



Framework for Economic and Social Reforms

Policy Priorities for 2012-15 towards the Long-Term Goals of the National Comprehensive Development Plan

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FRAMEWORK FOR ECONOMIC AND SOCIAL REFORMS

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Executive Summary

Overview

As recently as 2011, Myanmar was still labeled as a pariah state. This perception has changed since President U Thein Sein was elected in March 2011 and his inaugural speech embraced reform and openness. A year after a series of politically liberalizing measures were introduced, President U Thein Sein announced a “second stage of reforms” in May 2012, focusing on the social and economic transformation of Myanmar. In accordance with his vision and guidelines, the Framework for Economic and Social Reforms (FESR) was developed in consultation with senior officials of various ministries and departments of the government from the period of May to October, 2012. This revised draft of FESR outlines policy priorities for the government in the next three years while identifying key parameters of the reform process that will allow Myanmar to become a modern, developed and democratic nation by 2030.

In this regard, FESR is an essential policy tool of the government to realize both the short-term and long-term potential of Myanmar. First, it provides a reform bridge linking the ongoing programs of government to the National Comprehensive Development Plan, a 20-year long-term plan, which the government is drawing up in consultation with parliament for the country’s economy to grow on a par with the dynamic Asian economies. Secondly, FESR serves as a required reference for various entities of the government to develop more detailed sectoral and regional plans. Third, it can serve as a guide for building lasting cooperation with development partners as well as international bodies to obtain mutual benefits. Last but not least, it focuses on potential “quick wins” that the government will consider implementing to bring tangible and sustainable benefits to the population.

FESR has twelve chapters, starting in the first chapter with an introduction on the background to and sources of the proposed reforms. After reviewing recent developments in Chapter 2, FESR articulates the broad goals of the reforms as well as specific objectives the government is targeting in the medium term in Chapter 3. A key set of macroeconomic policies to promote inclusive growth, stability and poverty reduction is highlighted in Chapter 4. Sectoral policies, largely developed by line ministries and departments and with a primary objective of collectively contributing to people-centered development and inclusive growth are compiled in Chapter 5. Chapters 6, 7 and 8 address a wide range of other necessary policy conditions conducive to achieving people-centered development and inclusive growth; e.g. social, cultural and environmental aspects of development, national harmony and regional development, and improving governance. Chapter 9 outlines strategies for Myanmar to reposition herself in the international community through strategic engagements with neighboring economies, the ASEAN Economic Community (AEC), the Greater Mekong Sub-region and the rest of the world. Chapter 10 summarizes the required changes in the magnitude and composition of public expenditure and the likely sources of financing. Chapter 11 details policies on synchronizing the

division of labor for devising necessary reforms between parliament and other key stakeholders, developing an effective aid management framework, as well as consultative mechanisms with civil society actors. The final chapter of FESR describes how the reforms outlined in this document will be implemented, monitored and evaluated.

Quick Wins

In each of the major areas of economic and social reform, the FESR discusses the Government of Myanmar's (GOM) overall approach and actions already undertaken and then goes on to set out the policy agenda for the coming three years, focusing on immediate actions or "quick wins" as well as on those issues which require more analysis and/or consensus building before specific decisions can be taken. The following paragraphs summarize some of the quick-wins that will guide the country to succeed not only in her transitional reforms but also to set sound foundations for medium and longer-term development transformation, which will essentially change Myanmar into a modern, developed and democratic country.

1. Fiscal and Tax Reforms

1.1. Budgetary reforms

The Government of Myanmar (GOM) recognizes that maintaining a stable macroeconomic framework is the first order of reforms essential for achieving the overall reform agenda. Towards this end, GOM will ensure sound public financial management and reduce fiscal deficits and preparedness in mitigating shocks. It will pay attention to more effective processes of budgetary management – from indicative planning and budgetary allocation to a policy-based and tax inclusive fiscal regime. It will also enhance streamlining of various revenue flows, unifying annual budget within a medium term framework and moving towards effective management of hard budget constraints, while phasing out soft budget constraints currently given to the state economic enterprises. GOM will also develop the necessary measures to enhance equitable sharing of resources among various states and regions as well as other local governments.

1.2. Tax Reform

GOM will first consider simplifying the current tax system, starting with replacing the commercial tax with a general sales tax at a single rate, with at most one reduced (or zero) tax rate for basic food items. Raising the exemption threshold for income tax would make it easier to administer. These measures have already been proposed by the IMF. Then, GOM will seek a gradual shift in relative emphasis from direct to domestic indirect taxation. Some measures that can be introduced in near term include starting up with value-added tax, reforming excise tax, broadening the tax base and applying a variety of revenue instruments in a coordinated manner.

2. Monetary and Financial Sector Reforms

FESR focuses on the importance of monetary and financial sector reform, and it recognizes that macro-economic stability and strong economic growth depend in large part on a shift from direct to indirect instruments of monetary policy and the creation of an efficient, competitive and stable financial sector. GOM has already introduced important monetary and financial sector reforms and has begun the preparation of a financial sector master plan that will provide the way forward for further reforms. While awaiting the results of that work, there are two areas for quick wins for consideration and action.

2.1. Central Bank Autonomy

GOM recognizes the importance of central bank autonomy, which can contribute to both reducing inflation and facilitating growth. Given where Myanmar currently stands with respect to monetary and financial sector reform, GOM will give priority in the finalization of the new central bank law that will grant operational autonomy and accountability to the Central Bank of Myanmar.

2.2. Bank Lending Regulations

While waiting for the results of the financial sector master plan, there are two potential quick wins with respect to bank lending regulations. First GOM will consider allowing commercial banks to lend for terms of longer than one year while enabling mortgage finance to get started. And second, the use of moveable assets as collateral for lending will be permitted and encouraged. Currently banks rely only on land and buildings. Both measures would have an immediate and positive impact on the overall environment for doing business in Myanmar.

3. Liberalization of Trade and Investment

FESR emphasizes the critical importance of policies to open up the Myanmar economy. It notes the important measures already undertaken, for example on exchange rate unification, and recognizes that further reforms are essential. In this regard, the AEC targets and objectives for 2015 will be an important driver of further reforms. But there are two areas in particular where some further quick wins are both feasible and very desirable.

3.1. Import Liberalization

Following exchange rate unification and the adoption of a managed float system, it is important to move as quickly as possible to eliminate the linkage between export receipts and import licensing. More flexible import arrangements will help to limit currency appreciation pressures and provide broader benefits to Myanmar producers and consumers. GOM has moved to ease exchange restrictions by allowing foreign currency purchases for car imports and for health and travel expenses abroad. But this is only one step and a relatively small one. As a matter of urgency GOM will now prepare a plan to gradually remove all exchange and other non-tariff restrictions on imports and begin implementing such a plan.

3.2. Investment Liberalization

GOM will give highest priority to the drawing up of the necessary procedures as well as environmental and social guidelines for foreign investment in accordance with the new law recently adopted by Parliament and signed by the President. Feedback from the business community suggests that it is particularly important that the law and procedures are specific as to which sectors are restricted with respect to foreign investment and does not allow for discretion with respect to implementation. On the other hand, GOM envisages that the foreign investment law and citizens' investment law will eventually be merged to provide a single investment framework in line with AEC goals. While legal frameworks are being improved, GOM will also ensure that the actual investment climate improves with all the transaction costs associated with heavy regulations to be considerably reduced.

4. Private Sector Development

4.1. Regulatory Reform

GOM recognizes that improving the regulatory environment for business is crucial to enhancing a country's competitiveness and stimulating economic growth. GOM will ensure that transaction costs will be minimized for domestic small- and medium-sized enterprises (SMEs) throughout the business chain; starting from regulations for business start-ups, dealing with construction permits, employing workers, registering property, accessing credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business. Once an ongoing assessment of the business climate in Myanmar has been completed, it will be possible for the government to develop a comprehensive action plan for improving the overall business environment, which will become a cornerstone for the emergence of a vibrant private sector.

4.2. Tourism

Tourism is a key sector that requires some immediate adjustments to maximize gains within a relatively quick window of opportunity available from the recent development of Myanmar as a prime tourist

destination. The current visa requirements and the procedures in place for obtaining them are a significant constraint to both tourists and businesses. Consideration should be given to moving quickly to significantly simplified arrangements, such as those currently in place within the ASEAN countries. At the same time, it is important upgrade airports and its facilities to provide better access of international flights and other means of transport for these tourists.

5. Health and Education

FESR emphasizes the importance of rapidly improving both the quantity and quality of primary health care and basic education in Myanmar. International experience confirms the critical importance of such improvements as well as the possibility for “quick wins” with respect to innovative health financing, school grants and student stipends/conditional cash transfers.

5.1. Health financing

In the health sector, GOM will focus on a number of innovative measures in health financing such as a voucher system for maternal and child health care, special funds for destitute mothers and strengthening township-level health financing. Particular attention will be paid to allocating more resources to rural primary health care, infectious disease controls and maternal and child health, in view of the acute need to improve health indicators in all these areas.

5.2. School Grants

Beginning with the 2009-10 school year, Myanmar abolished fees for primary grades 1-5 and started devolving cash from the center directly to primary schools with the goal of replacing fees. The amounts transferred on an annual basis are currently very small, limited to basic consumables such as chalk and cleaning supplies. This initiative appears to be working well with accounts being kept rigorously and monitored by township education officials. There is obvious scope to expand the size of the grants and to expand the types of goods that could be purchased, to link the grant funding to improvements in planning and budgeting by schools and to use the funding to encourage transparency, community participation and community oversight of schools. GOM is also conducting comprehensive education sector review to assess the prevailing gaps and needs.

5.3. Student Stipends/Conditional Cash Transfers.

A proposal to introduce “student stipends” or cash transfer payments to parents aimed at encouraging enrollment and attendance in primary and lower secondary schools is under consideration by the Ministry of Education and is another possible quick win. GOM will pay attention to the development of conditional cash transfer (CCT) programs as part of social protection policy and devise appropriate criteria for eligibility in the Myanmar context. GOM will also consider reviving “outstanding national student awards,” and other scholarship schemes that reward academic excellence, creativity and diligence.

6. Food Security and agricultural growth

Given a high percentage of agricultural contribution to GDP and employment in the country, agricultural growth is critical for inclusive development. GOM will ensure that food security is achieved throughout the country, and will develop strategies that will channel benefits of reforms and growth strategies towards helping improve the welfare and income of farmers, farm laborers and their dependent families. Immediate measures on boosting agricultural productivity can be achieved by increasing extension services and government loans, removing barriers throughout the supply chain and promoting demand-oriented market support mechanisms, which will pave the way for long-term structural and institutional reforms needed in the sector. Options for improving agricultural performance in the near term center around the following key interventions: improving productivity of rice sector (through improved seed quality, better agronomic practices, optimized fertilizer and input dosages, and integrated pest management); promoting dry season diversification into high-value

horticulture, fresh fruits, poultry and small livestock by both small farmers and landless; improving water management at the farm level through low-cost micro-irrigation and expanding micro-finance activity in rural areas, to improve access to inputs and reduce reliance on money lenders.

7. Governance and Transparency

From its very inception last year, GOM has been emphasizing the importance of “good governance, clean government” and international experience certainly reinforces the fundamental importance of positive and sustained interventions to improve governance for both growth and poverty reduction. The government has already taken a series of actions to improve governance and FESR lays out a range of future actions the government proposes to take across the core areas of public administrative reforms, information access and transparency, control of corruption, rule of law and participation and consultation. In many of these areas, implementation of specific actions will need to wait until strategies have been prepared or laws have passed. In the interim, therefore, it is important to consider what further actions can be taken immediately in the form of quick wins. In this regard GOM intends to move ahead with the following actions.

7.1. National Budget Transparency

Budgets are a critical link for citizen participation in the new democratic process of national development; and international experience certainly shows that civil society engagement can significantly improve budget processes, decisions and outcomes and thus transform the lives of people. To make this possible, international experience also demonstrates the critical importance of at least eight key budget documents being released to the public and made available for discussion, namely the pre-budget statement, executive’s budget proposal, enacted budget, citizens’ budget or guide to the budget for citizens, in-year reports, mid-year review, end-year report, and audit report. In this regard and building on the progress made last year, GOM will consider preparing, publishing and making easily accessible for citizens as many of these reports as possible.

7.2. Extractive Industries Transparency Initiative

Myanmar has huge natural resources but international experience clearly shows that such resources can as often be a curse as a blessing. In order to ensure that the extraction of natural resources produces real benefits for people, GOM is presently reviewing the potential value of the Extractive Industries Transparency Initiative (EITI), a global standard for the promotion of revenue transparency. This standard requires that companies publish what they pay and governments publish what they receive. GOM is committed to early adoption of the standard, starting with an appointment of a senior government official in leading the efforts, followed by the formation of multi-stakeholder group and a secretariat to prepare the application and reporting procedures in the next two years.

8. Mobile Phones and Internet

International experience clearly demonstrates that mobile phone services have very positive economic as well as social impacts. By connecting users to clients, coworkers, relatives and friends, they help people to access information, create business opportunities, lower transaction costs and enhance social interaction. Most recently they have also helped people access financial services with the ability to save and send money safely, no matter where they are located. FESR recognizes the importance of providing such services and has set an ambitious target of reaching 80% penetration by 2015. International experience would suggest that such a target is indeed ambitious but not unrealistic. In fact, for developing countries as a whole, the penetration rate has increased from 5% in 2000 to 79% in 2011 and for many developing countries the penetration rate has expanded much more rapidly.

International experience confirms that to ensure rapid expansion in the system and to maximize benefits to customers through low fees and other charges it is critical that the expansion process is managed effectively. Two dimensions of policy reform are particularly important for a rapid and successful expansion in penetration rates. First it is essential that there is full liberalization of the market, including opening up to foreign as well as domestic investors; and second it is critical to put in place an effective regulatory system that ensures effective competition among suppliers and minimizes prices charged to customers. GOM will take these experiences into account as it puts in place the necessary strategy and policies to ensure rapid and efficient expansion.

GOM will also upgrade its internet infrastructure to allow a comprehensive e-strategy for leapfrogging in a number of areas such as educational programs, government regulation and knowledge management. In education, training of teachers as well as school curriculum will include ICT skills while GOM will provide necessary resources for connectivity. GOM will also seek to increase the technical competence of the workforce to achieve economic and social progress through training (and retraining) workers with market-oriented technical and language skills. It highlights the need to create a system of continuous learning so that workers and students can acquire new skills relevant to the fast-changing demands of the modern workplace throughout their working careers.

