

Too Much, Too Soon?

The Dilemma of Foreign Aid to Myanmar/Burma

BY

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FOR

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Cover: Street in Yangon.

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Foreword

Nathan Associates commissioned this report in honor of Robert Nathan and his contributions to Burma's development planning in the 1950s and early 1960s. As reforms in Myanmar are moving quickly and donors are expanding or reactivating assistance programs, we also thought it would be useful to provide an overview of aid going to the country. The Paris Declaration and Busan Partnership are natural benchmarks for the activities of donors and the Government of Myanmar.

The authors point out that Robert Nathan's approach to Burma's economic development was one of the first of its kind. Nathan valued markets for their allocative efficiency. He believed that the country's development plan should make possible

improved levels of living and welfare and human aspiration for all the people of Burma. In order that the improvements it seeks to effect shall be of a lasting character it must seek also to effect a balanced development – in which every productive sector (agriculture, forestry, mining, industry and trade) and every geographic region will participate and share.

Nathan advised increasing expenditures on health, education, and housing to raise labor productivity: "Purely from an economic viewpoint, a development program without these components would be warped and incomplete." He understood, however, that not everything could be done at once and emphasized first improving "productive methods" that would generate the higher income needed to increase expenditures for social programs. "Neither the claims of the future nor of the present should be neglected. A reasonable balance must be struck."

According to Nathan's assessment, the authorities faced four impediments to progress in 1953: (1) internal security; (2) a shortage of skilled labor; (3) government organization and administration; and (4) political will. These remain key challenges. However, the recent pace and direction of reform and the Government of Myanmar's new Framework for Economic and Social Reform provide grounds for new hope.

Words Robert Nathan wrote in 1953 seem just as appropriate today: "There is no reason why Burma, with its limited population in relation to its geographic area and its natural resources, not in time should enjoy one of the highest standards of living among the nations."

JOHN C. BEYER
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Acknowledgements

The authors, Lex Rieffel and James W. Fox, are grateful first of all to Nathan Associates for responding positively and generously to our proposal to undertake this assessment of foreign aid to Myanmar. They dug into the archives and found materials—including internal passports issued to Robert R. Nathan by U Nu's office—that helped us connect to people in Myanmar who had memories of the Pyidawtha Plan. They went to the trouble of digitizing and posting on their website the entire Pyidawtha Plan, including its fabulous drawings and illustrations.

The Brookings Institution supported our assessments of the Millennium Challenge Corporation in 2005 and 2008, and several Myanmar-related projects, before agreeing to host the launching of this assessment. The Brookings Institution opens doors in ways that few other policy research institutions can match.

Our sources are too many to name. Their candor in our interviews, we suspect, was only marginally encouraged by promising not to quote them directly. We are especially appreciative of our Myanmar sources, who interrupted arguably more important activities to offer their views on the foreign aid scene. We were much impressed by the eagerness of most donor agency and international NGO representatives to tell us their stories and answer our questions. Others in Washington D.C., Bangkok, and Yangon who reviewed the first draft of our report helped us immeasurably to understand the historical and global context and produce a factually accurate report. Prominent among these is David Steinberg, Distinguished Professor of Asian Studies, School of Foreign Service, Georgetown University, and the dean of Burma Studies in the United States. Others are Terry Myers, retired from USAID and now teaching at the National Defense University, and Sean Turnell, at the Faculty of Economics at Macquarie University in Australia.

Any errors or misrepresentations that remain are a reflection on us, not on any of our sources or our sponsor.

MARCH 30, 2012

... we must turn to national industrialization to transform [the] country into a developed, rich one with a lot of employment opportunities and high per capita income.

...we have to ensure [a] proper market economy designed to reduce the economic gap between the rich and the poor, and [the] development gap between urban and rural areas.

—President Thein Sein, Inaugural Address

JUNE 19, 2012

We started the second phase of reform strategy this year and it gives special focus on promoting the interest of the Union and the people while maintaining the development momentum we have gained in restoring national reconsolidation, State peace and stability, the rule of law, and security of public lives.

