

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font centered within a black square.

ASIAN DEVELOPMENT FUND (ADF)
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**Myanmar:
Progress and Remaining Challenges**

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CURRENCY EQUIVALENTS

(as of 15 October 2019)

Currency unit	–	kyat/s (MK)
MK1.00	=	\$0.0007
\$1.00	=	MK1,532

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ASEAN	–	Association of South-East Asian Nations
CBM	–	Central Bank of Myanmar
COL	–	concessional ordinary capital resources loan
CPS	–	country partnership strategy
FY	–	fiscal year
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
IDA	–	International Development Association
JFPR	–	Japan Fund for Poverty Reduction
MSDP	–	Myanmar Sustainable Development Plan
ODA	–	official development assistance
TA	–	technical assistance
TVET	–	technical and vocational education and training

NOTES

- (i) The fiscal year (FY) of the Government of Myanmar ends on 30 September (shifted from an April-March cycle in 2018). "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2019 ends on 30 September 2019.
- (ii) In this report, "\$" refers to United States dollars, unless otherwise stated.

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EXECUTIVE SUMMARY

Since 2011, after a long period of economic isolation, Myanmar embarked on a major economic, social, and political transformation. While it has enormous potential, it remains one of the poorest countries in Southeast Asia and is still affected by conflict. Among its population of 51 million and 135 ethnic groups, 32.1% lived below the poverty line in 2015, with serious regional disparities across the country. Myanmar's development challenges are significant and require sustained attention and support. Democratization as well as national peace building and reconciliation have proven to be lengthy and challenging processes. Meeting deficits in infrastructure and human capital, maintaining macroeconomic and fiscal stability, accelerating the reform process to achieve structural and institutional change, enhancing the business environment, improving capacities and governance standards, and addressing environmental and climate change issues are the daunting challenges that Myanmar faces.

Reforms underway but fraught with challenges. The government that took office in 2016 supports the reforms put in place by its predecessor, and is implementing a wide-ranging agenda of economic, social, and governance reforms in a consultative and participatory manner. Its vision for Myanmar's long-term development is to achieve inclusive and sustainable economic development, with national reconciliation, equitable development, protection of natural resources, and job creation as overarching goals. The government committed to achieving the Sustainable Development Goals and initiated a program to develop key indicators for timely progress monitoring and reporting. In achieving its vision, the government needs to make continuous efforts to resolve the ethnic conflicts that have been prevalent for decades or centuries in some parts of the country. It also needs to invest adequately in strengthening the capacity of various ministries, agencies, and institutions dealing with public service delivery. In parallel with efforts to strengthen and streamline country systems, the government needs to simplify the administrative and operational procedures for official development assistance projects.

Importance of ADB's engagement. Since reengaging with Myanmar, the Asian Development Bank (ADB) has established a presence in the country and contributed to building institutional capacity, launching policy reforms, and financing and implementing strategic investments. Building on the interim country partnership strategies for 2012–2016, the new country partnership strategy for 2017–2021—with continued exceptional financial and technical support—is the anchor for ADB's support of Myanmar's development agenda. ADB's assistance focuses on infrastructure improvement, education and training, community empowerment, climate change response and disaster risk management, business climate enhancement and private sector development, capacity strengthening, and regional cooperation and integration. ADB adopted a conflict-sensitive approach to ensure that the benefits of its projects reach all in a fair and equitable manner.

Volume of ADB support. Recognizing Myanmar's significant development needs as well as strong country ownership and aspirations, ADB donors agreed to continue the exceptional support to Myanmar under the 11th replenishment of the Asian Development Fund (ADF 12) for 2017–2020, which was reviewed and confirmed during the ADF 12 midterm review meeting (27–28 February 2019). Donors recognized that continued strong ADB assistance will be required if ADB support is to be meaningful in maintaining the reform momentum, reducing the high poverty rate, improving connectivity, overcoming power shortages, and building human capital.

Continuation of support essential. Continued strong support will be critical for a peaceful, prosperous, inclusive, and democratic Myanmar in light of the challenges faced by the country. Myanmar has a unique opportunity to build on existing foundations for a brighter and more prosperous future. Inclusive and sustainable socioeconomic development is one of the most important objectives for the country, and also the priority of ADB assistance, which is directed at the economic and social transformation process, and helps tackle widespread development challenges as the country finds ways to resolve long-standing conflicts. In this context, continued strong ADB assistance for an amount comparable to ADF 12 would enable ADB to help Myanmar maintain its reform momentum, reduce soft and hard infrastructure gaps, and build knowledge. It would contribute to sustainable progress in Myanmar's historic transformation and help achieve the shared goal of a peaceful, prosperous, inclusive, and democratic country.

I. INTRODUCTION

1. Myanmar has undertaken significant reforms to stimulate economic growth since its liberalization in 2011. It (i) revamped the foreign exchange system; (ii) transformed telecommunications; (iii) sharply increased government budget allocations for education, health, and infrastructure; and (iv) overhauled the legal, regulatory, and institutional frameworks for foreign investment, for the finance and agriculture sectors, and for property rights over farm land. Political reforms culminated in democratic elections in November 2015.

2. These political and economic reforms prompted a positive response from the international community. The Paris Club wrote off or restructured \$15 billion of external bilateral debt in 2013 after the Asian Development Bank (ADB) and the World Bank had their arrears cleared and resumed lending to Myanmar. Development partners from around the world brought in external financing and technical assistance (TA). The United States gradually eased sanctions and almost completely removed them in October 2016, while the European Union lifted its sanctions altogether.

3. ADB reengaged with Myanmar in 2012 and provided \$2 billion in sovereign and nonsovereign loans and grants during 2013–2018. Donors recognized that additional concessional resources were required if ADB was to assist Myanmar in maintaining its reform momentum, reducing the high poverty rate, improving connectivity, overcoming power shortages, and building human capital. This enabled ADB to increase support to Myanmar during the 11th replenishment of the Asian Development Fund (ADF 12) to \$1.532 billion, compared with \$993 million in ADF XI. ADB assistance was provided through concessional ordinary capital resources loans (COL), as the country was classified at low risk of debt distress in 2017–2018. Since 2019, Myanmar has been classified as “International Development Association (IDA) gap country” and is eligible for ADB’s COL only, regardless of risk of debt distress.¹

4. During the ADF 12 midterm review meeting, donors welcomed ADB’s operations and conflict-sensitive approach in Myanmar. They also acknowledged ADB’s strong collaboration and partnership with other development partners and civil society, and ADB’s leadership in various sectors. Several donors emphasized that Myanmar’s capacity to manage and absorb official development assistance (ODA) is low but acknowledged the overwhelming need for stable sources of finance. The objective of this paper is to assess remaining development challenges and achievements, efforts and progress made by the country, ADB’s strategic directions and responses as well as results, and further development needs and demand for ADB assistance under ADF 13. Specific proposals for resource allocation will be discussed in a separate discussion paper: Strategic Directions and Resource Allocation Framework.²

¹ Gap countries have gross national income per capita above the operational cutoff for IDA eligibility for more than 2 consecutive years and are assessed as such by IDA. The operational cutoff for IDA eligibility on or after July 2019 is 2018 gross national income per capita of \$1,175, using the Atlas methodology.

² ADB. 2019. *ADF 13 Strategic Directions and Resource Allocation Framework*. Paper prepared for the ADF 13 replenishment meeting. Philippines. 5–7 November.

II. MYANMAR'S DEVELOPMENT CHALLENGES AND ACHIEVEMENTS

A. Country Context: Political, Economic, and Social Development

1. Political Developments

5. Myanmar has gone through significant transitions since 2011—from decades of direct military rule to a democratically elected government, from central planning toward an open market economy, and from active conflicts in several ethnic states to a managed peace process and relative stability in most parts of the country. Development partners resumed country operations, and most of the international sanctions were lifted. Successive governments initiated wide-ranging economic, social, and governance reforms. These stimulated economic growth and led to a restructuring of the economy, with improved social indicators. The government has an opportunity to leverage the country's strengths, including abundant natural resources, a large and youthful population, and a sizable and largely untapped market. Myanmar's strategic location at the crossroads of Asia, with 40% of the world's population living in neighboring countries, offers substantial benefits for Myanmar and the region.

6. Conflicts broke out in western parts of the country in 2017, while longer-running fighting in the north and east abated somewhat in 2019. The much-anticipated peace process did not progress in the rest of the conflict-affected areas. While in 2017, the United States State Department acknowledged "significant efforts" to combat human trafficking and forced labor in the country, the department's 2018 Trafficking in Persons Report downgraded Myanmar to tier three because of an increase in human trafficking in conflict areas³. While these events undermined the progress of the political and socioeconomic reform agenda, the government's move to amend the 2008 constitution by establishing a joint committee in the Union Parliament in February 2019, despite facing strong resistance, was seen as a move to get the democratic reform process back on track.