9. Infrastructure

There is no doubt as to the critical importance of major improvements in Myanmar's infrastructure and FESR makes this point very clearly. By any measure, Myanmar is way behind neighboring countries in this regard. Moreover international experience clearly shows that expanding the quantity and quality of basic infrastructure in an efficient and effective manner is crucial to both growth and poverty reduction. Unfortunately improving a country's infrastructure base is much more of a medium- and long-term rather than a short-term endeavor. But there are four potential quick wins regarding infrastructure development that GOM will be considering.

9.1. Employment Guarantee Scheme for Public Works

Many types of rural infrastructure can be constructed and maintained using labor intensive methods (village and district roads, watershed development and irrigation works, afforestation and reforestation, etc). In those districts with large numbers of landless households and high poverty rates an employment guarantee for a fixed number of days a year at or just below the subsistence wage could provide a significant safety net for vulnerable families while at the same time helping to improve local infrastructure and the environment. India has made such a scheme a cornerstone of its rural safety net; and provides valuable lessons in starting up and administering such schemes. Local authorities play a crucial role in ensuring that the scheme covers all those eligible and in administering the funds in a transparent and accountable manner, while technical ministries need to be on board from the beginning to ensure that the activities carried out under the scheme are sustainable and of good quality. If these challenges can be met, such a scheme could provide a significant boost to the rural economy. It can be expected that a number of donor agencies would be willing to provide both technical and financial support for such a scheme.

9.2. Legal Framework for Public-Private Partnerships

Public-private partnerships for the development and management of infrastructure need to be very carefully structured to ensure the appropriate level of public benefits and this takes time. But to facilitate the development of such partnerships GOM intends to put in place as soon as possible a clear legal framework for such partnerships.

9.3. Improving Power Provision

A master plan for power production and distribution is under preparation. In the immediate term, however, the system is plagued with frequent interruptions. Use of emergency generators is one possible quick win that is being considered but this is a relatively expensive option. Accordingly GOM

intends to move ahead as quickly as possible with a program to replace old gas turbine plants with new and more efficient combined cycle plants that use the same amount of gas and produce two to three times the amount of power.

9.4. Enhancing Public Transport in Yangon

Currently there are four modes of urban transport in Yangon (private car, rail, taxi, and bus) but at least 80% of Yangon's residents are dependent on bus transport. The bus system, however, is in very poor shape with too few buses to meet the public's needs and most buses in a poor state of repair. It also appears that the current restrictions on bus fares make it unattractive for private bus operators to invest in improving and expanding their fleet. GOM recognizes that this matter requires urgent attention. Either bus fares should be allowed to increase or the government will consider reducing the import duties and taxes that apply to bus buyers and operators. The government will also consider lifting current bans/restrictions on motor cycle taxis and bicycles.

10. Effective and efficient Government

There is an essential role for government to lay the foundation for reforms and to play a central role in achieving these quick wins through its spending, taxation and regulatory authorities. To this end, the government will restructure its core institutions and streamline main functions; in fact, effective restructuring of government operations are necessary for achieving quick wins and sustaining successful reforms. There are at least four areas for restructuring the government to be more effective and efficient. First, the government will help create an environment where the private sector plays a key role. Transforming the government from a producer and a potential impediment to private sector activity will involve strategic decisions about the comparative advantages of GOM in the actual production of goods and services. Such decisions will entail the corporatization of State Economic Enterprises (SEEs) and privatization of certain activities so that the government can keep its fiscal regime in order and develop regulatory policies necessary to foster private investment. Second, GOM will seek faster improvement in the delivery of public goods and services delegated to it. Third, GOM will pay greater attention to streamlining its administrative procedures, and ensuring regulations and all government operations become transparent and accountable. Fourth, GOM will begin the revision and improvement of data collection for GDP, revenue, and other statistical purposes while developing methods for making such data publicly available.

Conclusion

In conclusion, FESR represents a first bold initiative of the Government of Myanmar to reform an economy once predicted as doomed. As such, FESR is a starting point, not the end point of various initiatives that the country will undertake in the next few months. It is also subject to public consultation, comments and criticisms; therefore, FESR will serve as a roadmap for continuous improvement of reform strategies for the next three years, and it looks forward to deepening the planning process as well as covering new areas for reform in guiding Myanmar on to a path of restoring the glory and growth she has enjoyed in a long period of her history.

1. Introduction

1. Myanmar is the largest country in mainland Southeast Asia with an estimated population of around 60 million people. It is a home to a diverse group of ethnic nationalities, comprising up to 135 groups, living on a strategic geographic location bordering with the world's two most dynamic and vast economies—China and India. As a result of her excellent access to large markets, Myanmar can operate as an important trading and business hub for foreign partners. Her geography covers a vast and highly fertile central plain, beautiful snow-tipped mountain ranges and untapped white sand beaches, extensive coastline with sea access to Indian Ocean, and throughout the country, she is richly endowed with forests, natural gas and hydropower resources, and precious stones, gold and minerals. Myanmar also has a favorable land-to-man ratio and has significant agricultural potential; for instance, given appropriate reforms, its staple rice sector is now poised to return to its historic position of “the rice bowl of Asia.”

2. For more than two decades, Myanmar has been taking several steps in undertaking comprehensive initiatives towards economic and social reforms. Right after her abrupt transition from a planned socialist economy in 1988, various efforts at economic and political opening have boosted foreign investment and private sector involvement in the country. These reforms broadly transformed the socialist economy into a market economy; however, the legacy of isolation and conflict undercut the progress towards realizing the country's fullest potentials. Given this background, the new government of President U Thein Sein, elected in 2010, has come up with its strongest commitment to chart a new direction for the country. In fact, President U Thein Sein, in his inaugural address on 31 March 2011, not only acknowledged the country's dire situation regarding poverty and unemployment and but also committed to create “good governance and clean government,” further calling upon all stakeholders to work together for the good of the country.

3. In taking further steps in implementing his commitments to good governance, the new Government of Myanmar (GOM), has undertaken far-reaching moves towards national reconciliation with both political parties and nationality groups. Daw Aung San Suu Kyi was released from house arrest while several hundred political prisoners, including famous leaders of 88 generations, were released from prison. The President has also invited several prominent members of Myanmar diaspora to return to the country to help the country's ongoing reforms. The National League for Democracy (NLD), chaired by Daw Aung San Suu Kyi, has been allowed to re-register as a legal political party and to enter into by-elections on 1 April 2012.

4. The President has also sought to further consolidate previous ceasefire agreements with several armed nationality groups, including with the United Wa State Army (UWSA), the Karen National Union (KNU), Karenni National People's Party (KNPP) and the New Mon State Party (NMSP). On May 3 2012, he formed the “Peace Committee,” a new body chaired by himself, to accelerate the process of peace-building in many conflict-affected areas. The Peace Committee has also achieved initial overtures in Kachin State towards peace-building despite rising tensions holding back moves towards addressing grievances.

5. These achievements allowed the President to declare on May 11 2012 that GOM has achieved substantial gains in the “first stage of reforms,” which were primarily targeted at political and governance changes to achieve peace and national unity. This success means that it can now focus on the “second stage of reforms,” which are targeted at the immediate improvement of economic and social well-being of the citizens. He then called for the development of policies and reform strategies that can achieve people-centered development, civic participation and human resource development, effective and transparent use of public financial resources, sustainable regional development, decentralization and greater autonomy for local government, and poverty reduction.

6. This Framework of Economic and Social Reforms (FESR), drawing upon the guidelines set by the President as well as the existing priorities set in the Fifth Five-Year Plan and other annual and sector plans and priorities identified by the senior officials of the government, sets out the policy areas where Myanmar will undertake necessary economic and social reforms in the next three years while laying the basis for subsequent long-term reforms that ought to be implemented. This framework, incorporating inputs and feedbacks from several rounds of extensive discussions with concerned departments and senior officials of the government, reinforces the reform initiatives already underway and details complementary measures that can add value to them. This Framework is also designed as a policy linkage between the existing plans of the government to the National Comprehensive Development Plan (NCDP), a long-term plan that GOM is now developing through broad consultations and bottom-up processes.

7. While FESR is focusing on delivering immediate and tangible benefits to the people of Myanmar in the shortest possible time frame, it also aims for two broad objectives that are attainable in the medium-term:

- (a) To move the ongoing reform process forward and make it irreversible so that Myanmar can become a modern developed nation that meets the aspirations of its people for a better life.
- (b) To accelerate Myanmar's greater integration with the international community where her cooperation and support can be counted upon in meeting the regional and global challenges of the twenty-first century.

8. The above two objectives are closely linked and mutually reinforcing. By becoming a modern developed nation, Myanmar will be able to contribute more effectively to maintaining peace and stability in the region as well as in responding to the problems currently causing deep concern to the international community. At the same time, greater interaction and cooperation with neighbours and with key players on the world stage, will help Myanmar to achieve its stated aim of becoming a modern developed nation more rapidly.

9. In saying FESR aims at meeting the aspirations of the people of Myanmar, "people" is used in an all inclusive sense. It includes members of the Tat-ma-daw, civilians, ethnic nationalities, and members of the Myanmar community abroad.

10. It is also envisaged that FESR will help Myanmar achieve sustained economic growth and poverty reduction, which in turn will facilitate further progress in the national reconciliation and democratization processes currently underway, facilitating the synergistic progress of economic and political advancement necessary for this country to establish itself as a modern developed nation.

2. Recent Economic and Social Developments

11. In focusing on people-centered development, GOM is focusing on directly addressing the poverty situation and the need for improved human development as well as on the broader measures needed to maintain macro-economic stability and accelerate inclusive economic growth.

2.1 Poverty and Human Development

12. Myanmar is one of the poorest countries in Southeast Asia. A recent survey shows that the poverty head count index declined from 32 per cent to 26 percent index between 2005 and 2010 but the overall incidence of poverty is still very high. Poverty incidence is around twice as high in rural than urban areas, with the result that rural areas account for almost 85% of total poverty. Although poverty incidences are high in nationality areas such as Chin, Rakhine and Shan states, two central regions account for the highest absolute numbers of those in poverty—Ayeyawaddy (19%) and Mandalay (15%) due to their high populations.

13. Other indicators of human development are also low relative to other countries in Southeast Asia – life expectancy for example is only 62.7 years and the mean years of schooling for adults is only 4 years. Myanmar has made some progress towards achieving its Millennium Development Goals (MDGs) (see Box 1). However, Myanmar's performance matches that of other ASEAN nations on only a small number of indicators (gender parity in education, for example). In general Myanmar is striving to keep up with its ASEAN neighbours as well as the progress made in other developing regions towards attaining MDGs. Within ASEAN, Myanmar most similarly resembles the much smaller countries of Laos and Cambodia, but even lags behind them on most measures despite having a far better natural resource endowment. Myanmar trails significantly behind Thailand, Malaysia and Vietnam on MDG indicators. When Myanmar's indicators are viewed in the context of ASEAN countries, as well as against averages in other developing regions across the world, it becomes clear that there is much room for improvement to reach the 2015 targets. This fact is also reflected in Myanmar's ranking in the "Low Human Development" category in the recent Human Development Report (2011), compared with Laos, Cambodia, Vietnam and Thailand who are all ranked in the "Medium Human Development" category. Myanmar ranked 149 out of 187 economies, behind Cambodia (at 139) and Laos (at 138) as well as Vietnam (at 128) and Thailand (at 103) (See Table 1: HDI Ranking in ASEAN).

Table 1: HDI Ranking in ASEAN

HDI Rank	Countries	HDI Index
26	Singapore	0.866
33	Brunei	0.838
61	Malaysia	0.761
103	Thailand	0.682
112	Philippines	0.644
124	Indonesia	0.617
128	Viet Nam	0.593
138	Lao PDR	0.524
139	Cambodia	0.523
149	Myanmar	0.483

Source: UNDP, *Human Development Report 2012*. New York.

Box 1: MDGs in Myanmar*Goal 1: Eradicate extreme poverty and hunger.*

The prevalence of underweight children under 5 years of age in Myanmar is higher than the average for developing regions and higher than in Thailand, Malaysia and Vietnam. According to the most recent Human Development Report, the percentage of the population under age 5 suffering from malnutrition (both stunting and wasting) are higher in Myanmar than in Thailand, Vietnam and Cambodia.

Goal 2: Achieve universal primary education

Net enrolment in primary education in Myanmar at 87.7% is lower than in other ASEAN countries. It is lower even than in Cambodia and Laos, as well as lower than the overall average for developing regions. Myanmar has made only slow progress in terms of the proportion of pupils starting Grade 1 who reach the last grade of primary and on this indicator is behind Vietnam and the most recent figure for Thailand. In the Human Development Education index, based on mean years of schooling and expected years of schooling, Myanmar ranks beneath Thailand Vietnam as well as Laos and Cambodia. Literacy rates of 15-24 year olds are high, at 95.8% and similar to those observed in Vietnam.

Goal 3: Promote gender equality and empower women

The ratio of girls to boys in primary, secondary and tertiary education in Myanmar is similar to ratios in other ASEAN countries, and higher than the average for developing regions. However, the proportion of seats held by women in National Parliament is much lower than in other countries in the region, and well behind the average for other developing regions.

Goal 4: Reduce child mortality

Despite making progress reducing the under-5 mortality rate, Myanmar still has a very high rate, more than twice as high as the rate in Vietnam, more than four times the rate in Thailand. The infant mortality rate is similarly more than twice as high as the rate in Vietnam and four times the rate in Thailand. Both the under-5 mortality rate and the infant mortality rates in Myanmar are the highest in Southeast Asia, higher indeed than both Laos and Cambodia by significant margins. There has been some improvement in the proportion of 1-year-old children immunized against measles. On this indicator, Myanmar at 82.3% is still below the regional average and below the average for developing countries across the world.

Goal 5: Improve maternal health

Myanmar has made notable progress in the maternal mortality ratio, and is doing slightly better than the overall average for developing regions. The ratio nonetheless remains higher than that in Malaysia, Thailand and Vietnam. The contraceptive prevalence rate among married women remains low: within ASEAN Laos is the only country with a lower rate and Myanmar at 39.5% is also significantly lower than the overall average for developing regions.