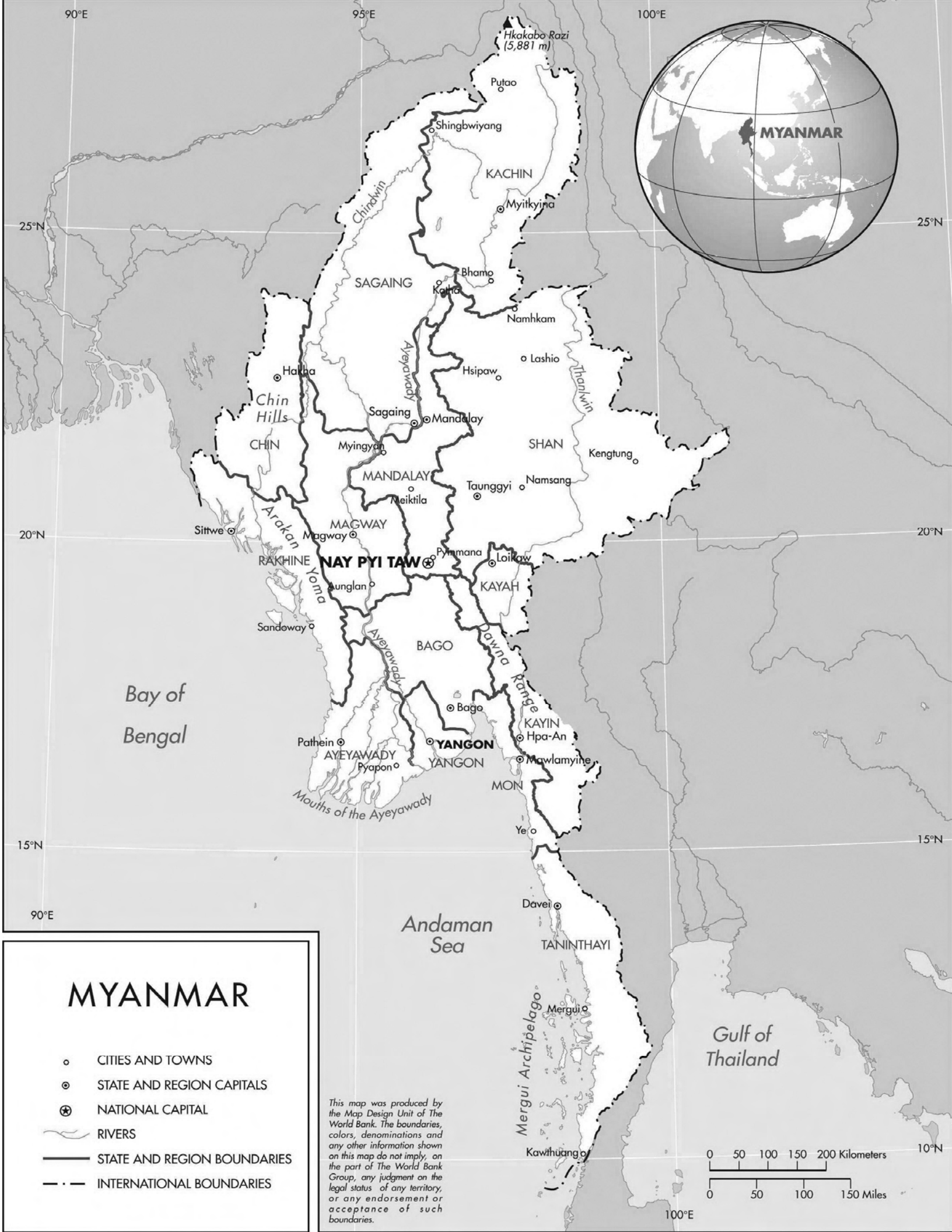
—President Thein Sein, “Second Wave” speech

DECEMBER 26, 2012

. . . both the government that is made up of the representatives elected by the citizens, and the civil servants who draw salaries from tax revenue and serve the public, must strive with determination to create the conditions to foster good governance and an efficient government. In addition, all political, economic, social and administrative reforms undertaken by the government must aim at achieving grassroots-based development. . .

The administrative reforms . . . in line with the people-based development strategy should transform government officials into public servants who truly serve the public. In order for this to happen, officials from the ward/village level to the union level must change their mindset, old behavior, and the way they used to perform in ways that will make the government more transparent, accountable, clean and effective.

—President Thein Sein, “Third Wave” speech



Introduction

At the end of March 2011, Myanmar¹ began an ambitious political transition led by newly elected President Thein Sein. Bold moves in his first year included opening a dialogue with opposition leader Aung San Suu Kyi, suspending construction of the Chinese-funded Myitsone Dam, and abandoning a grossly overvalued exchange rate in favor of a market-determined rate. These moves unleashed a swarm of visitors seeking to support the transition and “make a difference”: prime ministers, foreign ministers, heads of donor agencies and international NGOs, chief executives of multinational corporations, and many others.

