

Executive Summary: Myanmar Country Strategy Note

1. Country Context

In November 2015, the National League for Democracy (NLD) swept the first free, fair, and widely contested elections in several decades, securing a majority in Parliament. Following a smooth transition of power, the new government assumed office in April 2016.

National peace and reconciliation has been an early priority of the new administration. However, initial peace conferences have been unable to initiate progress due to weaknesses in the process and fundamental disagreements between signatory ethnic armed groups, the military and the government. With respect to economic reform, some notable measures have been introduced (in some cases building on initiatives of the previous administration), such as: a new investment law; a revamped companies law; the introduction of mobile financial services; and implementation of a range of sector and thematic strategies. The government has also been effective in improving fiscal and monetary discipline. However, many stakeholders believe that the government still needs to provide greater clarity, specificity and communication on its economic reform priorities and effectively integrate its ongoing initiatives into a broader vision for the country's future economic development.

The economy, while still performing well in relative terms, has not yet realised its full potential. The growth rate has fallen (from 7.3% in 2015-16 to 6.5% in 2016-17) but is expected to pick up to 7.6% this year. Approved FDI figures have recovered in the last year but are still below 2015 figures. The currency has stabilised after a large depreciation in 2016. While there are many factors accounting for these dynamics, such as the economic damage from flooding, policy uncertainty has been a contributing factor. These uncertainties and challenges reflect in part the reality that comes with a significant transition in government, especially given the historical context for Myanmar. In addition, the recent crisis in northern Rakhine, resulting in an exodus of over 700,000 from the state, has necessitated the government's attention while drawing international condemnation.

Despite these challenges, it remains important for the government to further develop and implement a reform strategy that can enable Myanmar to realise its strong growth potential. Underpinning this strong potential is the country's abundance of natural and agricultural resources and a highly favourable location. Successful growth in these areas requires continued efforts to address constraints in such areas as land governance, agricultural marketing, credit availability and greater investments in irrigation, roads and other supporting infrastructure.

Myanmar has a lower diversity of exports and lower economic complexity compared to its neighbours; it specialises in producing few, relatively simple products. Removing constraints to the development of the non-commodity sectors would result in great potential in sectors such as garments, wood products, and agribusiness.

A more fundamental driver of growth will come from much-needed improvements in productivity across all factors of production. Two immediate opportunities stand out: investing in human capital and making use of technology and opportunities for leapfrogging. Skilled labour is in short supply as investments in health and education have been far below ideal levels. The chance for Myanmar to learn from other countries, notably in adopting new technologies and innovations such as mobile money, should also be seen as a tremendous opportunity.

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Lastly, institutions matter; simplifying complex and restrictive legislation and procedures and building the capacity of institutions in both the public and private sectors and will remove constraints on growth. Myanmar still scores poorly across the board on Doing Business indicators (ranked 171 in 2018). Strict rules on changing land use limit options for rural enterprises or agribusiness. Financing remains collateral-based and contract enforcement is weak. While less understood, the political economy of Myanmar, with a small number of highly connected and influential elites, could also act as a drag on growth.

2. IGC Myanmar Country Programme

The Myanmar program has been successful in the first two phases in establishing a wide range of close relationships with government and in achieving impact. IGC has been in Myanmar since 2012 but the program has ramped up considerably in the last two years and now covers all four of IGC's themes: state effectiveness, firms, energy and cities. From 2015-16 to 2016-17 we have almost doubled the number of impact cases¹ from 8 to 15. In 2017-18 we expect the number of impact cases to increase further. Notable impact cases have been our work on supporting the Thilawa Special Economic Zone (SEZ), rapid-response briefs on job creation and inflation, and evaluating maternal and child cash transfers (MCCTs). The IGC country team currently includes three full time country economists and three full time project & research managers in addition to a part-time country director and a part-time lead academic.

3. Thematic Areas

The broadening of our program to cover all four IGC themes is a reflection of the wide range of challenges and opportunities facing the country, the demand for policy advice across all four themes, and the fact that at this stage in Myanmar's development much of the demand for policy advice can be met from IGC's accumulated knowledge and experience. Given this context, we intend to stay engaged in all four themes.