Goal 6: Combat HIV/AIDS, malaria and other diseases

Despite some decline, HIV prevalence remains very high in Myanmar and the proportion of the population with advanced HIV infection with access to antiretroviral drugs is low both for the region and developing regions in general. The incidence of Malaria in Myanmar is the highest in ASEAN, and both the incidence and prevalence of tuberculosis is also much higher in Myanmar than in its regional peers (including Thailand, Vietnam, Cambodia and Laos) as well as other developing countries.

Goal 7: Ensure environmental sustainability

Despite improvements, the proportion of the population using improved water sources in Myanmar is much lower than in Malaysia, Vietnam and Thailand. In terms of the population using improved sanitation facilities, Myanmar has made important progress, and at 79% is comparable on this indicator to Vietnam.

Goal 8: Develop a global partnership for development

Debt service as a percentage of exports is low for the region.

Source: Ministry of National Planning and Economic Development, *Integrated Household Living Conditions Survey (IHLCS) in Myanmar, 2009-2010*.

14. Accordingly, GOM has paid the highest attention to poverty alleviation from its very inception. One month after the inauguration of the government, it organized a first ever national level workshop on Rural Development and Poverty Alleviation (May 2011). The workshop laid down eight fundamental tasks for various ministries and state organs to address poverty alleviation. In July 2011, the government mandated a central committee and various subcommittees to focus on the eight tasks, as follows:

- development of agricultural productivity,
- development of livestock breeding and fisheries,
- development of rural small-scale productivity,
- development of micro saving and credit associations
- development of cooperative tasks
- development of rural socio-economy,

- development of rural energy, and
- environmental conservation.

Table 3: Comparative MDG Performance Indicators

Indicator	Myanmar		Thailand		Viet Nam	
	Earliest Year	Latest Year	Earliest Year	Latest Year	Earliest Year	Latest Year
MDG 1: Eradicate Extreme Poverty and Hunger						
Poverty Incidence (% - \$1.25 PPP)	No Data	No Data	5.5 (1992)	0.4 (2004)	63.7 (1993)	13.1 (2008)
Underweight Children- Under 5 (%)	28.8 (1990)	29.6 (2003)	16.3 (1993)	7.0 (2005)	36.9 (1992)	20.2 (2006)
Food Poverty Incidence (%)	47 (1990)	< 5 (2010)	26 (1990)	16 (2004)	31 (1990)	11 (2004)
MDG 2: Achieve Universal Primary Education						
Primary Level Net Enrollment (%)	84.7(2005)	87.7(2010)	93.2 (2006)	90.1 (2009)	95.8 (1990)	94.5 (2001)
Literacy of 15-24 Year Olds (%)	94.6 (2000)	95.8 (2010)	98.0 (2000)	98.1 (2005)	93.9 (1990)	96.9 (2009)
MDG 3: Promote Gender Equality and Empower Women						
Girls/ Boys im Primary School (ratio)	0.95 (1991)	0.93 (2010)	0.98(1991)	0.98 (2009)	0.93 (1991)	0.95 (2001)
Girls/Boys in Secondary School (ratio)	0.97 (1991)	0.96 (2010)	0.99 (1991)	1.09 (2009)	0.90 (1999)	0.92 (2001)
MDG 4: Reduce Child Mortality						
U5 Mortality Rate (Per 1,000 live births)	112 (1990)	66 (2010)	32 (1990)	14 (2009)	55 (1990)	24 (2009)
Infant Mortality Rate (Per 1,000 live births)	79 (1990)	50 (2010)	27 (1990)	12 (2009)	39 (1990)	20 (2009)
MDG 5: Improve Maternal Health						
Maternal Mortality Ratio (Per 100,000 live births)	420 (1990)	240 (2008)	50 (1990)	48(2008)	170 (1990)	56 (2008)
Births Attended by Skilled Personnel (%)	56 (1997)	78 (2010)	99 (2000)	99 (2009)	77 (1997)	88 (2006)
MDG 6: Combat HIV/AIDS, Malaria and Other Diseases						
HIV Prevalence (% of Population Aged 15-49)	0.2 (1990)	0.6 (2009)	1.7 (2001)	1.3 (2009)	0.3 (2001)	0.4 (2009)
Malaria Incidence (Per 100,000 Population)	No Data	7943 ('08)	No Data	55 (2008)	No Data	No Data
Tuberculosis Incidence (Per 100,000 Population)	393 (1990)	388 (2009)	137 (1990)	137 (1990)	204 (1990)	200 (2009)
Tuberculosis prevalence (Per 100,000)	924 (1990)	597 (2009)	209 (1990)	189(2009)	395(1990)	333(2009)
MDG 7: Ensure Environmental Sustainability						
Improved Drinking Water Source (%)	57 (1990)	69 (2010)	91 (1990)	98 (2008)	58 (1990)	94 (2008)
Improved Facility for Sanitation (%)	49 (1995)	79 (2010)	80 (1990)	96 (2008)	35 (1990)	75 (2008)
MDG 8: Develop a Global Partnership for Development						
Debt Service as % of Exports	18.2 (1990)	0.2 (2006)	11.4 (1990)	0.8 (2009)	3.2 (1996)	1.7 (2009)

Source: Asian Development Bank, *Myanmar in Transition, 2012*.

15. Poverty is frequently associated with landless farmers. Indeed, landlessness is a problem facing 24% of those whose primary economic activity is agriculture. According to the survey cited above (IHLCS 2010), land ownership status and size directly correlates with the escape from poverty, demonstrating the significant contribution of asset ownership towards poverty reduction. Landlessness has been a chronic problem in the agricultural sector and there has been very little improvement in this aspect since 2005 when the ratio was 26%. In fact, the problem increased in the very poorest group

of rural households from around 34% in 2005 to 38% in 2010; therefore, it represents a major causal factor for rural poverty. In terms of regional profile, the highest rates of landlessness are found in Bago (41%), Yangon (39%) and Ayeyarwaddy (33%) - the three most agriculturally important regions collectively known as “rice bowl of Myanmar” where more of the country’s staple crop is grown than in the rest of the country together.

16. In this regard, GOM recognizes that land reform is central to rural development and essential for inclusive growth. Towards this end, the Pyidaungsu Hluttaw (parliament) has recently enacted the Farm Land Law as well as the Vacant, Fallow and Virgin Land Management Law in March 2012. Although the laws, for the first time in Myanmar history, allow long-term use of large tracts of land for private investors in agricultural, industrial and contract farming practices, it requires further adjustments in protecting land rights to small holders and poor farmers. While the parliament has formed an inquiry commission to investigate the impact of new land laws on rural households, GOM has also looked into overhauling the land use policy. In June GOM also set up the “Land Use Management Committee”, a national level body to oversee effective use of land resources throughout the country. The President also set a policy guideline for the government agencies to address landlessness and indebtedness of rural farmers.

17. In rural areas, credit access is also crucial for agricultural households to escape from poverty and increase productivity. Throughout the country, poor access to credit has been a binding constraint on agricultural growth. In terms of indebtedness, the number of indebted households has significantly declined from around 48% to 30% between 2004 and 2009; however, debt levels of poor households are still very high, being 14% of their total annual consumption expenditure. GOM, through the Ministry of Agriculture and Irrigation (MOAI), doubled the size of agricultural loans to farmers in 2011. It also gave assistance to the operations of 31 specialized rice companies that provided additional credit in the areas where they set up cooperative farming practices together with small-holder farmers.

18. With respect to employment, the challenge is neither of labor force participation,¹ nor the unemployment rate which is 1.7%. While Myanmar achieves a decent share of participation at 67% of the population aged above 15, the primary problems are low remuneration and poor returns for those who do participate and the seasonality of the jobs available to members of poor communities. Because of this situation, migration has historically been a source of opportunities for Myanmar people to improve their lives and those of their families. In response to the descent into poverty caused by various economic shocks as well as natural disasters such as floods and droughts, many rural households have used migration by some of their members as an important coping mechanism; mainly through remittances sent from migrant workers working in urban areas or abroad. However, migration has also caused major socio-economic problems such as family separation, potential exploitation of and various other risks to migrants, and removal of entrepreneurial individuals from rural communities.

19. Accordingly, the Ministry of Labor (MOL) has recently adopted a multi-faceted strategy to address the twin challenge of employment and migration. It has opened 77 employment centers across the country to assist the youth and unemployed population access both domestic and overseas job markets. In particular, it has taken a historic turn to register the migrant workers who went to work in neighboring Thailand—a phenomenon previously regarded as an illegal activity subject to heavy fines and punishment by law. To date, it has already issued half a million passports and identity cards to migrant workers while further cooperating with the Royal Government of Thailand in reaching out to a migrant population estimated to number two million currently living and working in Thailand. Evidence shows that mere official acknowledgement and a registration process have greatly reduced the cost of

¹

migration, and as a result, has improved the poverty reducing impact of migration. GOM is also exploring ways and means to facilitate effective mobilization of remittances from present migrants, as remittances can directly affect poverty alleviation of the migrants' relatives remaining in Myanmar and channeling these resources through official financial institutions can reduce transaction costs and improve exchange rate stability. GOM has also recognized the importance of social protection particularly during the rapidly changing economic development; therefore, it has increased pension payments for government retirees.

2.2 Economic Stability and Growth

20. GOM has estimated that it achieved a GDP growth rate of 10.4% in 2011, while the IMF has estimated it at 5.3%. According to the IMF, inflation has decreased from a double-digit rate in 2009-2010 to 6.4% in 2011 from 8% in previous year, and it is likely to even decrease further to around 4.2% this year. Myanmar is expected to face only weak inflationary pressures in the rest of 2012-13, mainly due to the combined effects of falling global food prices and a surplus of agriculture produce; however, such a scenario could be abruptly changed by unforeseen shocks or disasters. At end of 2011, the trade balance remained positive with a healthy trade surplus of 800 million dollars; however, imports are estimated to pick up from 2012 onward. GOM also achieved a reduction of the budget deficit this year, declining from 6.0% to 5.5% of GDP; therefore, GOM is committed to sustain the downward trends in the future. Meanwhile, official foreign exchange reserves reached a record high of 8 billion dollars by end of 2011.

21. Perhaps the most important initiative by GOM in the area of preserving macroeconomic stabilization and accelerating economic growth was to unify the country's multiple exchange rates into a single rate in April 2012 by replacing the official peg with a managed float through a foreign exchange auction market under the supervision of the Central Bank of Myanmar (CBM). Meanwhile, the CBM has also announced a redemption plan for the Foreign Exchange Certificates (FECs) used under the previous exchange-rate scheme over the coming year. The Budget Department of the Ministry of Finance and Revenue (MOFR) has already incorporated necessary budget estimation and cost calculations based on a reference exchange rate at 800 kyats per dollar, which was more or less in line with prevailing parallel market exchange rates at the time when the new budget law was enacted by parliament in April 2012. Due to these undertakings, the pressures on exchange rate appreciation are now being contained and the exchange rate has been gradually depreciating since April 2012. The CBM is now planning to remove the remaining exchange restrictions, particularly dropping the requirement to secure private 'export earnings' as a prerequisite to import, in the context of a general phasing out of trade licensing to eliminate nontariff barriers.

22. The MOFR is also drafting a new central bank law that will grant operational autonomy and proper accountability for the CBM while equipping it with the treasury functions currently undertaken by state banks. In line with a more autonomous standing, the CBM will also adopt a consistent monetary policy framework to promote domestic price stability. As with exchange rate management, the CBM is beginning to monitor the market situation to ensure its interest rate decisions are appropriate to the current economic outlook.

23. On the fiscal front, the budget deficit in FY2011/12 has been narrowed due to lower capital spending. GOM suspended major public works and construction projects by strictly scrutinizing the costs and benefits of these undertakings; therefore, deficit reduction became more sustainable despite the recent increase in pensions and temporary tax exemptions on key agricultural exports. The adoption of a market-based exchange rate in April 2012 is expected to further reduce the budget deficit in FY2012/13. The CBM is gradually limiting the role of deficit monetization by facilitating more effective use of bond financing, particularly the development of a retail market for treasury bonds, which would further improve the effective implementation of monetary policy in the country. By having

a series of in-depth debates on the FY2012/13 budget, the new parliament is also contributing to lower deficit targets by vigorously scrutinizing spending priorities and reallocating more resources to poverty reduction, health and education while cutting major capital spending.

24. The MOFR has also begun reforming its tax policies and revenue administration. In August 2011, the Department of Internal Revenue abolished the withholding tax on imports, and also simplified commercial tax on domestic sales to nine tax rates in April 2012. The DIR also plans to introduce single tax payer identification and self-assessment to expand the tax base, while plans are underway to replace the commercial tax with a general sales tax. Given GOM's current reliance on non-tax revenue from extractive industries, the MOFR is now developing a medium-term public expenditure framework that can streamline all revenue flows and effectively target them to building infrastructure and human capital. GOM has also recognized the need to improve transparency of revenue flows from extractive industries and has recently cooperated with international financial institutions and other international organizations to achieve higher accountability in public financial management.

25. As part of its campaign on good governance, GOM has also introduced an open tender system to increase transparency and improve valuations in future privatizations of SEEs. It has also reformed the existing committee on privatization where the Vice President was tasked to be its new Chairman. While further privatization of SEEs will enhance the government's target on deficit-reduction, the ongoing liberalization and corporatization of SEEs also limits their losses. Although Myanmar has expedited the privatization process involving several SEEs, particularly in the industrial and manufacturing sectors, it has taken a more cautious approach in privatizing the public utilities. For instance, GOM in cooperation with the private sector organized a national workshop on ICT development in February 2012, which outlined a step-by-step, participatory and transparent process of liberalizing and privatizing the telecommunication sector over a period of next five years. To improve the process, it has also sought technical assistance from international organizations, experienced industrial experts as well as multilateral agencies.

26. While the government is steadily implementing measures to improve investment and the business environment, it has recently introduced a new Foreign Investment Law (FIL) in August 2012 for ratification by the parliament. The new law will permit 100% ownership by foreign firms, while introducing a series of tax breaks and easing restrictions on the lease of land. GOM is also preparing the final passage of a new law on Special Economic Zones (SEZ), which is expected to provide additional incentives for investment in strategic locations along the 1300-mile long coastal region in Myanmar. Meanwhile, GOM has liberalized the company registration process and other regulatory processes to further encourage foreign investors.