The question posed in this report is whether the outpouring of foreign aid to Myanmar expected in the medium term (3-5 years) will be more of a blessing than a curse. The question may seem unfriendly or ideological on the surface, but merits being taken seriously because of the experience of a handful of countries over the past 10-15 years that have suffered from large and rapid build-ups of foreign aid.

As posed, however, the question is too stark. A gentler version is: what steps can be taken by aid donors and the Government of Myanmar to enhance the effectiveness of aid programs and projects, and mitigate possible adverse consequences?

Our report begins with a brief discussion of the dilemma of foreign aid to Myanmar: how it can be harmful despite the best intentions of the donors. We then present the policy implications of our findings, for the Government of Myanmar and for the donor community. The next two parts of the report describe the Government of Myanmar’s national planning process and the steps it is taking to manage foreign aid. We then assess donor performance against the principles of the Paris Declaration and the Busan Partnership. The last two parts describe donor activity in general terms and then individually for Myanmar’s major development partners.

¹ In 1989, the military junta changed the country’s name from Burma to Myanmar and this change was officially accepted by the United Nations. We generally use Burma when referring to the country before 1989 and Myanmar afterwards.

We have included four appendices with different audiences in mind. Appendix A describes the historical, political, and economic context for readers who are not familiar with this background. Appendix B elaborates on the standards of aid effectiveness contained in the Paris Declaration and Busan Partnership. Appendix C highlights lessons learned from other countries that have been challenged by strong donor interest. Appendix D recounts newly independent Burma's first experience with national development planning, featuring the work of the American economist Robert R. Nathan, and calls attention to a comparable Japan-supported effort launched in 2001.

We should be clear about the limitations of our report on foreign aid for Myanmar. In particular, our knowledge of Myanmar is limited. Altogether we have spent less than six months inside the country over the past 45 years and we do not speak any of the local languages. Moreover, with our 50-year perspectives on economic development, we know that the world's leading experts are still unsure how to explain China's phenomenal progress or Argentina's lack of progress. These experts are even more unsure about how to adapt lessons from global experience to a country like Myanmar that is undertaking a sweeping reform effort with a legacy of complex internal conflicts and poverty-inducing governance.

1. The Issue

Approaching the second anniversary of the Thein Sein government, foreign aid is starting to pour into Myanmar. The flow is more in the form of scoping missions and project preparation missions than money, and it is possible that the money will come slowly because of implementation constraints within Myanmar or political setbacks. However, if the transition goes as smoothly in 2013 as it has in the first two years, the flow of foreign aid funding to Myanmar could exceed in relative terms the experience of any other country in the world.

If you don't have a
Myanmar visa in your
passport, you're a nobody.

– *Private investor, Bangkok,*
October 19, 2012

Every respectable aid agency and international NGO in the world is planning to initiate or expand operations in Myanmar. The best and the brightest in these organizations are pushing to be posted in Yangon or to manage the Myanmar account. We were told that in a recent survey of World Bank employees, 80 percent listed Myanmar as their first choice for an overseas posting. Administrators of the Princeton-in-Asia program have described a fellowship in Myanmar as “the hot ticket” for its current applicants.

Foreign aid is not always a blessing. Countries in recent years that appear to have received too much aid too soon include Cambodia, and Nepal. The record of foreign aid around the world is littered with cases of wasteful and even harmful projects and programs, as William Easterly and other scholars have documented. Specifically with regard to Myanmar, Adam McCarty and Kelly Currie have warned that the mistakes made elsewhere could be repeated in Myanmar, thereby slowing its transition to better governance and economic progress or even triggering a reversal.

Our assessment of foreign aid to Myanmar is greatly facilitated by having a handy template for this purpose. In 2005, the OECD convened representatives of donor agencies and developing countries to seek agreement on a set of principles to address a number of endemic problems that had emerged from years of development assistance in which the results achieved had been less than promised. The result was the Paris Declaration on Aid Effectiveness. Follow-up meetings were convened in 2008 in Accra, Ghana, and in 2011 in

Busan, South Korea. The Busan meeting is especially relevant to Myanmar. Our assessment is keyed to the five core principles in the Paris Declaration and the elaborations contained in the Busan Partnership for Effective Development Cooperation. (See Exhibit 1. More information about the Paris Declaration and the Busan Partnership is provided in Appendix B.)

Exhibit 1

The Paris Declaration on Aid Effectiveness

Forty-five years after the United Nations declared the 1960s to be the “development decade,” and the expenditure of hundreds of billions of donor dollars of “development assistance,” a view among experts emerged that foreign aid was failing to achieve its overarching objectives: global peace and prosperity. Many countries, particularly in Africa had “undeveloped,” yielding conditions for ordinary people worse than in 1960. Furthermore, China, the world’s largest poor country, had brought hundreds of millions of its citizens out of extreme poverty with little help from the foreign aid community.