2. Macroeconomic Developments: Structure and Growth

7. The economy remains narrowly based, and growth is driven by exports of natural resources (mostly gas), manufacturing, and services. Agriculture, however, continues to be an important sector in Myanmar's economic structure, accounting for over 25% of GDP and almost 50% of employment. Industry accounted for more than 30% and services contributed over 40%. In manufacturing, garments and food products are the major outputs and exports.

8. The economy sustained a strong performance during the initial reengagement period, with an average annual GDP growth rate of 7.3% during 2011–2014, driven largely by private consumption and export demand (Table 1). The average growth rate slowed to 6.6% during 2015–2018 for both external reasons (e.g., sluggish global economic growth and volatile international commodity prices) and internal ones (e.g., impacts of adverse weather on agricultural production and plateaued foreign direct investment inflows). The country runs a deficit for fiscal and external balances of about 2%–6% of GDP, which ADB considers to be manageable. Inflation peaked at 11.4% in 2015, fell in 2016–2017, but started to pick up again in 2018 to 8.1% in June 2019, alongside moderately high growth and higher global fuel prices. The kyat depreciated significantly against the United States dollar in 2017 and 2018, reflecting the global currency fluctuations and weaker domestic market sentiments, but largely held its value in 2019.

³ United States of America, Department of State. 2018. *Trafficking in Persons Report*. Washington, DC.

Table 1: Myanmar Selected Macroeconomic Indicators

Item	2011–2014	2015	2016	2017	2018e
Real GDP growth (% per annum)	7.3	7.0	5.9	6.8	6.8
Inflation (% per annum) (period average)	4.1	10.0	6.8	4.0	5.9
Broad money (annual % change)	30.5	26.4	19.4	18.0	18.6
External current account balance (% of GDP)	(3.2)	(5.2)	(4.3)	(4.7)	(3.7)
Gross official reserves (months of imports)	2.6	3.5	3.8	3.5	3.2
Total external debt (% of GDP)	N.A.	15.9	14.4	14.4	16.2
Nominal exchange rate (kyat/\$) (end period)	938.0 ^a	1,219	1,259	1,356	1,382

() = negative, e = estimate, GDP = gross domestic product.

Notes: Indicators are presented in fiscal years. Since 2018, fiscal years end in September of that calendar year, having earlier ended in March of the following calendar year; fiscal years 2017 and 2018 thus overlap from October 2017 to March 2018.

^a Average for 2011–2014.

Source: Government statistics; Asian Development Bank. 2019. *Asian Development Outlook 2019 Update: Fostering Growth and Inclusion in Asia's Cities*. Manila.

3. Social Development

9. **Poverty reduction.** The Government of Myanmar is striving to pursue poverty reduction as its core agenda, as Myanmar remains one of the poorest countries in Southeast Asia. Of a population of 51 million with 135 ethnic groups, 32.1% lived below the poverty line in 2015.⁴ In FY2016, GDP in current dollar terms was estimated at \$63.3 billion, making per capita income about \$1,196.8 in current dollars and \$5,567 in purchasing power parity terms, versus \$6,070 in the Lao People's Democratic Republic (Lao PDR). In the human development index, Myanmar ranked 148th of 189 countries in 2017 (Lao PDR: 139th, Cambodia: 146th).⁵

10. However, when Myanmar embarked on democratization in 2010, the government made poverty reduction its core priority. This resulted in a significant reduction in poverty incidence. The World Bank estimated that the poverty rate decreased from 42.4% in 2009–2010 to 32.1% in 2015. The net total enrollment rate in primary education increased from 88% in 2010 to 94% in 2017, while total net enrollment rates rose from 52% to 71% in lower secondary education, and from 26% to 44% in upper secondary education during this period.⁶ Almost 90% of the working-age population is literate and numerate, nearly on a par with countries like Indonesia, Thailand, and Viet Nam. The government is also providing rural villages with access to clean drinking water sources. In 2017, nearly 80% of the rural population had access to improved water sources. Health indicators also generally show improving trends. The infant mortality rate decreased from 49 per 1,000 live births in 2010 to 38.5 in 2017, though the maternal mortality ratio declined only slightly from 205 per 10,000 live births in 2010 to 178 in 2015. Life expectancy at birth improved from 65.2 years in 2010 to 66.7 in 2017.

11. **Inequality.** These substantial improvements did not eliminate the regional disparities, however. The World Bank and the Ministry of Planning and Finance estimate that 38.8% of Myanmar's rural population is poor, versus only 14.5% in urban areas.⁷

⁴ ADB. 2018. *Basic Statistics 2018*. Manila.

⁵ United Nations Development Programme. 2018. *Human Development Report 2018*. Washington, DC.

⁶ Central Statistical Organization, World Bank, and United Nations Development Programme. 2018. *Myanmar Living Conditions Survey 2017: Key Indicators Report*. Nay Pyi Taw.

⁷ World Bank. 2017. *An Analysis of Poverty in Myanmar Part II*. Yangon.

4. Key Development Challenges since 2012

12. **Improving access to basic services, particularly in conflict areas.** Reducing income-based and broader forms of poverty is the single most important challenge that Myanmar faces and is exacerbated by difficulties in bringing public services to poor and vulnerable groups. Remaining poverty and significant regional disparity, particularly in some conflict areas, continue to daunt the country. Many ethnic groups in and around conflict areas have limited access to basic services or markets and feel marginalized. More livelihood support and community involvement through conflict-sensitive, consultative, and participatory approaches is needed.

13. **Ensuring infrastructure access and connectivity for robust economic growth.** Myanmar faces serious infrastructure constraints that hinder access to markets and social services and undermine the business environment. Only 40% of the road network is paved. Myanmar's power subsector is one of the least developed in Southeast Asia—only about 34% of the population has access to reliable electricity.

14. **Creating a labor force that meets labor market demands.** The scarcity of well-educated and skilled workers is exacerbated by an education system that does not focus on developing the widening array of skills needed in a modern economy.

15. **Building a dynamic and resilient private sector.** Myanmar's private sector is underdeveloped, and state-owned enterprises play a dominant role in many areas, including mining, power, telecommunications, and financial services.

16. **Mitigating environmental, climate change, and disaster risk.** Myanmar's population, especially in rural areas, relies on natural resources and the environment, which face pressures from population growth, commercial exploitation, climate change, and natural disasters.

17. **Promoting rural development and agriculture.** Almost 70% of the population and most of the poor and disadvantaged population reside in rural areas. Opportunities for broader integration into agricultural supply chains and the development of the rural nonfarm economy remain largely untapped. This is seen in uncompetitive returns to labor and land; rural infrastructure gaps; and limited access to markets, diversification of farming systems, and access to financial products suitable for agriculture activities.

B. Governance and Capacity Development

18. **Strengthening public sector institutions and governance.** The capacity of the public sector needs further strengthening, particularly in basic service delivery. Managing the shift from a centrally controlled and heavily agriculture-based economy to a market-led and diverse economy requires many structural and institutional changes, including (i) a movement of labor from agriculture to industry and services; (ii) economic diversification, and less reliance on resource extraction; (iii) resolution of legacy issues—involving enterprises owned by the state and linked to the military, and oligarchic businesses—while promoting equity, competition, and transparency; (iv) reduction of extensive infrastructure deficits; (v) reintegration with regional and global markets; and (vi) strengthening of institutions and capacity in the public and private sectors. The reform process is complex, requiring strong measures on transparency, accountability, and governance.

III. GOVERNMENT REFORM AGENDA

A. Structural Reforms

19. Since 2011, Myanmar has embarked on various socioeconomic reforms that focused on improving macroeconomic policies, public financial management, structural and institutional arrangements, and fiscal transparency. These reforms led to the establishment of new institutions (such as the Treasury Department and the Public Accounts Committee in the Union Parliament) as well as new practices and procedures.

20. **Companies Law.** The new Companies Law, which replaced the 1914 Companies Act, was enacted in December 2017. Drafted with ADB support, it provides new opportunities for both local and foreign companies, such as allowing foreign holdings of up to 35% in Myanmar companies. However, much remains to be done in strengthening the enabling business environment.