2.3. Regional Integration

27. GOM recognizes the benefits that will accrue from further cooperation and integration with neighbouring countries and is focused on making progress in meeting the requirements for the establishment of the AEC. Signed by the ASEAN Leaders at the 13th ASEAN Summit on November 20, 2007, the AEC Blueprint lays the foundation for realising the goal of ASEAN as an integrated economic region by 2015. The AEC is characterised by four pillars: a single market and production base, a highly competitive economic region, a region of equitable economic development, and a region that is fully integrated with the global economy. In each of the four pillars are the various measures and initiatives that are being implemented to achieve the goals of the AEC. Myanmar plans to address the legislative and regulatory limitations that impede the timely implementation of intra- and extra-ASEAN commitments. It also plans to strengthen the Ministry of National Planning and Economic Development (MNPED), the national coordinating agency for AEC, to effectively coordinate implementation across various focal points and implementing agencies. GOM has also informed and

engaged the private sector to assess the preparedness and effectiveness of the policies and measures. It also facilitated the Republic of the Union of Myanmar Federation of Chambers of Commerce and Industry (RUMFCCI) to establish effective and well-functioning mechanism to monitor the outcomes, analyze the impacts and address the capacity gaps to ensure that the achievement of the AEC targets will deliver maximum benefits to the private sector.

28. To ensure a timely implementation of the AEC initiatives, ASEAN has established a monitoring mechanism called the AEC Scorecard. As a compliance tool, the AEC Scorecard reports the progress of implementing the various AEC measures, identifies implementation gaps and challenges, and tracks the realisation of the AEC by 2015. By the latest report issued by the ASEAN secretariat in 2012, Myanmar's progress is quite comparable to other ASEAN members except in measures to promote free flow of capital (see Table 2: Myanmar's Scorecard on ASEAN Economic Integration). However, the AEC Scorecard only states that Myanmar has signed ASEAN-wide agreements and they have been integrated into national laws; the actual degree of implementation and enforcement of specific initiatives may still lag behind the agreed schedule.

Table 2: Myanmar's Scorecard on ASEAN Economic Integration

	Free Flow of Goods	Free Flow of Services	Free Flow of Investment	Free Flow of Capital	Free Flow of Skilled Labor	Priority Integration Sectors	Food, Agriculture and Forestry	Competition Policy	Consumer Protection	Intellectual Property Rights	Transport	Energy	Mineral	ICT	Taxation	E-commerce	SME Development	Initiative for ASEAN Integration (IAI)	External Economic Relations
Brunei Darussalam	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Cambodia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Indonesia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Lao PDR	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Malaysia	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Myanmar	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Philippines	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Singapore	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Thailand	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Viet Nam	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
ASEAN	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

● Indicates that all measures targeted in this area were implemented
 ● Indicates that more than half of measures targeted in this area were implemented
 ● Indicates that less than half of measures targeted in this area were implemented

Source: ASEAN Secretariat, 2012.

3. Vision, Strategy and Goals

3.1 Our Vision:

29. Our vision for Myanmar for the twenty-first century is to become a modern developed nation that meets the aspirations of its people for a better life; and to achieve greater integration with the international community by 2020.

3.2 Underlying principles

30. The people of Myanmar take considerable pride in their culture and traditions. Hence, FESR has been drawn up within the framework of the country's traditions, customs, beliefs and values.

31. In this context, it may be useful to mention that Myanmar is home to various ethnic nationalities, and it has embraced national unity in diversity. Some of the basic values of our society such as tolerance, compassion, moderation, nonviolence, forgiveness, impermanence and the inevitability of change, and pursuit of truth and reason are core to Myanmar's vision for national development.

32. Many aspects of Myanmar's cultural heritage, and traditional beliefs and values are in harmony with modernization and progress. These beliefs and values have been drawn upon and appropriately reflected in FESR. We believe that the conduct of our national affairs more in line with our traditional beliefs and values will be able to accommodate all that the people of Myanmar may wish for their future. Such conduct will also be welcomed by the international community.

3.3 National imperatives

33. Several national imperatives have been established to give Myanmar national direction and purpose. These are to maintain peace and stability, preserve unity and security, and to perpetuate independence and sovereignty. FESR accords high priority to these imperatives and has been guided by them. Moreover, efforts have been made to strengthen them in the following ways.

34. First, the critical need of maintaining peace and stability has been given emphasis. The crucial role of the Government to achieve this end has been recognized and highlighted. FESR supports and strengthens national endeavours in this area. It includes proposals and plans aimed at meeting the needs and aspirations of the people and improving their quality of life, which will also contribute substantially to sustaining peace and stability in the country.

35. Second, national unity is another critical area that must be addressed. FESR looks to enhance national unity by promoting mutual respect and understanding and preserving the cultural heritage and traditions of all the ethnic nationalities that compose the Republic of Union of Myanmar.

36. Third, in addition to security provided by the Tat-ma-daw and the national police force, FESR gives due attention to other forms of security such as in the economic and social sectors. Economic and social security will become increasingly important for Myanmar in the process of becoming a modern developed nation.

37. Finally, independence and sovereignty certainly enable a country to become a master of its own destiny, including its relationship with the international community. Perpetuation of independence and sovereignty are essential for social and economic progress as these bestow upon a country the capacity and freedom to fulfill the responsibility it has to its citizens and to the world community. With respect to fulfilling the responsibility towards citizens, FESR draws upon Myanmar's traditional beliefs and customs such as a sovereign's duty to look after the welfare of his subjects, paying heed to their needs and concerns, and seeking out and listening to views and opinions of revered monks and respected elders and teachers on matters of high national importance. All in all, FESR will be consulted across the broad spectrum of our society. Active cooperation with the international community will be

pursued in designing and initiating FESR. And, the implementation of it will enable Myanmar to more effectively fulfill its obligations towards the world community.

3.4 Approach and content

38. FESR has started with a clean slate and adopted an approach that is pragmatic, realistic and time bound.

39. Since the people of Myanmar place a high value on self-reliance, FESR is guided by the principle that the attainment of goals it has set out to achieve depends ultimately on the people of Myanmar themselves. Therefore, FESR ensures that people's participation will be mobilized in drawing up of the reform strategy.

40. While adopting a self-reliant approach, Myanmar like other countries, will avail itself of the opportunities to take advantage of the knowledge, technology, expertise and resources that are available in the rest of the world. Moreover, Myanmar will cooperate closely with neighboring countries in seeking solutions to common problems and will share views and experiences with them on issues of mutual interest, while keeping in view its own particular circumstances and perceived needs and priorities. FESR focuses on the required effort to explore and take advantage of such opportunities.

3.5 Strategic Thrusts:

41. FESR emphasizes the importance of moving towards a market-driven economy, the need to move from top-down to bottom-up planning and from direct to indirect levers of government policy in

Box 1: Achieving the MDGs: Lessons of International Experience.

There is broad international consensus about the need to place sound economic policies to promote private sector development and increased trade at the heart of strategies for achieving progress on the MDGs. Progress in Myanmar across health, education and poverty related targets has been slow and the IMF suggests that in countries facing difficulties making progress on MDGs, this reflects delays in policy reforms and growth, as well as fragile conditions in conflict-afflicted areas. The IMF suggests that "drawing on domestic efforts and international support, these countries need to accelerate growth and buttress a virtuous circle of development through good economic policies, stronger institutions, and improved infrastructure." Indeed recommendations for approaching the MDGs from the IMF, the UN, the US and EU all emphasize that policy reforms which seek to achieve strong inclusive economic growth are fundamental. A pro-poor macroeconomic environment, a conducive private investment climate, trade and regional integration, and good governance are all highlighted as essential to achieving this employment-intensive and inclusive growth.

Alongside the emphasis on economic growth, the international community consistently stresses that achieving better results in human development is a core component of achieving the 2015 MDG targets. The IMF notes that on top of necessary increases in public spending on education and health, quality and equity of spending are equally important. For example, the UN notes that investments in school infrastructure should be matched by measures that address student retention and quality of education. Targeted interventions such as social assistance and employment programmes are key to MDG acceleration by addressing inequality and building human capital. Social protection programmes can function as a 'circuit breaker' for inter-generational cycles of poverty and hunger. Domestic resource mobilisation is essential for initiating and scaling up these investments.

It is critical for government to improve the quality and quantity of education, health and other social services in order to directly address the needs of the poor. Alongside economic reforms to ignite growth, these constitute the most pressing agenda items for developing country governments seeking to accelerate progress towards the MDGs.

nourishing the development of free markets.

42. In this regard, FESR identifies the following four areas of policy priorities:

- Sustained industrial development to catch up with global economies while keeping up the momentum of agricultural reforms and attaining poverty alleviation and rural development.
- Equitable sharing of resources, both budgetary and foreign aid, among regions and states while promoting foreign and local investments for regional development.
- Effective implementation of people-centered development through community-driven, participatory approaches to improvements in education, health and living standards.
- Reliable and accurate gathering of statistical data and other information to better inform public policy decisions.

43. FESR also emphasizes the importance of capitalizing on a late-comer's advantage in learning the lessons from other transitions (see for example, Box 1 on the lessons from other countries for achieving the MDGs) while leapfrogging in knowledge and technology towards green growth.

44. FESR is focused on maximizing the strategic location of the country situated between the world's two most dynamic economic powers.

45. Finally FESR recognizes the importance of repositioning Myanmar in the forefront of international diplomacy, following in the tradition of her leading role in the non-aligned movement of the 1950s and high profile international mediations through the United Nations in the 1960s, to mobilize effective cooperation and coordination on aid management with the international community.

3.6. Short and Long-term Goals

46. Myanmar's short-term and long-term goals in accordance with her reform framework can be envisaged as achieving:

- a) Full implementation of economic integration with ASEAN in accordance with its AEC 2015 schedules.
- b) Achievement of MDGs and other human development objectives by 2015.
- c) Graduating from LDC status and moving to a knowledge-based economy; comparisons with other countries suggests that a feasible target date to achieve this by is 2020.

47. GOM will therefore set the following targets for GDP growth, poverty reduction and other economic and social dimensions of development for the next three years within the existing parameters of the Fifth Five-Year Plan:

- i) GOM strives to achieve an average annual GDP growth rate of 7.7%
- ii) The industrial share of GDP should grow from 26% to 32% together with an increase in the service sector, reducing the currently high share of agriculture.
- iii) Per capita GDP growth will increase between 30-40% from the base year of 2010, which will help attain the first goal of MDG in reducing the poverty incidence by half over the period 2000-2015.

48. Given the above reform measures, GOM now plans to achieve sustained economic growth of 7.7% p.a. over the next five years. Further improvement in international policies including, a relaxation of economic sanctions toward Myanmar, the growing attractiveness of foreign investment, and multilateral assistance will complement the stride towards this goal.

49. The government will ensure that the current downward trend of inflationary pressures, which has been estimated a record low at 1.8% at May of this year, will be sustained, making this objective of sustained GDP growth realistic and attainable.

50. To conclude, the recent progress in economic reforms and growth potential will eventually allow Myanmar to successfully integrate with the ASEAN Economic Community (AEC) in 2015 while, at the same time, achieve most of the targets of MDGs. Detailed updates of economic integration with AEC and socio-economic targets under MDGs are outlined in the following sections.

51. In this context, the following sections will begin with a brief description of the government's overall approach and actions already undertaken; then distinguish those issues on which further immediate action can be taken (the "quick wins") from those issues where policy and program decisions need to await further analytic work and/or consensus building.

4. Macro-economic Policies for Growth, Stability and Poverty Reduction

52. GOM recognizes that macro-economic reforms are critical to maintaining macro-economic stability and putting the economy on a sustainable high growth path while tackling poverty and ensuring effective use of the country's rich natural resources. To this end, significant reforms have already been undertaken and further reforms are planned.

4.1 Exchange rate reform

53. GOM accomplished exchange rate unification on April 1, 2012, and adopted a managed float system by setting up of a formal inter-bank foreign exchange market mediated by the CBM. It also plans to remove the remaining restrictions against exchange rate convertibility and phase out the use of FECs with a redemption plan by 2013. In addition, the government incorporated an exchange rate assumption as close to the prevailing market rate as possible to draw up its 2012-13 annual budget. At the same time, government agencies are required to use the prevailing market-determined rate for their foreign transactions through a gradual process starting from April 1, 2012. At the Central Bank, GOM has been undertaking capacity building and other preparations to maintain a stable exchange rate in open market operations. Once a stable regime is put in place, GOM will strive to maintain the rate at a beneficial level conducive to export-led growth. Since the revenue from new natural gas fields are expected to increase in the near future, GOM is also preparing necessary measures to insulate the flows and to minimize their impact on exchange rate stability and the inflation rate.

4.2. Trade policies

54. Given her previous history of trade imbalances, Myanmar adopted an "export first" policy in 1997 while imposing strict limits on imports. This policy resulted in a positive balance of trade for a prolonged period of time although imports have been rising faster in recent years due to increased imports of capital goods, industrial machinery, and consumer durables. GOM has also liberalized the importation of vehicles, particularly of low fuel use vehicles and passenger buses, in order to ease the burden of the high cost of transportation in major urban centers. It has also introduced e-licensing systems for export and import businesses, further reducing administrative barriers for trade operations. Due to these reforms, both the trade and current account deficits are expected to widen in FY 2012/13 from the previous year. However, GOM expects that the easing of economic sanctions imposed on Myanmar by Western countries will provide sufficient market access for exporters to compensate for potential trade imbalances arising from liberalization measures.

55. Presently, Myanmar's export structure is heavily focused on a few primary commodities – natural resources, notably gas and wood, along with agricultural and marine products. GOM will therefore pursue an active policy of encouraging the diversification of export products while promoting value-added processes for primary commodities, including focusing on improving support services in areas of trade financing, market access and trade facilitation. In this regard, GOM will also ensure that incoming FDI will help domestic industries to overcome technological, financial and market barriers in upgrading their value-added activities. GOM will pursue further trade policy liberalization in conjunction with the progress of exchange rate unification by eliminating the linkage between export receipts and import licensing; and thereby, limiting potential effects from increased FDI and remittances on the domestic currency's appreciation. In this regard, GOM recognizes the importance of maintaining a stable exchange rate for both export and import operations. It will also carry out more liberalization measures such as setting up national single-window liberalizing services as well as removing all non-tariff barriers in accordance with the 2015 targets for ASEAN integration. GOM will also emphasize further cooperation with the World Trade Organization in removing trade barriers as well as with international chambers of commerce in promoting business-to-business collaboration. It will

also strengthen regulatory capacities to improve inspection and quality assurance services for both export and import operations and set up a new public facility on consumer protection.