Among numerous shortcomings of foreign aid programs identified, the most egregious were as follows:

- Independent approaches to programming, with each donor seeking to “make a difference” with its own projects, regardless of activities in the same area by other donors.
- Pressure to accelerate disbursement of committed funding, leading to a proliferation of “project implementation units” that bypassed government ministries. These units pulled competent government officials out of the public sector with better salaries, more computers, project-funded motor vehicles, etc., and then closed down when project funding ran out.
- A succession of global fads that saw donors prematurely reducing activities in old areas in order to be “with it” in new areas.
- Requirements for sourcing procurement from the home country. A typical result was graveyards of medical equipment in hospitals because of a lack of training or spare parts.

In 2005, representatives of multilateral development agencies, bilateral donor agencies, and developing countries reached agreement on “the Paris Declaration” for improving the delivery of aid. The declaration enshrined five principles:

1. **Ownership.** Developing countries set their own strategies for reducing poverty, building strong institutions, and tackling corruption.
2. **Alignment.** Donor agencies align behind these objectives and use local systems wherever feasible when implementing their programs.
3. **Harmonization.** Donor agencies coordinate, simplify procedures, and share information to avoid duplication, including joint planning missions and joint projects.
4. **Results-oriented.** Developing countries and donor agencies shift focus from inputs to development results and take steps to effectively measure actual results.
5. **Mutual Accountability.** Regular meetings between developing countries and donor agencies are held to assess results and correct deficiencies.

Follow-up meetings in Accra (Ghana) in 2008 and Busan (Korea) in 2011 further solidified these principles. In Busan, some newer donors, notably India and China, took the position that their status as poor countries allows them to avoid such constraints on their aid. The Busan Partnership also recognized the importance of the private sector in development, as well as stressing the benefits of open trade and investment regimes.

The general disillusionment with foreign aid sometimes obscures the remarkable progress of developing countries over the past 50 years, especially in reducing mortality and morbidity, but also in raising standards of living generally for billions of people. Foreign aid has certainly played some role in this progress, but the bigger role has been played by country leaders who have adopted pro-growth policies, by entrepreneurs in the private sector who have seized opportunities to create productive employment, and by individuals who have accepted the risks of abandoning traditional ways of life while adopting modern technologies and embracing globalization. Where foreign aid supported sound country efforts, it paid dividends. Where it supported countries pursuing inappropriate policies, as in much of Africa in the 1970s, it can only claim to have slowed the pace of un-development.

A fundamental problem with any attempt to assess foreign aid in a particular country is the absence of a consensus among experts on how to foster economic and political development in low-income or “backward” countries generally. For example, there is an ongoing debate between proponents of rapid reform (“shock therapy”) and proponents of gradual reform in transition countries.

The case for rapid reform rests on seizing a political moment to overcome vested interests capable of blocking measures that empower people in ways that lead to broad-based economic progress. But these measures—as in the case of Russia—sometimes create new vested interests that are growth inhibiting. The case for gradual reform rests on avoiding disorder that would interrupt or reverse the transition. But social peace bought at the outset—as in the case of Hungary—can be offset by severe social tensions and reform setbacks a few years later.

President Thein Sein opted for rapid reform when he sketched out the vision for the country’s future in his Inaugural Address. His government has astonished its own citizens as well as outside observers by implementing sweeping reforms at a rapid clip. It remains to be seen, however, whether this course was too ambitious, and whether the response of foreign donors and foreign investors will validate the choice or derail it.

The Thein Sein government is in effect presiding over a triple transition: social, political, and economic. The social transition seeks to resolve the conflict between the Burman majority and the ethnic minorities that has plagued the country since independence. This is Myanmar’s existential challenge. Without a peace that makes the ethnic minorities want to be part of the country and to participate in building a modern state, it does not seem possible for Myanmar to escape the poverty of the past and achieve the improvement in living standards that other Asian countries have achieved over the past 50 years.

The political challenge is also daunting. The other East Asian countries benefitting from decades of rapid economic growth have been led by authoritarian political regimes, with democratic rule arriving after middle-income status was reached. The Thein Sein government is reversing this process by pursuing economic growth in a multiparty political system with

democratic values. The latest Southeast Asian country to make the transition from authoritarian to democratic rule—Indonesia in 1998—has yet to achieve pre-transition rates of economic growth and is struggling with some severe governance problems.