21. **Financial markets.** During 2015–2016, as part of the banking system reform, 13 foreign banks were allowed to open branches in Myanmar. The Central Bank of Myanmar (CBM) allowed foreign banks in August 2018 to provide import-financing services, and in November 2018, to provide loans and other bank services. In 2019, CBM is permitting local banks to lend without collaterals, while foreigners are allowed to invest up to 35% in local banks. On 25 March 2016, trading began on the Yangon Stock Exchange, where currently five companies are listed. However, foreign investors are not yet permitted to buy shares on the exchange. In the insurance segment, in April 2019, the government granted five foreign insurance providers the much-awaited licenses to operate in the country.

22. **Public financial management.** Steps were taken to achieve greater transparency in public financial management, such as the preparation of a medium-term framework. Future reforms will focus on further strengthening (i) budget planning and preparation capabilities to link budgets with policy priorities, (ii) the treasury function, and (iii) fiscal transparency, which includes reviewing the role of state-owned enterprises in budgets.

B. Macroeconomic Policy Response

23. **Exchange rate.** One of the most significant macroeconomic reforms was the unification of multiple exchange rates and the replacement of the official exchange rate with a managed floating rate set by the CBM through auction in April 2012. The new Foreign Exchange Management Law was approved in August 2012 with the intention of lifting all restrictions on transactions in the current account. In July 2018, the CBM took another step by removing the trading band of +/-0.8%. The recent fluctuations of the kyat are a proof that the reform is being implemented rigorously.

24. **Fiscal framework.** The government began fiscal reforms by modernizing the indirect tax laws (commercial tax and special goods tax), which improved taxpayer services and increased revenues. The authorities continue to improve tax administration and have been conducting public education on taxation. The reforms helped increase the ratio of revenue to GDP from 11.4% in FY2010 to 17.1% in FY2017. In July 2018, the government removed the withholding tax on domestic payments by the corporate entities of various ownerships for the purchase of goods and the supply of services, which was intended to support the cash flow and profit of businesses and possibly support the tax base in the long term. The second phase of tax reforms includes the Tax Administration and Procedures Law and the Income Tax Law, which are under discussion. While

a domestic government bond market is being developed, access to international capital markets is still limited for the public sector.

25. **Foreign and domestic investment.** In October 2016, the government enacted the Myanmar Investment Law to promote foreign and domestic investment, create jobs, and develop responsible investments without harming the natural and social environment. In 2018, the Myanmar Investment Commission launched the Myanmar Investment Promotion Plan, which aims to attract more than \$200 billion in the next 20 years with simplified, fast, and clear investment processes.

C. Myanmar Sustainable Development Plan

26. In August 2018, the government launched the long-term Myanmar Sustainable Development Plan (MSDP), 2018–2030. The plan has three pillars—peace and stability, prosperity and partnership, and people and planet. It is centered around five goals: (i) peace, national reconciliation, security, and good governance; (ii) economic stability and strengthened macroeconomic management; (iii) job creation and private-sector-led growth; (iv) human resources and social development for a 21st century society; and (v) natural resources and the environment for the prosperity of the nation. Its outcomes are being linked to the respective Sustainable Development Goal targets via a clear monitoring and evaluation framework.

27. Alongside the MSDP, the government is developing a “Project Bank,” which lists priority public investment projects to be funded by the national budget, ODA, and public–private partnerships. Following the announcement of the Project Bank Notification on 30 November 2018, the Public–Private Partnership Center was established under the Ministry of Planning and Finance. The government also plans to adopt a public investment program and multiyear budget framework.

D. Country Performance Assessment

28. As a result of the successful implementation of the first phase of comprehensive reforms, the overall score of Myanmar’s country performance assessment, which ADB carried out in 2018, improved to 10.9, from 9.3 in 2016. The improvement was most prominent in certain areas of economic performance and policy management (e.g., trade and business regulatory environment) and in building human resources.

IV. ADB’S STRATEGIC DIRECTIONS AND OPERATIONS IN THE COUNTRY

A. Re-engagement, country strategy, and operational overview

29. **Re-engagement and interim country partnership strategy.** In response to Myanmar’s initiation of wide-ranging reforms, ADB adopted a phased approach to re-engagement. After intensive preparatory analytical work and country dialogue in the first half of 2012, ADB approved an interim Country Partnership Strategy (CPS), 2012–2014 in October 2012.⁸ Alongside extensive consultations, ADB extended the interim CPS to 2016 to (i) align it with the incoming government’s 5-year national development plan (April 2016–March 2021), (ii) align it with the next ADF allocation cycle (2017–2020), and (iii) secure resource requirements for a full CPS.⁹ ADF allocation of \$993.0 million for 2013–2016 provided the backbone of ADB’s

⁸ ADB. 2012. *Interim Country Partnership Strategy: Myanmar, 2012–2014*. Manila.

⁹ ADB. 2014. *Interim Country Partnership Strategy: Myanmar, 2015–2016*. Manila.

reengagement and supported Myanmar in accelerating vital transitions and promoting inclusive growth.

30. **Country partnership strategy.** Building on this foundation, ADB's first full CPS for 2017–2021 (approved in March 2017) aligns with the government's new national development strategies and policies for promoting sustainable and inclusive growth, job creation, and poverty reduction.¹⁰ ADB operations focus on (i) improving connectivity and access to connect rural and urban areas and markets, and to link Myanmar with regional and global markets; (ii) strengthening human capital to promote a skilled workforce and employment growth, while enabling the poor and disadvantaged to participate in and benefit from economic growth; and (iii) promoting structural and institutional reforms to support the modernization of the economy. ADB's core focus on infrastructure (energy, transport, and urban development) is complemented by support to rural development and education and training to further promote inclusive growth. To support Myanmar's broader transformation, ADB operations emphasize capacity development and governance; private sector development; environmental, climate change, and disaster risk management; regional cooperation and integration; and gender equity.

31. ADB provided 13 loan projects totaling \$1,685.6 million (Table 2) to Myanmar between 2013 and 2018. ADB supported much-needed electrification through improved transmission and distribution; road connectivity through national and regional networks; secondary education, and technical and vocational training catering to the needs of industries; urban infrastructure and services in Mandalay; irrigation and other rural infrastructure development; and enhancement of the agricultural value chains. Figure 1 shows ADB assistance by sector since 2013.

¹⁰ ADB. 2017. *Country Partnership Strategy: Myanmar, 2017–2021—Building the Foundations for Inclusive Growth*. Manila.

Table 2: ADB Concessional Lending, 2013–2018

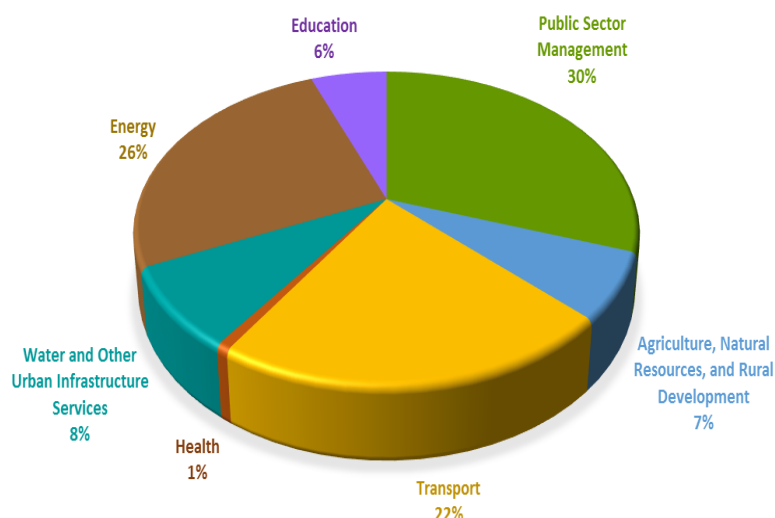
		(\$ million)	
Approval Date	Project Name		Amount
Committed in 2013			
14 Jan 2013	Support for Myanmar's Reform for Inclusive Growth		511.5
Committed in 2014			
6 Dec 2013	Power Distribution Improvement Project		59.7
Committed in 2015			
26 Nov 2014	Maubin–Phyapon Road Rehabilitation		74.6
Committed in 2016			
10 Nov 2015	GMS East–West Economic Corridor Eindu to Kawkareik Road Improvement		100.3
12 Nov 2015	Mandalay Urban Services Improvement		60.0
23 Nov 2015	Power Transmission Improvement		79.8
Committed in 2017			
28 Nov 2016	Irrigated Agriculture Inclusive Development		75.0
28 Nov 2016	Equipping Youth for Employment		98.5
22 Nov 2016	GMS Health Security		12.0
Committed in 2018			
31 May 2018	Third GMS Corridor Towns Development		80.0
9 Oct 2018	Climate-Friendly Agribusiness Value Chains		40.5
27 Nov 2018	GMS Highway Modernization		194.7
28 Nov 2018	Power Network Development		298.9
Total			1,685.6

GMS = Greater Mekong Subregion.