4.3. Monetary policies and financial sector development

56. GOM has undertaken appropriate legal and institutional preparations to be able to grant operational autonomy and accountability to the independent Central Bank of Myanmar (CBM). It has stopped the practice of financing fiscal deficits through quantitative easing; instead, it has adopted the use of bonds and treasury instruments while imposing strict financial discipline on both line ministries and state economic enterprises. It has imposed a temporary wage reduction on all the senior officials of the government, while restraining the rate of pay increases for civil servants. It is also collaborating with international financial institutions in building the competency and capacity of CBM. GOM is preparing a financial sector master plan as the basis for major reforms of the financial sector covering both public and private institutions as well as the development of the capital market. Part of the plan will be development of the banking sector and strong encouragement of competition between the private banks in boosting commercial credit and other financial instruments available to the public.

57. CBM also plans to set a flexible policy framework to manage the interest rates corresponding to the level of reserve money, while allowing greater latitude for private banks to set interest rates. It will encourage public savings through private banks as well as the development of financial instruments such as hire-purchase agreements, mortgage packages and other credit instruments. Further improvements in financial intermediation will begin by appropriately setting deposit-to-capital ratios as well as allowing a wide range of collateral instruments to be used. CBM also plans to support efficient financing of trade and export of manufacturing goods, and consider permitting foreign banks to finance externally-oriented economic activities.

4.4. Fiscal policy and public expenditure management

58. In April, GOM used a market-determined exchange rate assumption in preparing the 2012-13 annual budget plan, and increased expenditures on education and health while reducing the share of capital expenditures particularly in energy, public works and electricity generation. The assumption of the market exchange rate for the state budget increased fiscal transparency among government institutions as budgetary calculations for all agencies used a single rate across the entire government system. As this initiative has significantly removed implicit subsidies previously enjoyed by the majority of State Economic Enterprises (SEEs), the government now plans to improve the performance of the SEEs in the next phase of reforms. With the assistance of international financial institutions, GOM is also undertaking a public expenditure and financial accountability assessment (PEFA) and public expenditure review (PER) to provide the basis for more fundamental reforms of fiscal policy and public expenditure management.

59. GOM also plans to convert the existing commercial tax regime into a value-added tax system using the invoice-credit system. Conversion to a broad-based consumption tax will involve expanding the scope of tax on goods and services, developing a consistent invoice-credit system, reforming excise tax policies and zero rating on exports. Recent actions such as unification of tax rates and the introduction of a credit system on domestic transactions adopted by GOM in April 2012 should help pave the way for a transition to a VAT. GOM is actively learning from the experiences of other countries in order to mobilize a significant public education campaign prior to the adoption of such a change. It also plans to undertake other tax reforms such as rationalizing government revenues, broadening the tax base and developing tax instruments critical to macroeconomic stability.

4.5. State enterprise reform

60. With new budget allocations, the SEEs are now subject to stricter financial discipline as well as strong incentives for profit-making. The government has sharply cut direct subsidies to the SEEs while

opening markets for competition with the private sector. Further, the government is removing the easy credit from state banks which has hitherto been available to the SEEs while limiting arrears on payments to central government funds. The government has also instructed the SEEs to undertake more aggressive collection of receivables, to align closely between investment and profitability, and to reorient goals from output targets to profit. All the managers of SEEs are now expected to focus on marketing and product quality, while improving operational efficiency and investment decisions.

61. While all SEEs are now subject to operating on a commercial basis and using the market-determined exchange rate, further reforms on equitization, commercialization and possible privatization will be undertaken in the future. GOM also takes note of lessons from other developing countries that show there is potential for making major mistakes if privatization proceeds too quickly without properly preparing regulatory frameworks and competition policies. GOM will ensure that the state privatization authority will have sufficient capacity in the areas of project appraisal, valuation and securitization procedures, public auctioning and open tender systems in managing the process of privatizing state assets - particularly for large SEEs. GOM will also take a judicious and cautious approach in privatizing public utilities and infrastructure industries that are critical to the functioning of the economy and are strategic as natural monopolies. It will consider a step-by-step privatization plan by separating or unbundling monopoly parts to be subjected to competition with new firms, establishing regulatory frameworks and institutions, commercializing the state enterprises and attracting private-public partnerships.

4.6. Private sector development and foreign direct investment (FDI)

62. GOM has revised the foreign investment law as well as citizen investment law, with the goal of eventually merging the two before the scheduled formation of the AEC by 2015. Both draft laws are being thoroughly scrutinized by the parliament as the laws represent an important opportunity to reintegrate the country back to the global economy. The new laws envisage not only a wide range of new business lines where foreign investment can operate at 100% equity ownership but also favorable tax incentives, longer lease of real estate, and vigorous standards for environmental and social protection. Specific provisions in law will improve the transparency of the foreign investment regime while the government is planning to build capacity among the domestic judiciary with regard to their regulatory enforcement and intermediations. The investment commission is currently undergoing a reform process to become an independent board where non-transparent licensing practices will be eliminated. Meanwhile, GOM is cooperating with international financial institutions to conduct a comprehensive investment climate assessment to determine the full spectrum and magnitude of constraints to private sector development. GOM will also focus on critical elements of the FDI regime such as creating a positive business environment, providing a level-playing field and other facilitation measures such as one-stop services.

63. GOM is also revising the existing laws on special economic zones (SEZs) in order to facilitate reform platforms that can overcome infrastructure bottlenecks, attract FDI and lead to increased exports. In this regard, GOM will be actively promoting foreign investment through promotion of SEZ strategy, which will emphasize Myanmar as a strategic location for low-cost production base for export destinations within the region. GOM is also taking a vigorous approach to reducing the transaction costs facing domestic private firms in doing business. It will encourage domestic firms to move out of the informal economy by reducing burdensome regulations and removing restrictive and unnecessary government controls while improving access to registration and incentives in the same fashion as with foreign investors.

5. Sector Policies for Inclusive Growth and Poverty Reduction

64. Inclusive growth and poverty reduction will be driven both by effective macro-economic policies and by a focus on effective sectoral strategies, policies and programs. GOM is committed to strengthening both the design and the implementation of those sectoral strategies, policies and programmes in accordance with the overall thrusts and principles of this FESR.

5.1. Agricultural and rural development

65. Realizing the huge potential of the agricultural sector and stimulating broader-based rural development will be critical to achieving both growth and poverty reduction objectives. Myanmar has a relatively high land/population ratio and half the arable land is still fallow. But development of the sector has been constrained by macro-instability, infrastructure constraints, marketing and financial issues, and farmers' lack of access to quality research and extension support. Relatively weak agricultural performance has also impacted negatively on the overall development of the rural sector. Rural electrification and sustainable community energy development is also a priority.

66. The opening up of the marketing system to the private sector, the approval of the new land law and the progressive establishment of a market determined and competitive foreign exchange rate (see para 52) are all important steps in providing an improved policy environment for the agriculture sector. In addition it will be important to move quickly to improve smallholder farmers' access to agricultural credit from the Myanmar Agricultural Development Bank and other financial institutions and build some of the critical supporting infrastructure, including better rural roads and small-scale irrigation systems. GOM also recognizes that compiling credible and accurate agricultural statistics are critical for moving ahead with sector-wide reforms.

67. In parallel with the implementation of these immediate actions, a reform strategy for the sector will be developed that focuses on the totality of issues confronting the sector. Of particular importance will be how to allocate and ensure equitable and sustainable use of land resources among various stakeholders including smallholders and large private companies as well as to preserve fertile land for agricultural use as a means of poverty reduction (versus industrial and tourism zone developments). It will also be important to determine the most effective and efficient means for supporting smallholders in coping with price volatilities and other production and marketing uncertainties. Among them, a substantial improvement in the government's extension and other support services that provide affordable inputs such as seeds and fertilizer will boost agricultural production as Myanmar is currently using inputs at a very low level compared to other Southeast Asian nations. Beside these modes of support at the production level, it is also critical to improve supply chain management in the trading and marketing of agricultural produce, as farmers are faced with high transaction costs, lack of technology and know-how, and poor access to credit at the lowest end of the chain, resulting in them having very little bargaining power to realize higher incomes. Such management can be done in cooperation with specialized leading companies as well as other investors in the agricultural sector.

68. In addition to agricultural development, development of livestock and fisheries is important for both growth and poverty reduction. Reform strategies for these sub-sectors will be developed that focus on measures to reduce production costs and improve product quality while ensuring the balanced development of both the small-scale producers and larger enterprises. In these sectors, priority will be given to removing market distortions and reducing transaction costs, improving feed production and quality, supporting linkages among agricultural sub-sectors and strengthening supply chains and market linkages with neighboring economies. Special attention will be given to minimizing environmental consequences, protecting vulnerable populations and providing capacity building and livelihood support to local populations who are dependent on the sector. Broader development of the rural sector will also be encouraged through cash for work in public projects such as rural road construction, community-driven development projects, employment-guarantee schemes for poorest rural

households, land reclamation services, promotion of one-village-one-product (OVOP) schemes for small enterprise development, cooperative societies and encouraging micro, small and medium sized enterprise in rural areas through microfinance and other measures.

5.2. Industry, manufacturing and small and medium enterprise development

69. GOM will encourage public and private investments in types of industrialization that generate job opportunities and technological development in the near term. At the same time, GOM will step up its efforts of upgrading technological institutes, computer universities, technical colleges and vocational technical schools across the country to be able to support further intensification of industrial growth. GOM recognizes the importance of SMEs for industrialization. Policies for SME development include: establishing one-stop centers for business start-ups that help reduce red-tape, reducing/eliminating administrative controls, supporting provision of land use rights, improving access to credit (both private and public), and helping to build enterprise capacity with respect to finance, marketing etc. Development of micro-enterprises will also be encouraged, including through supporting the development of micro-finance institutions.

70. GOM is also setting up a specialized SME-support centre in Yangon to help emerging businesses and young entrepreneurs to catch up with the reform process. Presently, Myanmar Industrial Development Bank is being transformed into a specialized bank for SMEs, dedicated to supporting incubation projects and research-linkages and facilitating easy access to credit, technology and markets. The emerging SME institutions will facilitate cluster formation between the existing industrial zones across the country and regional technological universities, computer universities, technical colleges and vocational technical schools, which in turn will link up with access points to regional economic corridors in neighboring countries. Meanwhile, the Myanmar Investment Commission has set out an active policy for supporting foreign investment in the SME sector, with incentives for higher use of local contents, transfer of skill, knowledge and technology.

5.3. Energy and Mining

71. If properly developed, Myanmar can benefit enormously from its rich oil and gas, hydro and mining resources. But if not properly developed and managed, experience from other countries shows that such resources can be a “curse”. The government recognizes the need to put in place as soon as possible the measures necessary to avoid the resource curse and ensure the development of such resources are a blessing for the country rather than a curse. Of critical importance will be appropriate macro-economic policies to manage the impact of increased demand for Myanmar’s exports on the exchange rate and inflation rate and facilitate public expenditure smoothing.

72. The government will undertake transparent, competitive and non-discretionary procedures for the award of exploration, development and production rights and ensure that future concession agreements meet high social and environmental standards as well as delivering a transparent and equitable sharing of financial benefits. In this regard the legal and fiscal frameworks under which these agreements are made will need to be revised and modernized. It will also be important that the respective regulatory agencies have clearly defined authority, institutional capacity and resources for monitoring regulatory compliance. Across the energy sector, Myanmar will also undertake deregulation of prices, the adoption of appropriate taxes and the elimination of across the board subsidies while designing pricing and taxation policies to stimulate new exploration and production. It will also develop appropriate tariffs on the services of, and access conditions for, monopoly elements of the oil and gas supply chain, in particular pipelines.

73. The public at large in Myanmar deserve to benefit directly from access to affordable energy. In this regard, GOM is developing a master plan for the electricity sector as soon as possible, which projects future electricity consumption, develops a plan for meeting those consumption requirements, and identifies any necessary regulatory reforms. Since Myanmar has abundant natural gas resources,

it will review the current energy policy, and promote liquified natural gas for household, commercial and industrial use wherever possible. Efforts will be made to increase levels of employment in and the profitability of small scale and artisanal mining without eroding the necessary environmental and social standards.

74. As part of the process of reforming management of natural resources, the government is committed to implementing EITI, which requires governments to publicly disclose their revenues from oil, gas and mining assets, and for companies to make parallel disclosures regarding payments. By signing up to the global standard that EITI sets, Myanmar can enhance the accountability and transparency of her revenue collection efforts. In an accelerated time frame, Myanmar will issue an unequivocal public statement of its intention to implement EITI and begin extensive collaboration with civil society and companies on EITI implementation.

5.4. Infrastructure development

75. For both agricultural and non-agricultural development in Myanmar it is critical that the government proceeds quickly with the completion of high priority infrastructure projects already underway while developing a longer term strategy and program for infrastructure development. In the immediate term priority also needs to be given to urban transportation systems, upgrading of national airports, and clean water utilities which can be expected to bring quick and visible benefits.

76. GOM will emphasize its transport and other infrastructure development to enhance the country's connectivity to regional economies and fulfill the goal of integrating into the ASEAN economic community. It will give priority to building infrastructure projects that will fill the missing links identified in the Master Plan of ASEAN Connectivity, such as transport links with India, China and Thailand. In parallel to these links with the neighboring economies, GOM will also prioritize developing rural-city connections, renovating interstate highways and upgrading the existing road infrastructure to the standards set by ASEAN.

77. In the transport, water and public works sectors, GOM will restructure relevant agencies by enforcing a clear and strict separation between regulatory authorities and service providers and operators. For instance, such restructuring can be achieved in the transport sector by separating regulators (civil aviation authority or port authority) from service providers/operators (airports and port facilities). Public work services will be gradually privatized while building regulatory capacity and authority of the relevant department.