The economic transition, away from state-dominated socialism to a competitive market economy, should be the easiest because it started more than 20 years ago and because there is no visible opposition to this transition. There are, however, deep cultural attachments to socialist ideals and entrenched vested interests that make the near-term outcome uncertain.

Our assessment of foreign aid to Myanmar is impressionistic, not quantitative. Between 20 October 20 and November 3, 2012, we interviewed a cross-section of aid givers and aid receivers in Yangon and Naypyitaw. One of us also attended the First Myanmar Development Cooperation Forum on January 19-20 in Naypyitaw. Although we sampled only a small portion of a large universe, our interviews yielded ample evidence that the flow of foreign aid to Myanmar is likely to be greater than Myanmar's capacity to absorb it. The interviews also uncovered evidence of donor activities incompatible with the principles of aid effectiveness laid out in the Paris Declaration and the Busan Partnership.

A final introductory point is that foreign aid, as massive as it might become, will be dwarfed by flows of private capital to Myanmar. Aid from governments, both traditional donors like the United States and new donors like China and India, is constrained by budgets in a world where fiscal deficits are endemic. Globally, flows of private capital to developing countries began to exceed official flows in the 1980s and by the mid-1990s they accounted for more than 90 percent of the total. Today the world is even more awash in private capital. In other words, the choices made by the Government of Myanmar in managing the inflow of private capital in the years to come will have a bigger impact on the country's economic (and ultimately political) progress than the choices it makes with respect to foreign aid flows. This point is not intended to diminish the importance of foreign aid. Instead it is intended to highlight the contribution that foreign aid can make in helping the Government of Myanmar channel flows of private capital (foreign direct investment, remittances, etc.) toward productive activities.

*Foreign aid . . . will be
dwarfed by flows of private
capital.*

The record of donor performance in working with private capital is not encouraging. A 2011 report for the OECD in the run-up to the Busan meeting on aid effectiveness took a patronizing attitude toward the private sector, giving more emphasis to how private companies could be more like donors than how donors could leverage the power of private enterprise to advance economic well-being in poor countries. The Naypyitaw Accord, adopted at the January 2013 donor conference, offers some hope that Myanmar's aid donors will be more helpful in this area.

2. Policy Implications

For the Government of Myanmar and Donors

We see eight overarching challenges that will have a bigger influence on Myanmar's future development than the amount and form of foreign aid it receives. The implication for the government is that Myanmar's transition will be jeopardized if it allows donor activities to divert its attention from addressing these challenges. The implication for donors is that their long-term objectives are more likely to be achieved if, at the outset, they create space for the government to deal effectively with these challenges and provide critical support when and where it is needed. The eight challenges are:

1. *The peace process.* Without peace, there can be no development. One complication is that some ethnic minorities committed to ceasefire agreements are opposing proposed "development" activities, such as improving roads and creating industrial zones, out of concern that they will infringe on the goal of regional autonomy by strengthening the position of the Burman majority.
2. *The political system.* The kind of checks-and-balances system created by the 2008 constitution has produced dysfunctional governments in other countries. Judging by the legislative record of 2011 and 2012, it may not be easy to avoid such an outcome in Myanmar. The controversy that led to the resignation of the Constitutional Tribunal in 2012 is an example of how difficult it may be to achieve the goal of good governance.
3. *Macroeconomic policies.* The Asian experience over the past 50 years highlights the benefits of macroeconomic discipline (low inflation, balanced budgets, an undervalued exchange rate). This kind of discipline can be hard to maintain in a multiparty political system where elected representatives tend to modify budget plans in directions that are inconsistent with fiscal soundness.
4. *Private capital flows.* The world is awash in private capital and it will pour into Myanmar at the first sign of high returns with moderate risk. We were told, for example, that the CP Group in Thailand could easily invest \$500 million within a year or two. Opening the door to private capital too fast and too far could jeopardize the transition by upsetting vested interests, ignoring cultural sensitivities, or exacerbating corrupt behavior.