Note: The total does not sum precisely because of rounding.

Source: Asian Development Bank.

Figure 1: ADB Concessional Lending, 2013–2018



Note: Excludes the Support for Myanmar's Reform for Inclusive Growth program.

Source: Asian Development Bank

32. ADB's investment program is carefully designed to promote economic and social inclusion nationwide, including conflict areas, by augmenting employment and income opportunities for poor and disadvantaged groups. Incorporating conflict-sensitive and consultative approaches has proven to improve project quality and contribute to reconciliation (Box 1).

Box 1: Applying a Conflict-Sensitive Approach to Myanmar

Given that Myanmar is a country facing fragile and conflict-affected situations with a diversity of ethnic groups in conflict-affected areas such as Kayin, Kayah, Mon, Rakhine, and Shan states, the Asian Development Bank (ADB) is taking a conflict-sensitive approach in all projects.

The current peace process began in 2011 at the start of Myanmar's reforms under the previous government, which led to the signing of a nationwide ceasefire agreement by representatives of eight ethnic armed organizations, the government, and the military in October 2015. Since then, fighting between the military and non-signatory groups, and among ethnic armed groups, has erupted sporadically. In December 2018, the military announced unilateral ceasefire across northeastern Myanmar. Rakhine State was not included. The military extended the ceasefire in late April, June and August 2019. The ceasefire expired on 21 September 2019.

The national peace process did not progress as quickly as initially anticipated. Tensions increased in Rakhine State since 2016. Rakhine is one of the poorest regions of Myanmar, and the continued conflict represents one of the country's biggest challenges. Myanmar needs support from its development partners to address reconciliation and reconstruction in Rakhine state, as well as in other parts of the country where conflicts have been prevalent.

Persistent poverty with significant in-country disparities is the most prominent issue in Myanmar. Support for economic and social inclusion is the key priority in the government's national development agenda (such as the Myanmar Sustainable Development Plan) and is also a comparative operational advantage of ADB. Under a conflict-sensitive approach, ADB conducts due diligence, including site assessments, meetings with regional authorities, consultations with project- and conflict-affected communities and beneficiaries, and dialogue with local civil society organizations and representatives of signatory ethnic armed organizations.

ADB's conflict-sensitive approach seeks to ensure that ADB assistance will (i) not exacerbate on-going conflicts; (ii) contribute to Myanmar's inclusive development, ensuring equitable benefits to all communities; and (iii) not be disrupted by local conflicts. To achieve this, ADB project design includes measures to ensure that project-affected people of all ethnic groups are properly informed about the projects; involved in project decision making, particularly with respect to compensation for adverse impacts; and have equal opportunity to participate in and benefit from projects. Such measures include stakeholder communication strategies and implementation plans in appropriate local languages, resettlement and development plans, and proper implementation and monitoring of these plans, as articulated in project administration manuals.

ADB regularly develops and carries out training on knowledge of and approaches to fragile and conflict-affected situations, as well as safeguards, both in its headquarters and resident missions. ADB customizes development projects in Myanmar by adapting approaches based on an assessment of specific local contexts, leveraging strategic partnerships, and adopting gender-responsive approaches. Conflict advisory experts in Myanmar provide inputs to both development of country partnership strategies and formulation of projects.

Source: Asian Development Bank.

B. Country Allocations and Special Support

33. Myanmar has received a special allocation since ADB's re-engagement in 2013. ADB provided exceptional support to Myanmar during ADF XI. The special allocation covered the initial 2 years of reengagement (2013–2014) before being gradually phased out over the subsequent 3 years (2015–2017). However, donors recognized that additional concessional resources are required if ADB is to assist Myanmar in maintaining its reform momentum, reducing the high poverty rate, improving connectivity, overcoming power shortages, and building human capital. They agreed to suspend the phaseout of the special allocation to Myanmar during 2017–2020. As a result, Myanmar received its annual performance-based (and formula-based) allocation plus 50% of the reengaging premium in 2017–2018, and will also receive it during 2019–2020. This enables ADB to increase the exceptional support to Myanmar during ADF 12 to \$1.532 billion, from \$993 million under ADF XI. The special allocation accounts for 48% of the total allocation to Myanmar under ADF 12, down from 80% of the total under ADF XI (Table 3). Specific proposals for resource allocation will be discussed in a separate discussion paper (footnote 2).

Table 3: Percentages of Special Allocation and Performance-Based Allocation under Asian Development Fund XI and Asian Development Fund 12

Item	Total (\$ million)	Special Allocation (%)	PBA (%)
ADF XI	993	80	20
ADF 12	1,532	48	52

ADF = Asian Development Fund, PBA = performance-based allocation.

Source: Asian Development Bank.

34. Prior to 2012, cumulative lending to Myanmar consisted of 28 loan projects totaling \$530.9 million and 38 TA projects totaling \$10.7 million. New lending and TA to Myanmar ceased in 1986 and 1987. However, Myanmar was involved in the Greater Mekong Subregion (GMS) Economic Cooperation Program and participated in regional meetings and workshops supported by ADB regional TA.

35. **Commitments.** Including financing from all sources (ADF loans and/or concessional ordinary capital resources, cofinancing, nonsovereign lending, and other non-ADF loans and grants), ADB committed roughly \$2.3 billion in sovereign and nonsovereign loans, grants, and TA projects during 2013–2018. ADF-financed projects have provided the backbone of ADB's portfolio since reengagement. During 2013–2018, ADB approved and committed \$1.686 billion in ADF loan financing via 13 projects (totaling \$1.774 billion, including loan and grant cofinancing from other sources). Of these, ADB approved and committed four loans in 2018, totaling \$614.1 million (concessional ordinary capital resources).¹¹

36. **Cofinancing, nonsovereign lending, and technical assistance.** ADB assistance helped leverage significant cofinancing from an array of partners and complemented ADB's nonsovereign lending and TA operations. By the end of 2018, cumulative direct cofinancing for Myanmar amounted to \$88.0 million for nine loan and grant projects, equivalent to 5% of ADB financing (plus \$46.5 million for 28 TA projects). In addition, ADB approved five grant projects totaling \$39.0 million financed by the Japan Fund for Poverty Reduction under a special Myanmar allocation. Nonsovereign lending during 2014–2018 totaled \$414.3 million. Finally, ADF operations drew on, and were complemented by, substantial TA support. During 2012–2018,

¹¹ These are (i) the Third GMS Corridor Towns Development Project for \$80.0 million; (ii) the Climate-Friendly Agribusiness Value Chains Sector Project for \$40.5 million; (iii) the GMS Highway Modernization Project for \$194.7 million; and (iv) the Power Network Development Project for \$298.9 million.

ADB approved a total of 46 Myanmar-specific TA projects totaling \$79.7 million. Many of these projects directly fed into ADF projects, including through policy, analytical, and project preparatory support. Other TA projects indirectly supported ADF operations, including building capacity in areas such as public financial management, environmental and social safeguards, conflict sensitivity, community and civil society participation, private sector development, and statistics. Myanmar's participation in regional TA projects also complemented ADF operations, e.g., regional TA support helped feed into Myanmar's participation in the GMS Health Security Project.

37. The Japan Fund for Poverty Reduction (JFPR) grants approved in 2013–2016—have delivered benefits to disadvantaged communities, while pilot testing approaches for scale-up under ADF/concessional loan projects. For example, the Enhancing Livelihoods and Incomes Project (\$12 million) delivered community infrastructure benefiting nearly 87,000 households and supported livelihood activities benefiting members (particularly women) of nearly 1,300 livelihood groups. The Emergency Support to Chin State Livelihoods Restoration Project (\$10 million) helped reopen roughly 1,300 km of rural road, engaged 128,000 unskilled workers, and enhanced resilience by supporting communities in 139 village tracts to develop disaster management plans. Successful models piloted under both of these JFPR grants will be scaled up under the proposed \$244.9 million Resilient Community Development Project in late 2019. The JFPR grant on HIV/AIDS prevention had delivered critical support to high-risk populations, particularly for vulnerable women and ethnic minority communities and invested in a total of 33 health facilities and reached about 27,000 people in terms of HIV counseling and testing services. The project led to new health sector projects including the GMS health security project, improving non-communicable disease prevention and treatment and GMS healthy border economic zones. Similarly, elements from JFPR grant on Pro-poor Community Infrastructure and Urban Services have been incorporated into subsequent loan projects in Mandalay and urban development projects in Mon and Kayin States.