78. Meanwhile, GOM will emphasize improving the quality of the railroad sections that connect important economic centres in the country, namely Yangon-Mandalay-Myitkyitna section and the Bago-Mawlamyine section, and the upgrading of locomotives and coaches. This emphasis on the core links and services will strengthen the previous strategy of developing railroads that connect various parts of the country to the economic centres for the objective of regional equity. Greater attention will be given to regional connectivity and bridging the gaps in operations and compatibility in alignment with region-wide transport strategies.

5.5. Telecommunications and information technology reform

79. The government recognizes the critical importance of developing as quickly as possible the required Information and Communications Technologies (ICT) Master Plan in Myanmar that will facilitate inclusive growth and poverty reduction. More specifically the government plans to enhance citizens' ability to utilize ICT in order to ensure that they actively participate in the technological development of society. GOM will also utilize the ICT sector to strengthen competitiveness by promoting information-based technological and knowledge management throughout various industries and to improve government transparency and efficiency. GOM will also encourage early adoption of e-government functions by using ICT to improve the efficiency, effectiveness, transparency and

accountability of government. In this context, the government plans to extend mobile coverage all across the country, including rural areas, and has set an ambitious target of increasing mobile phone density from the current level of 10 per cent in 2012-13 to 75-80 per cent by 2015-16 as well as increasing internet use to 50% by 2015-16. At the same time, GOM is now developing e-Government national portal as well as forming a steering committee and a task force on e-Government implementation plans.

80. To make this vision a reality and drawing on lessons of international experience, the government is now in the process of preparing a medium to long term plan for the sector and drafting Telecommunication Law and Cyber Law. The strategy and laws will clearly set out how the government will separate the policy, regulatory and operational roles of the government in the sector and establish an independent regulator. The laws will also set out the government's approach to attracting high quality investors into the sector, the potential for the development of joint ventures in the sector, options for licensing new operators without the need for joint ventures, and the approach to privatization of the government owned elements in the sector over time. In November, the government has already invited proposals from international consultants to support it in the tender process of setting up suitable business models. Based upon these inputs, GOM is now in the final stage of preparing an international telecom tender that will invite both domestic and international operators to participate in the planned expansion of mobile networks. Meanwhile, GOM is also planning to form an independent regulatory body to supervise the ongoing process of liberalization and opening of telecommunication sector. Given the critical importance of the sector and the valuable lessons to be gained from the experience of other countries, the government will also be endeavoring to get the best possible advice from ASEAN and other countries on its overall ICT strategy.

5.6. Tourism

81. Tourism is potentially one of Myanmar's most important sectors, with tremendous potential to contribute to greater business opportunities and balancing social and economic development if properly managed and developed. The government needs to support and move forward with constructive engagement to integrate domestic and international tourism into national economic policy, and develop linkages between tourism and other economic sectors to maximize benefits. The government needs to assist in facilitating aspects of systematic tourism development such as capacity building, product development management of existing tourism assets, development of new destinations, relaxation of travel restrictions, development of tourism related infrastructure, marketing and promotion, accreditation and regulatory issues.

82. In parallel, the Ministry of Hotels and Tourism will also be cooperating and consulting with tourism stakeholders to strengthen cooperation mechanisms for the sustainability of inclusive growth in Myanmar. GOM will also ensure that a comprehensive tourism strategy is developed which is commensurate with the cultural and customary practices of local communities as well as the environmental and social endowments of the country. In addition, it is also envisaged that the tourism strategy will make full use of the human resources available within the country, and will enable various levels of entrepreneurs and other stakeholders to benefit from tourism and integrate with the national economy.

5.7. Education

83. Education is a top government priority in view of the currently low level of provision of education and the importance of investment in education for inclusive growth. The average length of schooling is low compared to those of Cambodia, Lao PDR and Vietnam; the quality of education at all levels of the system is generally poor, and the ratio of government expenditure on education to overall GDP is amongst the lowest in the world.

84. To address these issues the government has already increased public expenditure on education significantly and will increase expenditure further in the coming years both absolutely and as a proportion of the total government budget. It is also critical to put in place as soon as possible an overarching education sector reform policy and strategy that focuses on expanding the quantity and quality of education and that recognizes the complementary roles of government, private sector and non-government sectors in service provision. While GOM strengthens regulatory policies to streamline various private and community-run educational programs, it is also moving ahead with the decentralization of education management in line with the requirements of the Constitution by integrating locally-designed teaching curriculum as well as non-formal programs in basic education system. This reform policy and strategy will focus on the need to expand the system of basic education from eleven to twelve years, on child-centred teaching methodologies, upgrading teacher training and other curriculum reforms necessary to enhance the quality of basic education, on teacher remuneration and broader issues of education financing, on establishing a rigorous system for education quality assessment and performance, and on further reforms in the management of basic education including the importance of active engagement in the process by the parents themselves. In addition, GOM will also pay attention to other supportive measures that can address high drop-out rates and out-of-pocket cost burdens on the families.

85. The government will also be undertaking crash training programs to address some of the most acute capacity constraints in the higher education system including rapid improvement in English proficiency among teaching staff; it is supporting efforts to restore the University of Yangon to its former glory together with the formation of “Centers of Excellence” in technical, medical, economics and education training institutes; and greater cooperation with international universities as well as development partners in promoting exchanges, scholarships and technological upgrades. The reform policy and strategy will also focus on measures to enhance the quantity and upgrade the quality of higher education by establishing independent bodies of quality assurance and accreditation systems, management reforms in the university governance and faculty development procedures, and on the procedures for establishing autonomous private higher education institutions and universities. It will also promote technical and vocational education. Last but not least, GOM will ensure that human resource development strategies are set in line with market demands and trends, the necessary adjustments will focus on an entire overhaul of technical and vocational educational institutions, university entrance systems and development of well-rounded generalists and managers through various professional development programs.

5.8. Health

86. Major improvements in the health status of the population are also crucial to inclusive growth. Health indicators are currently much below those of neighbouring countries and GOM will double its commitment in improving health care services and increasing public financing in order to meet the health MDGs as soon as possible. GOM recognizes that provision of basic health services are being constrained by a lack of access to these services, the poor state of the infrastructure, low government expenditures on the sector, a shortage of health personnel as well as weaknesses in training and gaps in the provision of basic materials and services. To address these problems the government has already begun increasing the level of government expenditure on health both absolutely and as a proportion of the total government budget and will focus on a number of innovative measures in health financing such as a voucher system for maternal and child health care, special funds for destitute mothers, strengthening township-level health financing, and greater cooperation with development partners. Particular attention will be paid to allocating more resources to rural primary health care, infectious disease controls and maternal and child health, in view of the acute need to improve health indicators in all these areas. The government is also endeavoring to improve the provision of materials and services to hospitals and expand human resources in line with the newly revised structure of the health departments at community and primary health care levels.

87. Beyond these immediate measures, the government also recognizes the importance of quickly updating its overall health strategy, reviewing current health policies and strengthening the National Health Law. This will include a major review of how best to upgrade medical education, how to retain highly-trained personnel, how to develop an effective health information system and how best to finance primary, secondary and tertiary health programs, including the appropriate balance between public and private financing.

5.9. Employment, Population and Immigration

88. With the significant decline in Myanmar's population growth rate over the past decade from 2.2% to 1.1% per year, the country is now enjoying a relatively young population with a higher percentage of working-age groups relative to non-working, dependent groups. There is a golden opportunity to put this young population to work in building a stronger economy, reducing poverty and narrowing gaps of inequality. But the country's youthful population is currently facing tremendous challenges of unemployment, low levels of education, the menace of infectious diseases and migration issues.

89. The strategies and policies for macro-economic reform and inclusive growth already discussed will, if effectively implemented, do much to increase employment opportunities and strengthen the education and health status of the population. The government will ensure that appropriate policies and programs are in place to address the needs of migrants. Migration of the domestic population to neighboring countries should be dealt with flexibly and the government will consider the poverty, conflict and other root-causes of such movements. The government will be developing measures to support migrants in terms of their basic human and labor rights in foreign countries, facilitate their ability to reconnect with their families and effectively channel their remittances to their families and to aid the development of their communities. The government also needs to consider measures to control some of the current inward migration that is taking advantage of porous borders, lax enforcement and other loopholes and that is causing friction with local populations especially in some remote border areas as well as in regions with rich mineral and forest resources. In this regard, GOM will set up an effective monitoring systems in the border areas in order ensure that rule of law will prevail in these regions.

90. Emigration of skilled manpower from developing to developed countries is a world-wide phenomenon and has certainly been an issue for Myanmar for many years. Now, however, there is an opportunity for Myanmar to reverse this trend by actively drawing talents from the vast network of diaspora professionals around the world who are now willing to contribute to the change process at home. The government will therefore develop appropriate strategies for encouraging the diaspora's contribution to the country's reform process. To underpin the development of appropriate employment and population policies and strategies, GOM will undertake a comprehensive assessment of medium- and long-term changes in population and population profiles. GOM recognizes that a comprehensive and participatory census will give the opportunity to make optimal decisions concerning improvements in education, health and infrastructure services and where resources should be targeted to meet the most urgent needs of the population.

6. Social, Environmental and Cultural Dimensions of Development

6.1. Balanced Development

91. It is important to recognize that many elements of a people centered development strategy will promote economic growth and be good from a social, environmental and cultural perspective. Quick wins such as opening up the mobile phone market will have enormous social as well as economic benefits. The same should be true for public investments in service delivery (rural roads, electrification, health and education); and for policies to improve incentives for smallholder agriculture. But the government also recognizes that, in some sectors, there will be unavoidable trade-offs. This can be the case particularly for “lumpy” investments associated with natural resource development or infrastructure. The identification of stakeholders associated with planned investments and major public expenditure programs is the first step. Early consultations with stakeholders are essential to understand better how the benefits (and possible losses) are distributed and how the stakeholders themselves perceive the distribution. Two consequences follow from early consultations: first the project or program design can often be modified to spread the benefits more broadly without significant efficiency losses; and second, transparent, open, consultations help ensure that decision-makers are informed about relevant trade-offs and are accordingly accountable. Such participatory processes must be an integral part of high quality social and environmental impact assessments. Accordingly the government intends to quickly introduce stricter requirements for such assessments of major projects and programs. In this context particular attention will be paid to guidelines concerning resettlement, relocation and compensation.

92. GOM also recognizes the need to consider the cumulative impacts of projects and programs on regions and groups, both across sectors and through time. Planners and policy-makers will need to consider the longer-term dimensions of a balanced strategy of economic, social, environmental and cultural development, recognizing particularly that stakeholder groups can be affected simultaneously by projects or programs that are considered independently of each other without acknowledging their cumulative impact on particular stakeholders. Decision-making and monitoring processes will need to be open to such cumulative impacts. Taking a longer-term perspective may also help to resolve apparent trade-offs in situations where greater emphasis on equitable development in the short-term contributes to greater sustainability and economic growth over the longer term.

6.2. Workers’ Rights and Social Protection

93. As Myanmar is actively embracing freedom of association, GOM is also facilitating synergistic development of industrial relations between employers, employees and their representative associations. GOM has recently adopted the Law on Labor, which granted labor groups the right to freely establish workers unions and representative associations while guaranteeing basic rights of workers. GOM has not only fully cooperated with the International Labor Organization in abolishing previous laws and regulations that were tantamount to involuntary labor across the country but has also taken initiatives to educate both employers and employees regarding their rights and responsibilities as well as the provisions of the new Law on Labor. GOM is also planning to conduct a nation-wide survey to develop an appropriate minimum wage policy for the benefit of the workers.

94. Myanmar needs a social protection system that is based on the needs of multiple economic groups, including women, children, vulnerable groups, the aged, and people with disabilities. To this end a high-level National Committee for the Coordination of Social Protection, led by the Ministry of Social Welfare, Relief and Resettlement and the Ministry of Labour, will be established. This committee will work towards rights-based, inclusive and systemic policy development, with due attention given to alleviating poverty and addressing inequities, social exclusion, and emergencies. The country also needs to upgrade her readiness to address natural disasters; and in this regard an enhanced natural

disaster preparedness and prevention plan outlined in the Mayanmar Action Plan for Disaster Risk Reduction (MAPDR) will be implemented.

6.3. Environmental Protection

95. The government is committed to protecting Myanmar's biodiversity, conserving natural forests, greening the 17 mountain ranges in the dry zone, encouraging people to get involved in environmental conservation and management, and extracting natural resources sustainably. GOM also attaches the highest importance to its commitment to international cooperation on climate change, while adopting new technologies for bio-diesel and other clean energy as well as actively educating the public about sustainable development. GOM is currently developing a comprehensive Law on Environment, which will entail detailed development of environmental rules and regulations, mandatory compliance of environmental impact assessments in development projects, upgrading and standardization of environmental assessments, joint undertaking with NGOs on broad-based public awareness campaigns.

96. In the forestry sector, it is also critical that timber and other forest products are extracted sustainably with proper technology; therefore, GOM will encourage better use of new technology and foreign investment in processing value-added forest products for future exports. It will also promote participatory projects of community forestry in the previously deforested areas while strengthening laws and regulations in prohibiting encroachment in the protected forest areas. Under appropriate settings, GOM will also consider promoting eco-tourism services in the designated areas.

6.4. Culture and Religion

97. The government is committed to the promotion of the diverse cultural backgrounds of various ethnic nationalities, and facilitating the development of ethnic national cultures and customary practices in educational institutions. It intends to develop cultural zones and preserve world heritage sites and promote the unique cultural as well as social and ecological qualities of Myanmar as part of its tourism development strategy. GOM also attaches the highest importance to the preservation of traditional fine arts, dance and music; therefore, it will also organize special events to promote further integration of traditional values into current efforts of modernizing the economy.

98. The government is also committed to freedom of religion and it will promote economic policies that will distribute social benefits to the entire population regardless of their religious beliefs. It will also encourage cooperative efforts among communities in strengthening the social capital required to overcome difficult aspects of economic transition as well as any future shocks or unforeseeable events of adverse economic conditions.