Our work in the area of firms and private sector development is already addressing a number of the critical constraints to productivity growth in both the commodity and non-commodity sectors, especially with respect to trade and investment. Our work in state effectiveness is helping address some of the institutional constraints on growth, including broader political economy issues; and while we will not get directly involved in the specifics of legislative and regulatory reform we do expect to broaden our engagement in this area. Finally, our new work in energy and cities will focus on some of the challenges and opportunities in these two areas that are critical for future productivity and growth.

Within each theme we will follow a rigorous approach to determine what issues we focus on and how we go about doing our work in order to maximise our impact. First, we will be selective in the issues we focus on within each theme, taking into account the demand from policymakers, links to government strategies, existing IGC expertise, and complementarity with other development partner (DP) efforts. Second, we will be systematic in adapting our approach to address particular issues. In some cases, the demand will be for quick turn-around policy notes and briefs that relate IGC's global knowledge and experience to

¹ IGC employs a defined set of impact levels to measure the extent to which our projects influence policy. The cited figures reflect the number projects which directly influenced policy discussions and/or policy decisions within government.

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Myanmar's specific context (recent examples include policy notes on job creation and inflation and policy briefs on energy and urban development); in other cases, responding effectively to demand will take more time and require additional analysis of the Myanmar situation (including carrying out surveys) – as for example with our work in fiscal decentralisation, social protection, SEZs, electricity access, and urban development. Third, we will take into account the critical and cross-cutting dynamics of the overall reform process in Myanmar at this stage in its transition. These include: the opportunities for quick wins as well as their importance in building momentum and support for reform and maximising development impact; the potential for leapfrogging provided by new knowledge and technologies that were not available to more developed countries at a similar stage in their transitions; the critical need for institutional reforms and capacity development; and the importance of increasing the availability and improving the quality of data and information.

Looking forward, the key engagement areas under each theme will be:

(a) State

Supporting the government's overall national economic development strategy: Reflecting the very strong partnerships we now have in place with the top advisors to the government and with the Ministry of Planning and Finance (MOPF), we will continue to focus on issues related to the government's overall national economic development strategy and policies. This builds on previous work requested by the Planning Department on LDC graduation, inflation, job creation, trade policies, and migration. We will also work at the subnational level on development strategies for states and regions, with a particular focus on Mandalay, Yangon and Kachin.

Public finance and taxation: Stemming from a core area of IGC expertise, we will focus on issues of public finance and taxation, working with MOPF and other DPs to ensure effective implementation of the government's public financial management reform program. Notable topics include fiscal decentralisation (with the Budget Department of MOPF and at the subnational level), digitising tax records of local development affairs organisations (DAOs), refining a model for revenue projections with the Internal Revenue Department (IRD), and other ways in which we can help with tax policy and design.

Political economy: Our focus on political economy issues and the peace process will increase in recognition of their critical importance. We will continue to engage with the government as well as with ethnic armed organisations (EAOs) around fiscal decentralisation and natural resource management. We will also expand our work on the political economy of investment and further develop our work program around issues of fragility and conflict, building on our two on-going studies on how economic and political structures evolve.

Public sector service delivery: Public sector service delivery is another critical issue for Myanmar and another area of IGC expertise. We will remain engaged but restrict our engagement to niche areas where IGC has particular expertise and we can complement the work of other development partners (DPs) such as use of new technologies and procedures and the role of targeted programs. This will include building on our on-going research projects in health and nutrition, including a major on-going evaluation of a MCCT program, and supporting the Development Assistance Coordination Unit (DACU) in undertaking an independent evaluation of the National Community Driven Development Project.

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(b) Firms

Trade and investment incentives: Reflecting our strong partnership with the Ministry of Commerce (MOC), we will remain engaged on trade and investment incentives. A particular focus of our work will continue to be SEZs including the government's approach to the regulation, development and management of such zones as well as the opportunities and challenges facing the Thilawa SEZ. We also intend to increase our engagement on other dimensions of trade and investment including export facilitation and export promotion. Other areas of focus will be industrial relations in the garment sector, the formalisation of the artisanal jade sector and the impact of crony capitalism.

Financial access: We intend to focus on two overlapping areas where IGC has built up considerable experience in other countries. One area is mobile financial services where huge opportunities are now emerging. We expect to engage at the nexus of agricultural finance and mobile money through investigating how new forms of mobile financial products can enhance the productivity of smallholder farmers. Similarly, with a geographic focus on Kachin State we will collaborate with local organisations to strengthen the agricultural finance sector, starting with microfinance organisations.