38. Key development partners are supporting peace and stability, sustainable and inclusive economic growth, and livelihood improvements through human capital development, capacity building, institutional reforms, public sector management, infrastructure, conducive business climate, job creation, social service delivery, and climate change response and disaster risk reduction. The total ODA envelope for Myanmar is \$2 billion–\$3 billion per annum, while ADB estimated an infrastructure investment gap of \$120 billion for 2017–2030.¹² Through different coordination mechanisms, development partners closely collaborate in different areas of support, including policy dialogue on the country's development agenda, key reforms, and recommended measures, as well as monitoring of ODA effectiveness.

C. Results of Previous and Ongoing Operations and Portfolio Performance

39. Since reengaging with Myanmar in 2012, ADB has established its role as a trusted partner of the government. It was the first partner that has its main country office in the capital, Nay Pyi Taw. As the backbone of ADB's support to Myanmar, ADF investments helped ADB play a key role in (i) supporting national reforms and investments in critical sectors such as transport, energy, education, and rural development); (ii) providing a strategic package combining national system-building, and targeted regional coverage with a particular focus on GMS economic corridors; (iii) financing large infrastructure projects that facilitate connectivity, productivity, and livelihoods; and (iv) responding to the unfinished agenda of poverty reduction and socioeconomic inclusion through education and training, empowerment of the poor and vulnerable, and disaster risk reduction and climate change resilience.

¹² ADB. 2014. Myanmar: Unlocking the Potential—Country Diagnostic Study. Manila.

40. **Evaluation of interim country partnership strategy.** ADB's Independent Evaluation Department in February 2016 rated ADB's programs in Myanmar during 2012–2014 *relevant, effective, less than efficient, and likely sustainable*.¹³ It rated the development impact of ADB operations in Myanmar *satisfactory*, ADB's performance *satisfactory*, and the borrower's performance *satisfactory*.

41. The interim CPS was assessed as *relevant* in responding to priorities set under the government's Strategic Framework for Economic and Social Reforms, 2012–2015, and in aligning with the priorities outlined in ADB's Strategy 2020. A broad set of initiatives launched early in this period helped ADB build momentum in various critical sectors. ADB operations were effective in helping build the country's human resources and capacity. The activities involved (i) strengthening institutional arrangements, legal frameworks and sector analysis, and planning; (ii) promoting an enabling economic environment; and (iii) developing infrastructure to broaden access and connectivity, including by reforming private sector provision in the power subsector, and launching investment operations in power transmission, off-grid renewable energy, and road development.

42. Delays in project preparation and implementation during the initial stage of reengagement contributed to ADB operations being *less than efficient*. However, the outcomes of ADB operations were assessed as *likely sustainable*. The government was observed to maintain a strong ownership of reforms, sector plans, and strategies that ADB supported, and is committed to steady improvement in recurrent cost budgeting and operation and maintenance practices.¹⁴ Satisfactory development impacts were expected from the successful adoption of market-oriented policy reforms, better infrastructure such as accessible and affordable transport connectivity and electricity supply, and closer regional integration. The performance of both ADB and the borrower was considered *satisfactory* because of a collaborative partnership, efforts in prioritization and harmonization, and strong commitment and ownership.

43. **Initial assessment of the country partnership strategy implementation.** The CPS for 2017–2021, with the continued special allocation of lending resources, has so far enabled ADB to contribute to Myanmar's development agenda. In particular, ADB is supporting the national priorities of improving infrastructure, developing human capital, empowering communities, responding to climate change and managing disaster risk, enhancing the business climate and developing the private sector, strengthening capacity, and promoting regional cooperation and integration.

44. Despite the challenges discussed in paras. 5–18, ADB's young portfolio is beginning to deliver results in Myanmar. For example, ADB's first post-reengagement project loan (for power distribution) was completed on time in 2018, and significantly improved distribution reliability and efficiency (Box 2).

¹³ Independent Evaluation Department. 2016. Myanmar: Interim Country Partnership Strategy Final Review Validation, 2012–2014. Manila: ADB.

¹⁴ At the same time, the evaluation noted the continued need to prepare short- to medium-term strategies to speed project implementation and build long-term capacity.

Box 2: Connecting Myanmar Communities to Reliable and Efficient Power

After decades of underinvestment, Myanmar's power transmission and distribution systems were unable to meet national needs, resulting in overloading, poor reliability, and extremely high losses. Unreliable and limited access to power hampers livelihoods and economic activities of people, especially the poor.

In 2013, ADB approved the \$60 million Power Distribution Improvement Project. It was the first project since reengaging with Myanmar and supported the rehabilitation of power distribution networks in the Yangon, Mandalay, Magway, and Sagaing regions. It improved power system reliability, especially in Yangon, and reduced power distribution losses from 18.2% to 14.1% in project areas. It also supported the government's capacity for project management, including implementation arrangements, safeguard compliance, and procurement processes. The project was completed as originally scheduled, utilizing 98.3% of loan funds.

Building on this success, ADB expanded its support to the power subsector. It approved the Power Network Development Project (\$299 million) in November 2018 and began implementation in 2019. Covering the Ayeyarwady, Bago, Kayin, Mon, Rakhine, Tanintharyi, and Yangon states and regions, it will help upgrade and develop power distribution and transmission facilities to electrify an additional 340,000 households and 1,400 schools, clinics, and hospitals in more than 2,000 villages, doubling the average electrification rate from 28% in 2017 to 56% by 2026.

In addition to hard infrastructure, ADB also supports policy reforms and capacity building in the power subsector. This includes support to create a transparent mechanism for setting electricity tariffs that reflect costs, establish an independent regulatory body to mobilize private sector investment, and corporatize electricity supply entities in Yangon and Mandalay to increase efficiency. Since 2012, ADB has provided \$4.7 million in technical assistance to help prepare the 2014 Electricity Law and the Energy Master Plan, and draft renewable energy and energy efficiency policies.

Continued ADB engagement in the power subsector will directly contribute to achieving the government's target of universal electrification by 2030, which will improve livelihoods and boost economic opportunities.

Source: Asian Development Bank.

45. Other examples of ADF helping Myanmar tackle critical infrastructure deficits are a road rehabilitation project, which is now nearing completion and allows communities in Ayeyarwady to cut travel time to and from Yangon by more than half.

46. More recent ADF-financed projects support Myanmar in removing other binding constraints to socioeconomic development. This includes fostering the role of education and training in advancing poverty reduction and inclusive growth while supporting economic diversification. Among emerging results, roughly 900,000 grade 6 students nationwide are now benefiting from improved curriculum and teaching practices (Box 3).

Box 3: Equipping Youth to Participate in Myanmar's Socioeconomic Transformation

Weak human capital poses a binding constraint to inclusive growth in Myanmar, because of decades of underinvestment in education and training. Despite an abundant labor supply, investors and employers consistently cite skills shortages as a top constraint to business. Weak human capital threatens to trap the economy in a low value-added model based on cheap unskilled labor and natural resource exploitation, obstruct poverty reduction, and leave large numbers of youth underemployed and unable to benefit from and fully contribute to Myanmar's transformation.

The Asian Development Bank supports the government through the Equipping Youth for Employment Project, aimed at rolling out national reforms of secondary education (which accounts for the largest share of entrants into nonagricultural work) and of technical and vocational education and training (TVET), as laid

out in the National Education Strategic Plan, 2016–2021. This was scaled up from a new model of skills training for disadvantaged youth aligned with industry-demanded skills piloted under a JFPR TA.

To equip at least 4.40 million youth with the flexible soft skills (e.g., critical thinking, problem solving, and communication skills) needed in a modern economy, the project is supporting Myanmar's overhaul of secondary education curriculum, pedagogy, and student assessment during 2019–2022. In the first year of these reforms, the project helped develop new grade 6 textbooks and teacher guides, and trained nearly 130,000 lower secondary education teachers nationwide in May 2019. Since June 2019, roughly 900,000 grade 6 students have benefited from better curriculum and teaching. The project is now supporting the Ministry of Education in developing new textbooks and teacher guides for lower secondary grade 7 and upper secondary grade 10, to be introduced nationwide (following teacher training) in June 2020.

In parallel, the project assists the expansion of competency-based TVET short courses to equip youth and unskilled workers with industry-aligned hard skills in areas such as construction, welding, and machinery repair. Initial tracer study results from the pilot stage found that the 3-month courses improved employment outcomes and roughly doubled monthly earnings (<http://www.moe.gov.mm/Programs/EYE/en/gallery/>).