6.5. Youth and Gender

99. GOM attaches the highest importance to nurturing the well-rounded development of youth by guaranteeing effective and efficient deliveries of all the essential social services as well as by promoting national sports facilities throughout the country. GOM will also pay attention to adverse social conditions such as drug use and the HIV/AIDS epidemic affecting the youth population and plan to increase educational and awareness campaigns on these fronts. GOM plans to engage actively in regional and international sport events, and will host the upcoming Southeast Asian Games in 2013 as an important national effort to revive youthful energy and national unity through such an event. At the same time, Myanmar will continue to main the steady improvement in closing the gender gaps in literacy and primary schooling. GOM will work in cooperation with women federations, development partners and NGOs to prevent violence against women and trafficking in persons.

7. National Harmony and Regional Development

7.1. National Harmony and Peace

100. Consolidation of achievements in political reforms and national reconciliation will be key to the success of economic reforms. The country is embarked on a three-stage peace process: the achievement and consolidation of ceasefires, political negotiations (to include provisions for economic development, the disarmament of militias and appropriate constitutional amendments within a framework of national integrity) and the ratification of a national agreement. Vigorous broad-based economic growth will be needed to sustain the recent ceasefires. Decades of war and insecurity have left these areas with poor infrastructure and services and weak institutions. Local populations as well as the natural resources on which they depend have suffered greatly. If special efforts are not made to assist these areas, economic liberalization could simply open them to further exploitation which, in turn, could ignite a new set of grievances, destroying the current mood of optimism.

101. In the past nine months the Government has made unprecedented efforts to enter into dialogue with armed opposition movement in the Union's ethnic areas, and has concluded ceasefires with 11 of the 12 key armed ethnic groups. In May 2012, the Government launched the Myanmar Peace Support Initiative (MPSI), a program of community-based interventions designed to create popular confidence in the peace process by bringing immediate benefits to conflict-affected populations. Interventions will be implemented by international non-government organizations (INGOs) and community-based organizations (CBOs) and will vary by area; the various "packages" will include activities such as demining, joint monitoring of ceasefire arrangements, community-based development programs and assistance packages for the internally displaced.

102. A key priority for the coming year is to develop and implement MPSI throughout the ceasefire areas. It is expected that the program will be largely complete within the next 12 months. The Government also intends to design and lead a process in which political negotiations are closely supported by a major, multi-year program of economic and institutional reform in the conflict-affected areas. This process will involve all key stakeholders: opposition members, representatives of the various ethnic groups, members of civil society and international financing and implementation bodies. It is expected to attract significant donor financing to supplement Government budgetary allocations.

103. In order to support the political negotiations and to coordinate the technical and financial contributions from various sources, the Myanmar Peace Centre (MPC) has been established. An immediate task for the MPC will be to draw up a draft Strategic Framework for Support to Peacebuilding in Myanmar for discussion and agreement with all concerned parties. This Framework, which will draw on the lessons of successful peace-making from around the world, will set out the proposed objectives, strategy and operational norms that will guide socio-economic support to the conflict-affected areas (the Framework will, for example, define common standards for support to demobilizing militias, IDPs and returning refugees; it will also establish protocols to ensure that development projects are designed in consultation with local populations, and that equitable revenue-sharing arrangements and adequate environmental safeguards are put in place). The Government also plans to convene an international conference on Peace-Building next year.

7.2. Regional development, decentralization and strengthening of local governance

104. GOM is proceeding with the decentralization measures mandated under the new 2008 constitution while considering options for further decentralization in the medium term. GOM implemented the establishment of state and regional governments with an elected assembly as a

significant first step toward political decentralization, it is now exploring mechanisms to improve the functional capacity and accountability of sub-national entities. GOM has effectively decentralized the first batch of 24 departments and agencies to be governed under the directives of state and regional governments while the remaining local institutions are still in the process of further coordination with the central headquarters and ministries.

105. Myanmar inherited a fairly centralized administrative system that went back to the British colonial time. GOM is beginning to address the emerging imbalances between the political, administrative and fiscal dimensions of decentralization that further limit the effectiveness of the new institutions. It is planning to streamline managerial responsibilities between centralized ministries and local departments, clarifying roles and responsibilities between different levels of governance, and is developing appropriate legislative and regulatory frameworks to facilitate devolution and deconcentration of powers and functions of centralized institutions.

106. GOM attaches high priority to developing a participatory process of local budgeting, which should reflect local priorities and needs while corresponding with national policy directions, by delegating decision-making authority over expenditure compositions (between recurrent and capital expenditure) as well as inter-sectoral allocations (between sectors) under the guidance of local parliaments. However, GOM still retains the budgetary controls over health and education expenditure for transitional adjustments, which may be a future subject of decision for fiscal decentralization. In the meantime, GOM plans to ensure that the initial imbalances of decentralization can be corrected through a gradual process of coordination and delegation, which can ultimately reinforce the legitimacy and capacity of the state and regional governments particularly for those that are contributing to parallel process of peace-building and regional development.

107. GOM plans to conduct necessary studies and analyses of the functioning of subnational governance institutions in a range of regions, states and local units, as well as analysis of international experience, to improve Myanmar's decentralization policy. Based on such studies, it will develop a comprehensive policy that can explore ways to bring administrative and fiscal decentralization into closer balance while strengthening the responsibility and responsiveness of sub-national units to the local population.

108. GOM has emphasized that industrial development will be undertaken along with agricultural development in a complimentary manner. It is expected that manufacturing and agro-processing industries, both labor and skill intensive industries, will develop in this synergistic process. In the natural growth of these clusters and value chains, Yangon and Mandalay are expected to have the highest concentration of industrial and commercial centers, potentially serving as "twin growth poles" linking upper and lower parts of the country while facilitating smooth flows of trade from land-locked parts of China and India to Indian Ocean. However, concentrating all economic activities in one or two primary locations or cities would entail serious spatial and environmental consequences. It would be more beneficial in the long run to develop industrial centers throughout the country, where both location advantage and regional as well as social considerations are favorable.

109. In accordance with the current pattern of growth and trade, Myanmar could also foresee the emergence of the following cities as secondary growth centers: Bassein-Sittwe-Kyaukphyu, Mawlamyaing-Dawei, Naypyitaw-Pyinmana-Taungngoo, Pyay-Magwe-Monywa, Myin Gyan-Meikhtila, and Taunggyi-Lashio-Muse. In other words, Irrawaddy Valley, Sittang Valley, and Salween Valley, Shan State and Southeast Corridor can become an industrial belt. Yangon and Ayeyawaddy Delta could serve as ideal locations for industries with higher technology because of the availability of manpower and transport facilities and also easy access to other countries through air ports and sea

ports. Two industrial zones, one in Kyaukphyu of western Rakhine state and the other in Dawei of Southern Taninthayi region, can serve as gateways to the neighboring economies as well as the rest of global markets. All those in Ayeyawaddy and Sittang Valley can become not only agro-processing industrial centers but also centers for other manufacturing activities because of their own special advantages.

110. In terms of infrastructure, these industrial zones or growth corridors must be linked with appropriate transport and communication networks, which should also be connected with the network in neighboring countries. Muse is serving now as the gateway to China and so too are Kyaingtong, Myawaddy, Kawthaung and Dawei to Thailand. Behind these gateways, Lashio and Mawlamyaing are two regional hubs that connect the gateways to two major growth poles, Mandalay and Yangon respectively. To service these trade corridors, Myanmar could undertake parallel development of road and rail network with Kuming in China and Bangkok in Thailand. Meanwhile, Ayeyawaddy could be used as a waterway passage carrying tradable goods between China's Yunnan province and Indian Ocean through Thilawa deep seaport at a much cheaper cost. In fact, this waterway with parallel road and rail networks can open landlocked Southwestern parts of China to the sea and will open a new vista for co-operation between China and Myanmar. two countries.

111. GOM will also develop integrated spatial, development pattern of settlements in Myanmar through, regional and urban development plans that will not only strike a balance between different purposes of land uses and existing stocks of socio-economic infrastructures and environmental resources but also facilitate balanced development crucial for peace, stability and consolidation of the nation. Since 12% of Myanmar's population lives in two major cities—Yangon and Mandalay—contributing 30% of the GNP, and this share is expected to rise rapidly in the future, it is imperative that GOM will draw up urban development strategies that will reinforce linkages between urban centers and rural hinterland facilitating rural development and poverty alleviation of the nation as a whole. GOM is presently cooperating with UNHABITAT and other international organizations, in developing necessary laws and regulatory framework as well as strengthening institutional capacities for sustainable development of urban and regional development projects. An analysis on potentials of different urban centers that will serve as crucial growth engines for nation's development contributing towards poverty alleviations has also been undertaken. However, it should be noted that the above projections are only indicative and Myanmar will have to constantly review connectivity and spatial strategies in the light of changing regional economic situations as well as domestic growth trends. The plan is also meant only for the short and medium term in the period of the next 20 years; across a longer time frame, more regional or state centers could well be developed as trade and industrial centers.

7.3. Security Sector Reforms

112. Myanmar will promote the modernization of security forces in the country in accordance with changing domestic and international situations. Police reforms, reforms of welfare programs of the armed forces and other law enforcement reforms will be developed in line with international and ASEAN standards. GOM will pay special attention to integrated but participatory process of implementing demobilization, disarmament, reintegration and reinsertion programs in the post-conflict areas. It will also cooperate with like-minded institutions within the region and the international community to seek knowledge and technology in upgrading its national security apparatuses. It will pay the highest attention to the institutional and capacity development of security forces that are responsible for law enforcement responsibilities among the civilian population while upgrading capabilities and ensuring the effectiveness of remaining security forces responsible for national defense.

8. Improving Governance

8.1. Public Administrative Reforms

113. From the very inception of the new government, President U Thein Sein emphasized the importance of “good governance and clean government.” His directives on a new motto of the government include the streamlining of existing institutions, creation of new organizations, adoption of results-based management concepts, development of critical success factors and key performance indicators, and an evaluation framework. Drawing on relevant global experiences, GOM recognizes the capacity weaknesses within the public sector, and plans to develop an overall strategy for public administrative reforms and civil service reforms that increases transparency, accountability and meritocracy within civil service. The reforms must be followed up with subsequent capacity building programs for the civil service. Such capacity building programs should aim to improve the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.

8.2. Information access and transparency

114. GOM will step up investment in strengthening the overall statistical and information base and move as quickly as possible to define, legalize and enforce the right to information and to improve citizens’ access to information. In August 2012, GOM abolished the infamous “law on press scrutiny”, and allowed freedom of the private media to inform the public; at the same time, developing an institutional environment for free flow and access to information that empowers civil society. In September, the Office of the President also opened a public access portal for the citizens to submit opinions and complaints direct to the President. Throughout the government ministries, GOM has also accelerated its development of e-governance platforms for quality, transparency and cost-efficiency of government information as well as procedures. GOM is intended that citizens are able to participate in the political process and to be well informed about policy decisions, which in turn will improve accountability. GOM has also emphasized cooperation with civil society, as a strong and active civil society is a critical counterpart to a more capable, responsive and accountable state as well as a stronger, more competitive and responsible private sector.

8.3. Control of corruption

115. GOM has recently submitted a draft law on anti-corruption, which detailed a strategy to investigate and rigorously prosecute those involved in corruption in both the public and private sectors. Fundamental to such a strategy is to reduce the opportunities for corruption while increasing the expected cost to potential offenders. In terms of policy execution, this could be achieved by keeping public policies simple and via appropriate incentive structures. In connection to the control of corruption, GOM also intends to improve regulatory quality; including economic policy liberalization (for example, deregulation of prices or other aspects of production), transparency in corporate governance, and regulatory simplification for business entry. Recommendations may also include, as relevant, the competitive restructuring of monopolies, or the creation of independent regulatory agencies to promote efficiency in industries where competition remains imperfect. Improving transparency is fundamental. GOM’s e-Government platforms are designed to fight against corruption. It is also seeking international collaboration in fighting against corruption by committing to EITI initiatives and other transparency work.

8.4. Rule of Law

116. GOM has continued to work closely with Parliament in the implementation of the reform agenda, including discussion and vetting of reform strategies in line with experience from other countries. GOM intends to open up the process of review of legislation to allow for scrutiny and feedback from all interested stakeholders prior to parliamentary debate, approval and subsequent oversight. GOM, in collaboration with the parliament, will improve citizens' access to law, and to increase public confidence in and abide by the existing laws, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. It will also pay attention to address the incidence of violent or non-violent crime, lack of effectiveness and predictability of the judiciary, and questionable enforceability of contracts; thus, the certainty of doing business will be increased, thereby resulting in increased private investment and economic productivity. It can help both domestic and foreign firms to avoid more costly private means of contract enforcement and protection, and also strengthen the credibility of the state, making implementation of public policy effective. GOM will also undertake legal and judicial reforms to improve the independence and effectiveness of the judiciary to improve the rule of law as well as independent prosecution, enforcement, and legislative oversight.

8.5. Participation and consultation

117. GOM has facilitated participation of non-state stakeholders in consultative processes of national policy formulation while paying particular attention to the potential contribution of the Myanmar diaspora to the on-going process of transformation. As GOM has made great strides in restoring basic freedoms, new forms of public participation are emerging as citizens seek opportunities to actively participate in shaping the policies that affect their lives. In response, governments are exploring new ways to inform and include citizens and civil society organisations in policy making. For instance, GOM has successfully facilitated several town-hall-style meetings in organizing exchanges and consultations among business firms, employers, labor activists, representatives of political parties and civil society organizations to improve industrial relations in the wake of a series of protests in the textile and clothing industry. The Parliament has also set up a special inquiry commission to investigate land disputes between small holders and agro-business firms. GOM recognizes participatory processes of policy consultations as a way of empowerment to the citizens and an important step toward democratic governance; therefore, it will scale up these practices in the future.

9. Repositioning Myanmar in the international community

118. Having been isolated from most of the major economic powers of the world and subjected to severe economic and political sanctions, Myanmar needs to actively and vigorously reposition its role in the international community. Central to this effort is a strategic thrust to take full advantage of its centralized location between two of the world's largest economies, India and China, and its ability to provide strategic gateways for Southwest China to the Indian Ocean as well as for India's "Look East" policy.

