myanmar's future development. It is also an area where IGC Myanmar has built

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strong partnerships with concerned government ministries (especially the MOEE) and other development partners. Focus areas are expected to include:

- **Access of households, communities and businesses to electricity-** IGC Myanmar intends to continue undertaking in-depth research on the main barriers to connecting to both grid and off-grid sources, and what policies and programmes the government should put in place to facilitate optimal access. This research has strong academic merit and important policy implications and a strong potential of becoming a flagship IGC focus area.
- **Electricity finances** - is a major but politically challenging reform. IGC Myanmar will continue to play a technical support/peer review role on the politically challenging reform of electricity tariffs, building on the work already done and the major reforms that have recently been made. Going forward, IGC Myanmar will work closely with the government to analyse the effects of tariff reform on affordability, consumption, and revenues as well as work on other dimensions of electricity finances.
- **Environment:** Myanmar faces serious environmental challenges, being the second-most vulnerable country in the world to the effects of climate change, particularly droughts, floods, and cyclones. IGC Myanmar intends to explore with relevant stakeholders the potential niche for IGC on issues of the environment. Potential topics that could be of interest to Myanmar policymakers include: the exposure of critical infrastructure to climate risk, the impact of grid expansion on deforestation, temperature effects and schooling outcomes, the link between mining and deforestation, and the anticipated effects of new power generation capacity on urban air quality.

Cities and Infrastructure is an emerging area of work where there is clear potential for IGC to add value. While Myanmar is in an early phase of urbanisation, the country has seen a rapid transformation in the recent past with approximately 30 percent of its population now living in urban areas. IGC Myanmar will continue with the overall approach of engaging directly with municipal authorities of cities focusing on Mandalay, the second largest urban centre in Myanmar, and gradually expanding to other cities. The two areas of expected focus are:

- **Mandalay:** IGC Myanmar will continue to engage with the MCDC to help them improve tax compliance and look at the implications of COVID-19 for revenues and expenditures. IGC Myanmar is also discussing with MCDC a broadening of engagement to include work on organisational effectiveness/institutional capacity building.
- **Yangon and Other Cities:** IGC Myanmar will continue to explore the potential for engagement with the Yangon City Development Committee (YCDC) and with some of Myanmar's secondary cities.

Country Team's Inclusive Growth Strategy

While Myanmar has made important economic progress since beginning reforms in 2011, the benefits of economic growth and development have not always flowed equally – for example

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to rural populations and marginalized ethnic groups. Recognizing that for economic growth to be sustainable, it must also be inclusive, IGC Myanmar intends to continue to make inclusive growth a central consideration of its work by working to better understand the differentiated impacts of economic policy on traditionally marginalized groups.

For instance, in the area of Economic Governance, IGC Myanmar intends to continue working to integrate wider political economy dimensions, such as the differentiated impacts on marginalized ethnic groups, into the economic reform agenda. Similarly, in furthering our work on community access to electricity, IGC Myanmar hopes to further stimulate electricity uptake of the marginalized through “power to the poor” measures.

Partnerships, Policy Engagements and Collaborations

IGC Myanmar has built strong working relationships with MOPFI, MOC and MOEE and intends to continue fostering relationships with a number of other parts of the national government including the National Economic Coordination Committee (NECC), the Development Assistance Coordination Unit (DACU), MOALI, MONREC and MSWRR the as well as the Ministry of Investment and Foreign Economic Relations (MIFER) and the Ministry of Construction.

IGC Myanmar has also broadened and deepened relationships with other partners including: state/regional and municipal governments (such as MCDC); the private sector and trade unions; EAOs; policy think tanks including the Myanmar Development Institute (MDI), the Centre for Economic and Social Development (CESD) and ISP; academic institutions (such as the Yangon School of Political Science); and international organizations, including both multilateral and bilateral development agencies (particularly the UK Foreign, Commonwealth and Development Office (FCDO) which is IGC’s main financial supporter and the World Bank), as well as a range of international organizations including Innovations for Poverty Action (IPA), the Asia Foundation (TAF) and the Natural Resources Governance Initiative (NRGI) .