Besides augmenting quality and relevance of secondary education and TVET, the project also supports key access-enhancing innovations. These include the introduction of secondary school dormitories to allow youth from remote areas to continue schooling; needs-targeted TVET stipends, and other measures to expand secondary education and TVET completion rates among disadvantaged youth. All of which helps ensure that the young can participate in and contribute to inclusive growth in Myanmar. Finally, the Asian Development Bank also contributed to critical policy reforms, including support (in collaboration with other development partners) for the National Assessment Policy.

Source: Asian Development Bank.

47. ADB's expanding support for rural development has also begun to show results. The \$75 million Irrigated Agriculture Inclusive Development, approved in November 2016, assists rural development and livelihood enhancement. It helped diversify agriculture, develop district-wide agricultural value chains, promote private sector development, and modernize irrigation systems that support agriculture transformation in the Mandalay, Magway and lower Sagaing regions of Myanmar's central dry zone. By targeting this zone, the project focused on one of the most food-insecure, water-stressed, climate-sensitive, and natural resource-poor regions in Myanmar. The irrigation system rehabilitation and modernization component will cover about 20,000 hectares and benefit about 24,000 households.

48. **Future opportunities for support.** The foundations built during the reengagement phase provide a strong basis for expanding ADB's role in other sectors (e.g., health) that will vitally contribute to inclusive growth and broader socioeconomic development. Other development partners are also maintaining their commitment to Myanmar and their efforts to respond to the country's emerging development needs. Forward directions are outlined in the paras. 50–53.

49. Myanmar remains a challenging environment for ADB operations, as can be seen in the portfolio performance. Decades of isolation have left the country with gaps and inconsistencies in institutional capacities and systems, national policies, and strategic planning. Its executing, implementing, and oversight agencies are also limited when it comes to the procedures of multilateral agencies. These weaknesses have contributed to project start-up delays. Contracts and disbursements for sovereign loan projects 1 year after effectiveness (excluding recently approved projects) averaged 18.3% and 3.6% of total loan amounts. Contracts totaled \$15.3 million in 2017 (55% of the \$28.0 million target) and \$25.5 million in 2018 (22% of the \$117.8 million target). Disbursements totaled \$25.8 million in 2017 (119% of the \$21.7 million target) and \$37.5 million in 2018 (42% of the \$88.9 million target). Projected 2019 contract awards

and disbursements are backloaded in the third and fourth quarters: they totaled \$10.0 million and \$13.7 million as of 30 June and are expected to reach \$106.7 million and \$37.2 million by year-end, although falling short of 2019 projections of \$141.2 million and \$63.9 million. Myanmar's performance in contracts and disbursements lags that of comparators (e.g., the Lao PDR and Cambodia), but is expected to improve markedly in 2020 when four large ADF loans signed in late 2018 (comprising 50.4% of ADB's total effective portfolio) will start full implementation and/or construction. Some projects additionally faced delays in audit submission or safeguards, or ran into other problems. At the same time, continued active engagement is helping strengthen portfolio performance. The average period from project loan approval to effectiveness was trimmed from 305 days for projects approved in 2015 to 118 days for 2018 approvals. At least 90% of loan projects are expected to be rated *on track* by the end of 2019. More broadly, since reengagement in 2012, ADB has established a portfolio that is now delivering results (Boxes 2 and 3) in supporting the government's key socioeconomic development priorities while complementing other development partners' assistance.

D. Demand for Asian Development Fund Assistance and Future Country Program

50. The future pipeline of ADB-funded projects is fully aligned with the priorities set by government strategies and policies, particularly the MSDP, as well as ADB's Strategy 2030 and the CPS 2017–2021. For 2019, three firm projects totaling \$306.2 million were programmed. For 2020, three firm projects, including a regional one, totaling \$845.0 million are proposed. The 2019–2020 lending program is expected to fully utilize the COL and grant set-aside for disaster risk reduction allocated to Myanmar.

51. The indicative firm lending program for 2021–2022 is about \$891.0 million, including regional projects under the GMS program. It follows CPS priority sectors and themes, particularly energy, transport, and urban infrastructure improvements; human capital development through better social service delivery; broader access to finance; and coordinated actions to deal with cross-border issues. The program is designed to contribute to Myanmar's steady economic growth, inclusive development, job creation and income opportunities, environmental sustainability and climate change resilience, and provision of regional public goods.

52. The Myanmar program will be fully aligned with the priorities of Strategy 2030 and the CPS 2017–2021, focusing on infrastructure (energy, transport, and urban services), education and training, and agriculture and rural development. All proposed projects are designed to contribute to the seven operational priorities of Strategy 2030; (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iv) making cities more livable; (v) promoting rural development and food security; (vi) strengthening governance and institutional capacity; and (vii) fostering regional cooperation and integration. Priority (i) is addressed in all projects directly and indirectly, because reducing poverty and inequalities is Myanmar's most important challenge. Priorities (ii) and (vi) are also embedded in all projects. Priority (iii) is an integral part of projects in the agriculture and transport sectors, especially roads and railway projects. All projects related to urban infrastructure and services aim to augment the livability of participating cities, particularly through supporting water supply and sanitation. Priority (v) is underscored in ADB's support to livelihood improvements, rural and agriculture-related infrastructure, and value chain development. Priority (vii) is pursued in projects providing regional public goods through transport connectivity, cross-border health and quarantine activities, trade facilitation, and better infrastructure and services in municipalities and towns along the GMS economic corridors. Myanmar benefits from GMS projects designed to provide regional public goods within and beyond the national boundary, and also from disaster

risk reduction COL and grant set-aside to support climate-resilient infrastructure and livelihood improvements.

53. In addition to the sovereign country program, ADB's private sector operations team will continue to seek opportunities for nonsovereign activities (i.e., equity, loans, and guarantees for private-sector-sponsored projects without government guarantee) with a focus on infrastructure and finance. ADB will maximize synergies between sovereign and nonsovereign operations.

V. KEY OPERATIONAL CHALLENGES, ABSORPTIVE CAPACITY, AND MEASURES TO STRENGTHEN MANAGEMENT CAPACITY FOR EXTERNAL ASSISTANCE

A. Operational Challenges and Absorptive Capacity

54. Project processing and portfolio performance are affected by the fact that Myanmar remains a challenging environment. Decades of isolation have led to gaps and inconsistencies in national policies, strategic planning, and country systems, and the country's executing, implementing, and oversight agencies have limited experience with the procedures of multilateral agencies.

55. Challenges in processing ADB projects and other ODA include (i) uncertain or evolving procedures and delayed timelines for key government processes, (ii) pressures to limit loan allocations to consultants and other critical soft components; and (iii) difficulty for executing and implementing agencies in securing budget for the first year of project implementation.

56. Despite progress, legacy issues also continue to hamper portfolio performance, including (i) multi-tier reviews within and across government agencies, uncertainty about the relationship between government and ADB rules and procedures, and other factors that slow the process, such as time lapses between contract negotiations and contract signing; (ii) delays or other impediments linked to the review of and compliance with safeguards; (iii) delays and gaps in the implementation of risk mitigation measures; (iv) delays in annual audits and/or inconsistencies with ADB or other international procedures; (v) rigidities in budget allocations that make it difficult to respond to shifting needs; and (vi) issues surrounding the management of consultants. More generally, after the extended disengagement by ADB and various other development partners, many government agencies (as well as national consultants) are unfamiliar with international procedures and need support to master the steep learning curve.

57. The government is making extensive efforts to strengthen legislation and policies (e.g., for procurement) and to clarify and streamline complex mechanisms for international assistance. These changes will take time. However, for now, the changes themselves pose some challenges to ADB operations. For example, since 2016, the democratically elected Parliament has begun more rigorous reviews of development projects, and in 2017 the government launched significant changes to ODA-related policy and procedures to ensure effective use of ODA. While these changes represent moves in the right direction, they occasionally result in project processing and implementation taking more time. The government recognized ADB's role in helping tackle development issues—e.g., by working closely with other development partners¹⁵—and sought its continuous support in strengthening institutions and capacities for strategic planning and policy reforms, and for project management, procurement, and safeguard compliance.

¹⁵ Examples include joint ADB, World Bank, and Japan International Cooperation Agency support to the government via the joint country portfolio review process, as well as ADB's prominent participation in several sector coordination groups.

B. Measures to Strengthen Myanmar's Capacity to Manage Official Development Assistance

58. To ensure that ADB's extended support is used effectively, ADB assisted government efforts to strengthen ODA management. It also proposed, and helped implement, concrete measures to ensure the full utilization of exceptional support to Myanmar during 2017–2020.