119. In this context, the government attaches the highest priority to working with other ASEAN countries to achieve an integrated AEC by 2015. An ASEAN scorecard has been prepared which shows that there has been important progress in all these areas and across all ASEAN countries (see Chapter 2, para 25). But much work still remains to be done across all of the pillars between now and 2015, including ensuring that already signed ASEAN-wide agreements are integrated into national laws and that there are no further delays in the implementation of specific initiatives. The government is committed to speeding up these processes ahead of Myanmar's chairmanship of ASEAN in 2014 and indeed the government's overall reform strategy and the measures outlined earlier in this framework will all be of great help in ensuring that Myanmar is able to meet its obligations according to the AEC timeframe. Nonetheless, it is clear that intensive work will be required across many different government ministries and agencies. To facilitate this work and ensure that it is completed on time, the government has charged the Ministry of Foreign Affairs with the overall coordination of the work required to meet the AEC targets and objectives. The government also recognizes and appreciates the flexibility granted to Myanmar and a number of other lower income ASEAN countries with respect to the timetable for implementation of some of the agreed measures and believes that this flexibility combined with the efforts under the initiative for ASEAN integration to provide specific support to Myanmar and other lower income ASEAN countries will further enhance the benefits to Myanmar from the formation of the AEC.

120. GOM also intends to step up its engagement and cooperation with neighboring countries through other regional cooperation mechanisms as well as bilaterally. Through its membership in the Greater Mekong Subregion (GMS) Economic Cooperation Program, for example, the government will ensure that Myanmar is fully connected to the various GMS transport corridors' and will work with other GMS members to make these corridors economically vibrant. It will also enhance its cooperation with other GMS members in other sectors including energy, telecommunications, tourism, agriculture, environment and human development. The government will also negotiate with neighboring countries for joint use of non-renewable resources for the long-term sustainability of mutual benefits and good relations.

121. In addition to engaging much more actively regionally, the government's overall reform program will lead to the country being much more open globally and much more engaged with other countries both bilaterally and multilaterally. Macro-economic policies will need to ensure that Myanmar both benefits from the dynamic process of globalization and is able to mitigate any particular untoward effects of emerging global economic crises. National competitiveness will need to be enhanced, a reliable path for export-led growth will need to be developed, and Myanmar will need to ensure that it is meeting its obligations with respect to the World Trade Organization and other free trade agreements. Finally, Myanmar will seek international assistance in building its infrastructure and human resource base and in strengthening its overall reform and development program.

10. Costing and Financing of Development Programmes

122. Drawing on the FYP and the budget, this section summarizes the required changes in the magnitude and composition of public expenditure and the likely sources of financing.

Chapter would begin by summarizing the government's current plan with respect to total capital and recurrent expenditures over the coming three to five years, and how these expenditures will be financed – based on the five year plan that has just been submitted to Parliament and other relevant documentation.

Chapter would then indicate in broad terms some of the changing priorities for government expenditures that are emerging from the reform framework – by sector, between capital and recurrent, between central and local etc.

Chapter would also discuss potential additional sources of financing over and above what is projected in the five year plan and including potential support from the donor community.

Finally chapter would put all of this together in a summary of desired total expenditures by major category and desired sources of finance for those expenditures.

11. Working in Partnership

123. Achieving success in both growth and poverty reduction will require the joint efforts of all the people of Myanmar together with the support of the international community. In recognition of this fact, it is essential that both the design and implementation of FESR benefit from the ideas and enjoy the support of all partners. Accordingly the draft FESR will be discussed within the government and then with the private sector, civil society, academics, media and the public at large as well as with the donor community. Discussions will take place at both national and local levels and will focus both on garnering comments and reactions for modifying the strategy as well as on building consensus through discussion and dissemination. The process for managing inputs and changes will be identified in advance and explained to participants to ensure mutual understanding and manage expectations. Drawing on these consultations, the draft FESR will then be revised and presented to Parliament for its consideration and approval.

124. Working in partnership with all relevant stakeholders will also be critical to the successful implementation of FESR. In this regard the partnership between the executive branch of government and Parliament will be critical. To enhance the effectiveness and efficiency of this partnership new guidelines will be issued concerning the preparation of legislation for parliamentary approval that will focus both on ensuring the highest technical quality of the draft legislation and on requiring that the draft legislation is discussed with and benefits from the inputs of all concerned stakeholder groups prior to its submission to Parliament.

125. Implementation of FESR will also depend crucially on effective government partnerships with the business community which brings additional resources, a results and management orientation and practical problem solving skills to development projects and programs. A close working partnership with civil society organizations is also crucial since they have valuable on the ground experience in the implementation of grass-roots service delivery and participatory processes. To facilitate inputs and advice from these critical stakeholder groups the President has appointed political, economic and legal advisors while establishing National Economic and Social Advisory Council to advise on public policy-making. GOM will consult actively with these advisory institutions during the course of the implementation of the framework as well as with other representative groups such as the Federation of Chambers of Commerce and Industry, Myanmar National Committee for Women's Affairs, and other civil society organizations.

126. Finally it will be important to strengthen the partnership with the donor community which brings international experience and additional resources and will ensure that its support is well aligned with FESR and effectively used. In this regard the Foreign Aid Management Central Committee and the Foreign Aid Management Working Committees have been established and donors will be encouraged to support sector ministries in enhancing the quality of their sector reform strategies and development programs and then working collaboratively to support the effective implementation of those strategies and programs.

127. The essence of partnership is mutual accountability and this should be the case in partnerships organized around FESR's development objectives. Private sector partners agree to operate within agreed regulatory frameworks, civil society accepts an environment of public accountability and donors agree to work within the public resource framework channeling disbursements through the budget and not creating parallel implementation units or systems. In return the government commits to implementing FESR in a transparent and accountable manner with a regular monitoring of results.

12. Implementation, Monitoring and Evaluation

128. Reflecting the high level nature of FESR in terms of over-riding national goals and values, its implementation will be overseen by the Planning Commission chaired by the President. A small secretariat will support the Commission by focusing on the monitoring and evaluation process and on updating FESR in line with implementation experience. The secretariat will identify coordination issues and advise the Commission on how they could best be resolved.

129. The Planning Commission with the support of the secretariat will focus on three dimensions of the implementation of FESR. First it will monitor the implementation of the immediate actions and measures outlined in FESR as well as the progress being made on the updating and strengthening of reform strategies that will enable additional measures and actions to be taken. Second, it will monitor progress with respect to public expenditure management and financing including the expected increase in overall government expenditures, the agreed shifts in government expenditures towards high priority programs, and changes in the financing of government expenditures (including the balance between financing from domestic revenue growth and financing from international sources). Finally the Commission and the secretariat will focus on what all of this means in terms of progress on key indicators of economic and social progress. Periodic reports will be prepared on progress being made and on any changes that may be needed in the measures and other work outlined in FESR.

130. To facilitate the work of the Commission and the secretariat and enable objective monitoring and evaluation of progress a results framework has been prepared covering each of the three aspects of implementation. Appendix 2 is a summary matrix of the key policies and other measures outlined in FESR and the expected timelines for their implementation; Appendix 3 provides a summary of the expected changes in the level and composition of public expenditures and in the sources of finance for those expenditures; and Appendix 4 shows the expected impact of the agreed policy and program measures on a number of critical economic and social indicators. As part of the implementation process, priority will also be given to rapidly improving the reliability and availability of economic and social data and strengthening the overall statistical system. This will enable a more rigorous monitoring and evaluation system to be progressively put in place.

Sequencing the Reforms

131. FESR fully recognizes both the urgency and historic scale of reforms required in Myanmar, involving the development of market mechanisms, changes in economic decision-making and the correction of policy distortions inherited from the previous period. Given the depth and breadth of the required transformation, it is impossible for the GOM to implement all the programs of reform in one government term, so FESR proposes a phased implementation strategy.

132. At the same time, GOM recognizes the importance of popular input and support for the reform programs, and it will pay attention to mobilizing participatory processes as well as organizing pro-reform constituencies to maintain momentum for the reforms. In this regard, the sequence in which reforms are undertaken is crucial to the prospect of further reform. FESR pays attention to this fundamental obligation of the GOM to undertake extensive early reforms that can maximize the benefits of reform to the population within the earliest possible time frame. Therefore, GOM is tentatively planning to undertake the following sequence of reforms in the medium term:

Phase 1: Macroeconomic reforms

- GOM fully recognizes the need for fiscal and monetary stabilization as the foundation for undertaking other reforms.
- Trade reforms should be closely linked to fiscal and monetary stabilization, and greater speed of import liberalization should closely related to foreign exchange management reforms.

- The most urgent need remains to tackle the public finances; GOM will undertake concrete measures to reduce the budget deficit to a level which is compatible with macroeconomic stability and reasonable economic growth. These measures include expenditure reallocations, tax reforms and the improvement of the tax collection mechanism.

Phase 2: Quick wins

- GOM will promote further reforms within the tourism sector such as the relaxation of visa application procedures as well as quick disbursement of hotel and accommodation facilities around the country.
- GOM will improve both the quantity and quality of primary health care and basic education in Myanmar in terms of innovative health financing, school grants and student stipends/conditional cash transfers.
- Given a high percentage of agricultural contribution to GDP and employment in the country, agricultural growth is critical for inclusive development. GOM will ensure that food security is achieved throughout the country, and will develop strategies that will channel benefits of reforms and growth strategies towards helping improve the welfare and income of farmers, farm laborers and their dependent families.
- From its very inception last year, GOM has been emphasizing the importance of “good governance, clean government” to improve governance for both growth and poverty reduction particularly in the areas of national budget transparency and acceding to international standards such as the Extractive Industries Transparency Initiative.
- GOM will also ensure that mobile phone and internet services will be quickly improved in order to help people access information, create business opportunities, lower transaction costs and enhance social interaction.
- The country’s commercial city, Yangon, plays a key role in accelerating reforms that benefit a high number of the population, as well as boosting linkages with other regional economic centers. Improving infrastructure in Yangon, particularly public transport systems and port infrastructure, will be a quick win for the reform programs.

Phase 3: Sectoral and institutional reforms

- GOM will start basic institutional and regulatory reforms immediately in order to reduce transaction costs and to help encourage the private sector to make investments during the reform period.
- GOM will continue implementing the process of State Owned Enterprise reforms, from corporatization to privatization, in a transparent and efficient manner to produce greater benefits to the population without causing adverse environmental and social consequences.
- GOM will consider a few innovative schemes in undertaking the tasks of infrastructural development that also provide immediate economic benefits to the poor. Such schemes include Employment Guarantee Scheme for Public Works program, public-private partnerships for the development and management of infrastructure, and improving power provision.
- GOM will undertake other sectoral and ministerial-level reforms with a unified objective of promoting inclusive growth and sustained poverty reduction.

Phase 4: Long-term structural and governance reforms

- GOM will undertake long-term structural and governance reforms that can accelerate Myanmar’s greater integration with the international community where her cooperation and support can be counted upon in meeting the regional and global challenges of the twenty-first century.

133. In undertaking all these reforms in a step-by-step fashion, GOM recognizes that the credibility of public policy plays a crucial role in achieving sustained momentum in the overall reforms. Whenever possible, GOM will also attempt to undertake simultaneous implementation of stabilization and liberalization programs together with a few sector reform strategies that can generate quick wins, which can signal the government's commitment to reform and encourage the overall reform process.

Appendix 1: Schedule of Planning and Reform Work

Work done to date

Work on the preparation of the five year plan for 2011-2015 has recently been completed and has been adjusted to take into account the strategies and priorities of the Government. The plan has now been submitted to Parliament for approval at the next session.

As a complement to the five year plan and in view of the critical importance of both economic and social reforms and the need to ensure that these reforms are effectively integrated and prioritized, GOM has decided to prepare a Framework for Economic and Social Reforms (FESR) which will emphasize the measures needed to promote inclusive growth and poverty reduction. This is consistent with the approach adopted in many other countries beginning on a process of major transition and fundamental economic and social reforms².

Following the approval of the President, work on FESR got underway in May, 2012 and has involved extensive consultations within MNPED and with all other concerned ministries in both May and July. The consultations involved direct interviews and discussion with over 250 officials both at the central and sub-national level offices. Ministries have also provided written inputs on their proposed strategies and reform programs and these are now being consolidated by an expert team into an initial draft of FESR.

Work to be undertaken between September and December 2012

Between now and December 2012, the Government intends to complete the preparation of, consultation on and approval of FESR. MNPED will consult extensively with other government ministries, local government authorities and other stakeholders. FESR will complement the five year plan by focusing much more on the economic and social policies and other reforms that the government intends to undertake that will provide the overall enabling environment for growth, poverty reduction and achievement of the government's other objectives and targets.

Using the draft FESR as a starting point, the Government also intends to begin the process of preparing a national comprehensive development plan (NCDP) or vision for the next twenty years, which will draw on the ongoing work of the Myanmar Comprehensive Development Vision (MCDV). An initial framework for the NCDP will be prepared by the end of 2012. The final NCDP will be completed during the second half of 2013 and will guide the preparation of subsequent national five year plans as well as regional and state development plans.

A work plan for consulting on and completing FESR and beginning the process of preparing the NCDP is attached. GOM expects to present FESR and its initial framework the NCDP to the donor community at a meeting in December 2012.

Additional work to be undertaken during 2013 and beyond

² Most countries beginning major processes of reform and transition have found it necessary to prepare such frameworks though they may give them very different titles, some emphasizing more the reform nature of the document and others emphasizing more the objectives of the document in terms of growth and poverty reduction; in practice the frameworks focus on how the policy reforms and other programs to be undertaken will impact on both growth and poverty reduction

Following the approval of FESR, more detailed work on sectoral and cross-sectoral strategies, policies, plans and programs will also be required. Much of this work will be led by the ministries directly responsible and some of this work is already underway, for example the work being led by the Ministry of Finance on a public expenditure and financial accountability assessment and public expenditure review and the work being led by the Ministry of Education on an overall review of the government's education strategy and policies. This more detailed sectoral and cross-sectoral work will provide important inputs into the completion of the NCDP.

A lot of detailed work on sectoral, cross-sectoral and sub-national strategies, policies, plans and programs (including model village development) is expected to be completed during 2013. But work will continue into 2014 and beyond and together with the NCDP will provide a strong base for the preparation of the 2016-20 five year plan. This five year plan will reflect the full integration of the government's broader policy and broader reform agenda with its sectoral and other programs and will ensure that these policies and priorities are well reflected in budget allocations.

Appendix 2: Matrix of Key Policy Actions (to be completed)

Appendix 3: Public Expenditure and Financing Projections (to be completed)

Appendix 4: Economic and Social Development Targets (to be completed)