5. **Resource extraction** (including renewable resources like hydropower, palm oil, and rubber). There is a quadruple challenge here: (i) slowing down the rate of extraction to a sustainable pace; (ii) avoiding pressure on the exchange rate that makes nonresource exports uncompetitive; (iii) obtaining full value—for the country as a whole—of the resources being extracted, which will require renegotiating pre-2011 contracts; and (iv) investing the value in ways that will benefit future generations, such as a sovereign wealth fund.
6. **Land grabbing.** This is a socially explosive issue and sadly there are few good models elsewhere in the world for mitigating it. Possible strategies include imposing a special tax on large land holdings or reserving for traditional land users a residual interest in land acquired for development purposes.
7. **Agriculture sector development.** Seventy percent of Myanmar's population is rural and therefore dependent on agriculture. Economic progress in Myanmar is inconceivable, either in the short term or the long term, without policies and programs that raise rural incomes. So far, the few steps taken by the government in this area fall well short of what will be required to make the agriculture sector an engine of growth.
8. **Education.** A big part of the tragedy of Myanmar is how its legacy of educational excellence has been squandered. Smart policies and smart investments in the education sector today could yield higher returns in the long term than any combination of policies and investments in any other sector. Measures to encourage the return of Myanmar's talented diaspora could have a high impact in the short term.

Of course, there are strategically vital steps to be taken in many other areas such as power generation, transportation infrastructure, mobile telephones, internet access, and financial services. We do not dwell on these here because we see real progress occurring without additional efforts on the part of the government or the donors. A fundamental policy challenge in each area will be to provide adequate government regulation and avoid excessive direct or indirect subsidies.

For the Government of Myanmar

1. **Policies are more important than plans.** Planning is seductive because it gives governments a sense of control and progress. In the kind of transition Myanmar is undertaking, however, time spent by officials on long-term planning can be a diversion from the daily formulation and implementation of policies necessary to remove obstacles to development and enable the population to engage in more productive activities.
2. **Say "No" more often.** It is not wrong to be cynical and assume that all foreigners bringing money—aid donors as well as private investors—are more interested in advancing their own interests than helping Myanmar. By acknowledging the high opportunity cost of time spent to accommodate foreign visitors, officials can be more effective. One step taken

by other countries to mitigate the problem is to declare a “quiet period” during the annual budget preparation and approval process, a period when no aid delegations will be received by government officials. Another step is requiring advance approval for visiting delegations and adjusting their schedules to conform to the government’s calendar for conferences and workshops.

3. ***Get the right people in place and worry less about institutions.*** Much has been said about the weakness of institutions in Myanmar. Experience elsewhere suggests that building strong institutions in a country starting where Myanmar did in 2011 takes a full generation at least. By contrast, selecting the right people today to be ministers, deputy ministers, and director generals can determine the near-term success or failure of the transition. Retaining under-performing officials can be especially harmful.
4. ***Require donors to undertake joint programs and projects.*** Myanmar’s multidonor trust funds were created in large part to achieve the effectiveness called for in the Paris Declaration, yet there seems to be little pressure from the government on donors to allocate more of their aid to these funds and other joint activities. One step in this direction could be a policy of expecting donors to allocate a minimum share of their aid, perhaps 30 percent, to joint activities. Encouraging common practices, such as the per diem provided for in-country training, would also help to reduce competition among donors and “aid shopping” by ministries.
5. ***Keep donor coordination in its place.*** Donors may gain more from giving a high priority to aid coordination than the people of Myanmar. For the people, the benefits of foreign aid come primarily from good projects. The key step for getting good projects has little to do with donor coordination. It has everything to do with shaping individual projects to ensure that they will add value.
6. ***It’s about the people, not the resources.*** How rapidly the government moves from a development strategy based on extracting the country’s natural resources toward a strategy based on upgrading its human resources will be a major determinant of Myanmar’s future. Most aid donors understand, at least in principle, the need for capacity building. They can also be important allies in promoting sustainable resource management through activities such as the Extractive Industries Transparency Initiative.
7. ***Coherence and consistency are important.*** One of the pitfalls in a quasi-democratic system is conflicting views among national leaders on key policy issues. The more policy coherence and consistency over time that the Myanmar government is able to achieve – across ministries, with the legislature, and with the opposition – the easier it will be to implement policies that catalyze productive investment and gain public support. (See Exhibit 2 on Aung San Suu Kyi’s views on foreign aid.)

Exhibit 2

Aung San Suu Kyi and Foreign Aid

Aung San Suu Kyi's views on foreign aid are important both because of the special role she plays in the political life of Myanmar and because some major donors are particularly sensitive to her views on their activities.

Between 1990 and 2003, Daw Suu Kyi strongly opposed official assistance to the country in general. In January 2003, the NLD issued a statement reflecting her views that indicated some openness to foreign aid: "If foreign governments wish to grant aid, humanitarian assistance such as funding for AIDS prevention, it must meet certain criteria including transparency, accountability, and independent monitoring systems."