59. In December 2016, the government set up the Development Assistance Coordination Unit to improve the coordination and effectiveness of ODA to Myanmar. The unit is tasked with identifying priority areas and developing a national policy for development assistance, recalibrating sector coordination structures, and reviewing and facilitating the implementation of ODA projects. The new Development Assistance Policy, announced in February 2018, aims to clarify and streamline the process for reviewing and approving ODA projects, and lays out specific procedural requirements and responsible parties for preparing and implementing projects, services, and activities supported by ODA.

60. **Intensifying support and policy advice through development partner platforms.** Despite the government's continuous effort to strengthen and streamline country systems, both administrative and operational procedures are often complex and subject to changes. To overcome implementation constraints, further efforts are needed to strengthen the capacity of executing and implementing agencies. ADB and other development partners jointly help the government manage project implementation issues through various platforms, including the Cooperation Partners Group,¹⁶ government–development partner sector coordination groups, and joint country portfolio reviews with the World Bank and Japan International Cooperation Agency. ADB will continue to engage with these platforms to provide support, recommendations, and policy advice to the government. Closer coordination and collaboration with development partners, particularly through the joint country portfolio reviews, will foster coordinated dialogue on common ODA-related concerns and the formulation of joint action plans.

61. **Policy dialogue and knowledge sharing with policy makers.** ADB will engage closely with the Development Assistance Coordination Unit, ministers, and parliamentarians to share information on the CPS, its pipeline of assistance, and individual project proposals, and on best practices and experience in other countries. This will help ensure the successful preparation and implementation of ADB-supported interventions, while also contributing to broader policy reforms.

62. **Promoting government project selection and/or readiness criteria.** With support from ADB and some other development partners, the government is drafting guidelines on how to apply public investment program and project selection criteria. To ensure timely program delivery and satisfactory portfolio performance, ADB's country programming started to informally adopt these selection criteria, such as (i) strong ownership by agencies responsible for project implementation; (ii) strong project rationale and strategic importance to national strategies (particularly the MSDP), with careful identification of prioritized locations, clear and measurable objectives, and clear and feasible scope and activities; and (iii) affordability and sustainability, including identification of annual cost estimates and budgeting, implementation timelines, financing sources, and operation and maintenance costs.

¹⁶ The Cooperation Partners Group comprises representatives of bilateral government or development agencies, international financial institutions, and United Nations agencies working in Myanmar. The group meets at least once a month to discuss country updates, development issues, and coordination.

63. **Further strengthening project implementation capacity.** ADB is intensifying its support to build the government's capacity for and mastery of ADB procedures in areas such as project design, implementation arrangements, safeguard compliance, financial management, and procurement. This will improve the implementation of ADB-financed projects while building broader capacities. In terms of formal capacity building, in the first half of 2019, ADB conducted a seminar on ADB disbursement rules and financial management for all executing agencies, as well as a seminar on procurement for transport projects. Formal seminars in the latter half of 2019 will focus on procurement for projects in other sectors, project cycle management, and monitoring and evaluation. In addition, ADB will expand the mobilization of experts to directly support government counterparts in line and oversight agencies to resolve project implementation issues and provide advice on policies, regulations, and procedures. In coordination with the World Bank and other development partners, ADB TA will help strengthen the capacity of national agencies responsible for auditing and compliance with environmental and social safeguards. In February 2020, ADB will also introduce a client portal for disbursements. At the project level, ADB is stepping up support to strengthen executing agencies' implementation of risk mitigation measures.

64. **Raising ADB's internal awareness of new government policies.** ADB consulted its counterpart government agencies to improve ADB's understanding of government processes. The Myanmar Resident Mission orients management and project teams on the necessary steps, timelines, review, and approval authorities required by the government (per the Development Assistance Policy). A flowchart helps project-processing teams to factor in realistic timelines and sufficient resources to meet project preparation and implementation regulations.

VI. RECOMMENDATION

65. ADB's financial support to Myanmar during ADF 13 needs to be maintained at least at the same level as in ADF 12 for the following reasons:

- (i) Rebuilding a country of Myanmar's size and complexities will require sustained support over the medium-to-long term. ADB's conflict-sensitive approach to helping the government's conflict resolution is an integral part of its development assistance. Continued support in a manner that fulfills all of ADB's requirements for good governance, financial management, procurement, safeguards, gender, and other social development will ensure that people of all ethnic groups will benefit in a fair and equitable manner. ADB's engagement will also provide for greater participation of a wider range of stakeholders, including the private sector, which will reinforce the call for continued reforms and resolution of conflicts.
- (ii) Myanmar still has substantial development needs, and its infrastructure gap alone is estimated at \$120 billion through 2030 (in transport, energy, and water supply and sanitation). The appetite for ADB assistance is therefore large. The draft country operations business plan, 2020–2022 for Myanmar requires \$1.8 billion (excluding standby projects), well above the expected ADF allocation of \$1.4 billion.
- (iii) Since 2011, Myanmar has laid down an ambitious reform agenda that provides a stronger foundation for progress but will require increased financial and technical support from international partners. Continuous high financial support will enable ADB to help Myanmar continue its reform agenda, develop soft and hard infrastructure, and strengthen capacity and knowledge, all of which will help reduce poverty and pave the way for sustainable and inclusive growth.

VII. ISSUE FOR DONORS' CONSIDERATION

66. Donors' feedback and endorsement is sought for continued accommodation of Myanmar's high development needs and demand for ADB assistance under ADF 13.

PORTFOLIO INFORMATION

Loan, Equity, Guarantee, Grant, and Technical Assistance Commitments, 2012–2018 (\$ million)

Item	2012	2013	2014	2015	2016	2017	2018
Loans							
Sovereign		511.53	59.75	74.60	240.10	185.50	614.10
Nonsovereign			100.00	170.00		134.30	10.00
Grants							
JFPR			26.00		13.00		
Others				3.00	24.00		22.00
Technical Assistance							
TASF	1.57	6.09	5.26	5.50	4.45	6.81	3.75
JFPR	0.23	8.92	5.50	2.00	2.00	2.00	
Others	0.60	3.65	2.00	0.65	0.63	12.64	5.51
Total	2.40	530.18	198.50	255.75	284.18	341.25	655.36

JFPR = Japan Fund for Poverty Reduction, TASF = Technical Assistance Special Fund.

Notes:

1. Amounts are net of cancellations based on commitment. Sovereign technical assistance includes TASF and other special funds.
2. Numbers may not sum precisely because of rounding.
3. These figures represent only contractual cofinancing, which comprises fully and partially administered cofinancing.

Source: Asian Development Bank.

Table A.2: Sovereign Loan and Grant Commitments, 2012–2018
(\$ million)

Project Name	ADF			Other Sources
	Loans	Grants	Total	
Committed in 2012				
Total	0.0	0.0	0.0	0.0
Committed in 2013				
Support for Myanmar's Reform for Inclusive Growth	511.53		511.53	
Total	511.53	0.0	511.53	0.0
Committed in 2014				
Power Distribution Improvement Project	59.75		59.75	
Total	59.75	0.0	59.75	0.0
Committed in 2015				
Maubin–Phyapon Road Rehabilitation	74.60		74.60	
Myanmar Emergency Flood Response				3.00 ^a
Total	74.60	0.0	74.60	3.00
Committed in 2016				
GMS East–West Economic Corridor Eindu to Kawkaeik Road Improvement	100.30		100.30	20.00 ^b
Mandalay Urban Services Improvement	60.00		60.00	4.00 ^c
Power Transmission Improvement ^d	79.80		79.80	
Economic Empowerment of the Poor and Women in the East–West Corridor				3.00 ^e
Emergency Support for Chin State Livelihoods Restoration				10.00 ^e
Total	240.10	0.0	240.10	37.00
Committed in 2017				
GMS Health Security	12.00		12.00	
Irrigated Agriculture Inclusive Development ^f	75.00		75.00	
Equipping Youth for Employment	98.50		98.50	
Total	185.50	0.0	185.50	0.0
Committed in 2018				
Third GMS Corridor Towns Development	80.00		80.00	
Climate-Friendly Agribusiness Value Chains	40.50		40.50	22.00 ^g
GMS Highway Modernization	194.70		194.70	
Power Network Development	298.90		298.90	
Total	614.10	0.0	614.10	22.00

ADF = Asian Development Fund, GMS = Greater Mekong Subregion.

Note: Numbers may not sum precisely because of rounding.

^a Funded by Asia Pacific Disaster Response Fund.

^b Financed by the Association of Southeast Asian Nations (ASEAN) Infrastructure Fund. Amounts shown exclude collaborative cofinancing of \$284.88 million approved by the Japan International Cooperation Agency.

^c Financed by the Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility.

^d Amounts exclude collaborative cofinancing of \$400.00 million approved by the World Bank and of \$552.35 million approved by the Japan International Cooperation Agency in 2016, and \$100.00 million by the Export–Import Bank of Korea in 2017.