(c) Energy

Access of households, communities and businesses to electricity: IGC will undertake in-depth research on the main barriers to connecting to both grid and off-grid sources and what policies and programs the government should put in place to facilitate optimal access. In this regard, there is growing interest from other partners (including KfW) in working with IGC to develop projects related to both grid and off-grid sources of electricity.

Electricity pricing: The need for electricity pricing reform is serious but major political challenges are present. IGC will play a technical support/peer review role for a tariff reform study managed by the Ministry of Electricity and Energy (MOEE) and to be undertaken by internationally recruited consultants with financial support from the World Bank.

(d) Cities

Development of both the city and region of Yangon: We are discussing with the Yangon City Development Committee (YCDC) and the Yangon Regional Government how best to move forward. One area of work is coalescing around land and housing issues, specifically the development of a land valuation model for Yangon and research on the constraints in land and housing markets. Other topics include research on migrant workers and an assessment of the economic value of heritage preservation.

Supporting the government's overall strategy for urbanisation: We are holding further discussions with both the Department of Urban and Housing Development (DUHD) and MOPF on the government's overall strategy for urbanisation including urban-rural linkages and migration, how to approach spatial allocation and land use, the role of secondary cities as sources of future economic growth and how cities can be creators of decent jobs and new businesses. We will also discuss how best to deal with the downsides of urbanisation (congestion, contagion, poor housing, land/property disputes, governance challenges) and how best to finance cities.

4. Engagement Strategy and Collaborations

Two characteristics underpin our policy engagement and influencing strategy in Myanmar: (i) the high levels of international/donor activity in-country, often uncoordinated, and (ii) the highly centralised nature of decision-making. In our view, only by being flexible, reliable, responsive,

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and patient can an organisation like IGC develop a strong and effective relationship with the government. Flexibility, reliability and responsiveness mean that the country team expects to respond to a broad range of government requests from quick turn-around policy notes and briefs all the way through to major research projects.

Theme	Relevant Stakeholders and Partners
State	MOPF: IRD, Budget Dept.; Renaissance Institute; The Asia Foundation; EAOs; Mandalay Region Government
Firms	MOC; Thilawa SEZ Management Committee; Myanmar Garment Manufacturers' Association; Directorate of Investment and Company Administration
Energy	MOEE; KfW
Cities	YCDC; Yangon Region Government; DUHD; Yangon Heritage Trust
Cross-Cutting	Planning Department, MOPF; Central Bank; Department of Rural Dev.; DACU; MDI; Centre for Economic and Social Dev.; DFID; World Bank

Good relations have continued with important partners such as the Planning Department of MOPF while in the last year we have also developed new partnerships. New links with the Renaissance Institute (RI) and the Myanmar Development Institute (MDI) have helped us build ties with the new administration. In the last year, a strong relationship with the Urban Planning Division of YCDC has also been developed while our ties with MOC have deepened. Going forward we hope to build strong subnational relationships with a number of state and region governments, develop a closer relationship with MOEE, create stronger ties with local universities and researchers and broaden and deepen our connections with both multilateral and bilateral DPs.

In the context of our engagement and influencing strategy, the role of capacity building is a very important one for us. IGC is not a training institution and our presence in Myanmar is small so we cannot meaningfully impact on the overall capacity building needs of the country which are enormous. But IGC has the unique flexibility with its in-country presence and access to international researchers to tailor capacity building to the needs of those we are working with. This has been integral in our engagements with MOC and the Thilawa SEZ Management Committee, for example, and we have found that such exercises generate considerable trust and strengthen engagements for the future. Accordingly, we intend to integrate a capacity building component more systematically into our engagements with other government departments as well as with local think tanks and universities.

Lastly, sharing the findings of our policy analysis and research as they become available will play an important role in building IGC's presence in policy and development circles. To be successful requires tailoring our outputs and modes of dissemination based on the target audience. Broadly, two main strands form our communications strategy: (i) direct dissemination of policy analysis and research with key stakeholders in government and among DPs, and (ii) translating policy analysis and research findings into shorter articles for a wider public audience. Translating our work into Myanmar-language has been a recent initiative and is something which is critical for all main outputs going forward as it helps us maximise our reach and impact with a local audience.