After Daw Suu Kyi's historic meeting with President Thein Sein in August 2011, her views began changing so that by the end of the year she was welcoming discussions between aid donors and the Thein Sein government and was meeting with high-level scoping missions.

Beyond a general openness to foreign aid, there is little in the public record on the current views of Daw Suu Kyi and the NLD about foreign aid, and what can be found is ambiguous. For example, at an ILO conference in Geneva in June 2012, she said: "I would like to call for aid that would strengthen the democratization process by prompting social and economic progress that is beneficial to political reform."

During her visit to DFID headquarters in London the same month, she said: "Aid that is given with the right intentions—in the right way—works. It must empower the people and promote the principles of a genuine democratic society." *The Myanmar Times* on November 26, 2012, quoted her as saying "[Foreign aid] doesn't need to strengthen the government but needs to strengthen the public. ... the power of the government is very strong. If this is strengthened, democratic activities won't be free from mistakes."

For the Donor Community

1. **Create space for Myanmar policymakers.** Ministers from donor countries, business leaders, movie stars, and many others have been besieging their embassies and aid missions in Myanmar to arrange appointments with senior officials in the Myanmar government. A first step in creating space for Myanmar policymakers is to postpone visits and shorten them as much as possible. Another step is for embassies and missions to develop working relationships with officials at lower levels. This not only creates space at the top, it also helps to build capacity within the bureaucracy and for senior officials to become more comfortable with delegating authority. A related issue is the choice of locating aid missions in Yangon or Naypyitaw. (See Exhibit 3.)
2. **Build capacity before implementing projects.** In the rush to get started and show quick results, donors inevitably design and begin implementing projects before their Myanmar counterparts are ready to participate meaningfully in this process. It is not possible to train counterparts before the first wave of donor projects is launched. Now is the time, however, to start building capacity in counterpart ministries for the second wave of projects.

Exhibit 3

Yangon vs. Naypyitaw

Embassies and donor offices are naturally reluctant to move from bustling Yangon to the new capital in Naypyitaw, which has few attractions for foreigners and probably rates as one of the world's worst examples of urban planning. Moreover, the political opposition has not embraced Naypyitaw as the country's capital any more than it has embraced the 2008 Constitution or the change in the country's name from Burma to Myanmar.

For the government of Myanmar, encouraging embassies and donor offices to remain in Yangon could have the advantage of slowing the flow

of visitors and making it easier to avoid them altogether. Abandoning the capital now would be hard to justify on economic grounds as there are many ways to make it more livable and efficient over time.

DFID and AusAid opened a joint liaison office in Naypyitaw in January 2013, and other multilateral and bilateral donors are planning similar moves. It will be interesting to see how this trend develops. Arguably, locating in Naypyitaw is more compatible with the principle of country ownership and the goal of enhancing aid effectiveness.

3. ***Doing no harm is more important than following the Paris and Busan principles.*** A classic mistake made by donors is to offer policy advice and propose programs and projects before mastering the political dynamics and cultural constraints of the receiving country. A related mistake is believing that a policy, program, or project that worked well in one country will work well in others. It will take a miracle to avoid multiple mistakes of both kinds in Myanmar in the next 2-3 years. The risks of doing harm are especially great in the areas of peace building, strengthening democratic institutions, and promoting the rule of law. The role of donor aid in supporting Indonesia's transition to democratic rule after 1998 illustrates how far outcomes can diverge from intentions (see Exhibit C-1 in Appendix C).
4. ***Avoid burdening the government with institutional rivalries.*** One of the most disconcerting aspects of the aid business for developing countries is the constant criticism they hear from donors about the failures and missteps of other donors. Particularly acute is the infighting among U.N. agencies. A major effort in Vietnam to put all U.N. agencies "on the same page" had only modest results after several years. Each one was inclined to give priority to directions from its headquarters, just as bilateral donors pay more attention to their capitals than to in-country coordination. A certain amount of carping is inevitable, but the competition in Myanmar is so intense that country managers will have to make exceptional efforts to prevent longstanding rivalries from becoming a serious impediment to aid effectiveness.
5. ***Be tolerant of different approaches to foreign aid.*** Several Western donors expressed concerns about Asian donors rushing into Myanmar without regard to the complexities of the country or proper coordination with other donors. Little will be gained from making an issue of such differences at this stage. The Asian donors will make mistakes and the Western donors will make mistakes. It's the nature of the beast.