Existing relationships with stakeholders and partners by theme

Theme	Stakeholders and Partners
Cross-cutting	MOPFI, MOALI, MIFER, Mandalay Regional Government, MDI, CESD, FCDO, World Bank, IPA
Economic Governance	DACU, MONREC, MSWRR, EAOs, Joint Ceasefire Monitoring Committee, ISP, Renaissance Institute, Yangon School of Political Science, USAID, TAF, NRGI
Trade and Productivity	MOC, TSMC, Directorate of Investment and Company Administration, MGMA, MRF, CTUM, SMART Textiles and Garments, International Food Policy Research Institute (IFPRI)

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Cities and Infrastructure	MCDC, YCDC, Ministry of Construction, Yangon Heritage Trust, UN Habitat, ADB
Energy and Environment	NECC, MOEE, KfW, GIZ, Norway, KOICA

Country Covid-19 Strategy: Response and Recovery

Response Strategy

Myanmar has already experienced significant economic shocks as a result of the COVID-19 pandemic and is currently facing a second wave of infections. In response in April 2020 GoM introduced : “Overcoming as One: COVID-19 Economic Relief Plan” (CERP) - a plan that has a broad scope and effectively covers the main areas for which economic intervention is needed. Drawing on its experience in implementing CERP, GoM is now finalizing a follow up resilience and recovery plan.

To support GoM in coping with the crisis in a context of extreme uncertainty, IGC Myanmar has adopted a two-pronged response strategy. First, we have been providing informal and more general advice to senior policy makers and economic advisors on a number of issues in relation to the formulation and implementation of CERP, including cash transfers and employment programmes. We also supported the preparation of an overall report entitled “Coronavirus policy response needs and options for Myanmar”, which was very positively received and have now finalized a follow up report entitled: “Coping with COVID-19: Protecting Lives, Employment and Incomes in Myanmar”.

Second, and building on IGC Myanmar’s on-going work with particular government agencies and other stakeholders, we have been responding to specific requests for support. One project is studying the impact of COVID-19 on workers and firms in the garment, construction and hotel sectors. A second project is utilizing the same sample frame of rural villages used for the evaluation of the NCDDP to collect post-pandemic survey data on village economic and social activity. We are also discussing with the MOC using trade data to monitor the impacts of COVID-19 on different sectors of the economy and together with IFPRI are using a phone-based survey of mills to assess the impact of COVID-19 on the rice sector.

Recovery Strategy

In discussing how IGC Myanmar can best support GoM in its recovery strategy, counterparts were very clear that COVID-19 response work should be in addition to and not instead of continuing with the already agreed work programme. The core areas of IGC Myanmar’s country strategy and work programme remain fundamental to structural transformation and economic growth in Myanmar and its recovery from the COVID-19 pandemic. These include:

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- Reforming the country's structure of trade and investment incentives and improving financial access which are critical to productivity and growth in the private sector and the diversification of exports
- Increasing access to affordable electricity which is a key component of GoM's overall programme to address the massive deficit in infrastructure that currently constrains growth.
- Helping Mandalay improve its effectiveness and efficiency as Myanmar's second largest city; this will be an important contributor to the rapid urbanization and increased efficiency of the Myanmar economy.
- Enhancing the overall effectiveness of the government in delivery of public services and effective mobilization and use of financial resources; this will contribute to both rapid and equitable growth.
- Continuing work in the area of the political economy - due to its potential to help ethnic minorities and other marginalized groups both contribute to, and benefit from, the structural transformation and growth of the Myanmar economy.
- Supporting GoM in enhancing its overall strategy for structural transformation and inclusive economic growth in light of experience gained in coping with COVID-19; this is expected to include work on: industrial policy in a post COVID-19 world; revisions to GoM's social protection strategy in light of increased understanding of how to best support vulnerable households; and the potential for further decentralization (including fiscal decentralization).