^e Financed by the Japan Fund for Poverty Reduction.

^f Amounts exclude collaborative cofinancing of \$27.90 million by Agence Française de Développement and of \$22.30 million from the European Union–Asian Investment Facility.

^g Funded by the Global Agriculture and Food Security Program.

Source: Asian Development Bank.

Table A.3: Nonsovereign Loan Commitments, 2012–2018
(\$ million)

Project Name	Amount			Cofinancing
	ADB		Total	
	OCR	Equity/ Guarantees		
Committed in 2012				
Total	0.0	0.0	0.0	0.0
Committed in 2013				
Total	0.0	0.0	0.0	0.0
Committed in 2014				
Yoma Strategic Holdings – Connectivity Infrastructure Development Project	100.00		100.00	
Total	100.00	0.0	100.00	0.0
Committed in 2015				
Nationwide Telecommunications Project	150.00		150.00	
Yangon Urban Renewal and District Cooling Project		20.00		
Total	150.00	20.00	170.00	0.0
Committed in 2017				
Yangon Urban Renewal and District Cooling – Additional Financing	50.00		50.00	
Telecommunication Towers Infrastructure Project	42.50		42.50	
Myingyan Natural Gas Power	41.80		41.80	
Total	134.30	0.0	134.30	0.0
Committed in 2018				
Ascent Myanmar Growth Fund I L.P.		10.00		
Total	0.0	10.00	0.0	

ADB = Asian Development Bank, OCR = ordinary capital resources.

Source: Asian Development Bank.

Table A.4: Technical Assistance Commitments, 2012–2018
(\$ million)

Name	Amount	
	TASF	Cofinancing ^a
Commitments for 2012		
Myanmar Tourism Master Plan		0.23
Support for Trade Policy Development	0.23	
Support for Improving Business Climate	0.23	
Improving Fiscal Revenue Mobilization		
Trade Facilitation Support for ASEAN Economic Community Blueprint Implementation (Myanmar)		0.23 ^c
Support for Education Sector Planning	0.20	0.37
Financial Management Assessment of Energy Sector	0.16	
Strengthening Civil Society Participation in ADB-Financed Operations	0.23	
Support to the Preparation and Dissemination of the Myanmar Gender Situational Analysis	0.12	
Maximizing Transport Benefits through Community Engagement	0.19	
Total	1.57	0.82
Commitments for 2013		
Capacity Development and Institutional Support	2.09	0.30
Capacity Building Support for Project Identification	1.50	
Developing the Asset Management Program for Myanmar Roads		1.37 ^c
GMS East–West Economic Corridor Eindu to Kawkareik Road Improvement		1.50 ^c
Preparing Power Transmission and Distribution Improvement Project		1.50 ^c
Institutional Strengthening of National Energy Management Committee in Energy Policy and Planning		1.35 ^c
Capacity Development of the National Statistical System		1.20 ^c
Support for Post-Primary Education Development	1.00	0.50
Design of e-Governance Master Plan and Review of Information and Communication Technology Capacity in Academic Institutions	0.50	1.00
Transformation of Urban Management		2.00 ^c
Enhancing the Power Sector's Legal and Regulatory Framework		0.85
Mandalay City Urban Services Improvement Project	1.00	1.00
Total	6.09	12.57
Commitments for 2014		
Support for Strengthening Public Debt Management	2.15	
Financial Sector Reforms	1.00	
Irrigation Command Area Development	1.20	
Support for Public–Private Partnership Framework Development		2.00
Skills Development for Inclusive Growth		2.00 ^c
Interconnection and Electrification Grid Studies	0.25	
Strengthening Institutions for a Better Investment Climate	0.43	1.50 ^c
Off-Grid Renewable Energy Demonstration Project		2.00 ^c
Support for Sanitary and Phytosanitary Arrangements Development	0.23	
Total	5.26	7.50

Name	Amount	
	TASF	Cofinancing ^a
Commitments for 2015		
Preparing Youth for the Workplace Sector Development Program	1.00	
Third GMS Corridor Towns Development	1.00	0.35 ^b
Transport Sector Reform and Modernization	1.00	
Transport Sector Reform and Modernization (Supplementary)	0.50	
Improving Road Network Management and Safety		2.00 ^c
Financial Sector Reforms (Supplementary)	0.35	
Support for Strengthening Public Debt Management (Supplementary)	0.65	
Environmental Safeguard Institutional Strengthening	1.00	
Mandalay City: Urban Services Improvement Project (Supplementary)		0.30 ^d
Total	5.50	2.65
Commitments for 2016		
Third GMS Corridor Towns Development (Supplementary)		0.13 ^e
Irrigation Command Area Development (Supplementary)		0.50 ^f
Support for Post-Primary Education Development (Supplementary)	0.70	
Capacity Development for Project Implementation		2.00 ^c
Power Network Development Program I	1.50	
Strengthening Law, Regulation, and the Legal Profession for a Better Investment Climate	1.25	
Strengthening Law, Regulation, and the Legal Profession for a Better Investment Climate (Supplementary)	0.50	
Environmental Safeguard Institutional Strengthening (Supplementary)	0.50	
Total	4.45	2.63
Commitments for 2017		
Rural Roads and Access	1.00	
GMS East–West Economic Corridor Highway Development		2.00 ^c
Rural Productivity and Ecosystems Services Enhanced in Central Dry Zone Forest Reserves		4.79 ^g
Irrigation Command Area Development (Supplementary)		0.35 ^h
Strengthening Climate and Disaster Resilience of Myanmar Communities		7.50 ⁱ
Support for Strengthening Business Climate ^e	0.80	
Improving Road Network Management and Safety (Supplementary) ^f	0.35	
Transport Sector Reform and Modernization (Supplementary) ^g	2.00	
Power Transmission and Distribution Improvement (Supplementary) ⁱ	0.23	
Strengthening Law, Regulation, and the Legal Profession for a Better Investment Climate (Supplementary) ^j	1.00	
Strengthening Institutions for a Better Investment Climate (Supplementary)	0.43	
Preparing Youth for the Workplace (additional financing)	1.00	
Total	6.81	14.64
Commitments for 2018		
Support for Strengthening Business Climate (Supplementary)		5.08 ^k
Capacity Development for Project Implementation (Supplementary)	1.00	

Name	Amount	
	TASF	Cofinancing ^a
Transport Sector Reform and Modernization (Supplementary)	1.00	
Second Mandalay Urban Services Improvement	0.75	0.23 ^l
Resilient Communities Development	1.00	0.20 ^m
Total	3.75	5.51

ADB = Asian Development Bank, ASEAN = Association of Southeast Asian Nations, GMS = Greater Mekong Subregion,

TASF = Technical Assistance Special Fund.

Note: Numbers may not sum precisely because of rounding.

^a Includes special funds other than TASF, Japan Fund for Poverty Reduction, and other cofinancing.

^b Funded by TASF (\$500,000), other special funds (\$500,000), and cofinancing from the Water Financing Partnership Facility (\$350,000).

^c Funded by the Japan Fund for Poverty Reduction.

^d Funded by Agence Française de Développement Greater Mekong Subregion Fund.

^e Funded by the Netherlands Trust Fund.

^f Funded by the Multidonor Trust Fund and Water Financing Partnership Facility.

^g Funded by the Global Environment Facility.

^h Funded by the Cooperation Fund for Project Preparation in the GMS and in Other Specific Asian Countries.

ⁱ Funded by the Government of Canada.

^j Funded by Agence Française de Développement.

^k Funded by the Department for International Development of the United Kingdom.

^l Funded by Urban Climate Resilience Trust Fund.

^m Funded by Climate Change Fund.

Source: Asian Development Bank.

Table A.5: Portfolio Performance: Sovereign Lending Disbursement, 2013–2018
(\$ million)

Item	2013	2014	2015	2016	2017	2018
Disbursements	511.5	0.0	3.9	37.2	25.8	37.5
Principal repayments	451.2	25.3	21.0	20.3	15.0	13.5
Interest and other charges paid	93.3	6.1	4.9	5.3	5.4	5.5
Net resource transfers	(33.0)	(31.4)	(22.0)	11.7	5.4	18.5

() = negative.

Note: Numbers may not sum precisely because of rounding.

Source: Asian Development Bank.

Table A.6: Sovereign Lending Contract Awards, 2013–2018
(\$ million)

	2013^a	2014	2015	2016	2017	2018
Contract awards		3.4	63.1	42.7	15.3	25.5

^a 2013 contract awards exclude tranche release of \$511.5 million under policy-based lending.

Source: Asian Development Bank.