6. *Be realistic.* It is easy for donors to underestimate the existing capacity of the Myanmar government and its ability to learn quickly. It is equally easy to expect too much. Aid effectiveness in the near term will depend greatly on ability of donors to find capable counterparts in the government and manage expectations in their headquarters. In the aid business, it is always better to under-promise and over-perform. In actual practice, under pressure from their headquarters and their legislatures, country missions tend to act the opposite way.
7. *Be more innovative.* One close observer of aid to Myanmar in recent years lamented the extent to which donor programs represent business as usual. One of the advantages of giving aid to Myanmar today is starting with almost a clean slate, with relatively little baggage of past practices. As a result, unconventional approaches may have a greater chance of succeeding. One example is cash-on-delivery aid. (See Exhibit 4.)

Exhibit 4

Cash-on-Delivery Aid

Some proponents of aid effectiveness, notably the Center for Global Development (CGD), have argued that the complex requirements for financial management and traceability of funds that donors impose on partner countries are an obstacle to effective aid. Donors disburse against documented expenditures, not on-the-ground results. Such intrusive oversight is inconsistent with capacity building in host country institutions. Scarce human capital in ministries is used to track money instead of focusing on effective implementation of projects. Accountability is pitched to donors more than to the country's citizens.

The CGD's alternative, proposed in 2010 by Birdsall and Savedoff, moves around bureaucratic hurdles by simply paying a government for achieving a particular development result—providing water to rural communities or increasing literacy, for example. The payments can be calibrated in a number of ways, such as the average cost of achieving the same result through traditional aid mechanisms. DFID is the first donor agency to experiment with this approach. Three pilot projects are underway, the first being for education in Ethiopia. None has yet been completed.

The World Bank launched a new modality for grant assistance in January 2012—its first such initiative in more than two decades—that bears kinship to the CGD proposal. Called Program for Results, or PFR, it has produced five agreements in the first year of operation and Bank staff expects another 14 agreements by mid-2013. Two examples are in Nepal and Uruguay where a fixed amount of foreign exchange is being provided for completion of each small bridge constructed and for each mile of road built, respectively. When the specified work is finished and verified, often by an external agent, the local currency counterpart goes to the implementing ministry or agency, in effect reimbursing the costs of successful implementation.

The World Bank initiative falls short of Cash-on-Delivery in several ways. For example, the initial guidelines set by the Bank's Executive Board are more limiting (size of project, exclusions) and intrusive (right to investigate possible malfeasance). However, such conditions may be relaxed in the future if experience with the initiative is sufficiently positive.

3. The National Planning Process in Myanmar

A first step in managing foreign aid and asserting country ownership is to put in place a respectable national planning process. Myanmar's first national plan was a two-year plan launched with independence in 1948. The country has had an unbroken succession of major and minor plans since then. (See Exhibit 5. A fuller description is provided in Appendix D.)

A Planning Commission chaired by the President was established in 2012 to guide the planning process for the current transition. It met in June, August, and December. At its December 26-27 meeting, it approved the draft Framework for Economic and Social Reforms (FESR, see below). The Ministry of National Planning and Economic Development (NPED) serves as the secretariat of the Planning Commission.

Three distinct but overlapping national development plans are relevant to foreign aid today. First, the operational plan for the Thein Sein government's first year was the "Fifth Five-Year Short-Term Plan" for the period FY2011/12 to FY2015/16, the last in a series of five-year plans initiated by the previous government. Annual plans to implement the first two years of this cycle were submitted to the legislature and were approved with some adjustments. In January 2013, the Thein Sein government submitted to the legislature its own plan for the FY2011/12 to FY 2015/16 period.

Second, a National Comprehensive Development Plan (NCDP) is being assembled by the Thein Sein government using a top down-bottom up approach. It will consist of a set of four five-year plans beginning with the new FY2011/12 to FY2015/16 plan. Broad goals are being set at the top and detailed plans (wish lists) are being developed by every township and by every ministry and agency of the government. Over the coming months, these plans will be merged into a coherent whole with a view to seeking the approval of the legislature in the second half of 2013.

An important input for the NCDP will be the Myanmar Comprehensive Development Vision (MCDV), an exercise being undertaken by the Economic Research Institute for ASEAN and East Asia (ERIA). The exercise was launched at the 3rd Mekong-Japan Summit in November

2011 and is funded primarily by the Japan-ASEAN Integration Fund. It will involve as many as 100 sector and subsector studies and is noteworthy for two reasons. First, it seems to have escaped the attention of much of the donor community. Second, it sketches out a promising development strategy of “two-polar growth with border development and better connectivity” based on some of the latest theoretical analysis of economic development.

Exhibit 5

The Pyidawtha Plan and Subsequent National Development Plans

In August 1951, the Government of the Union of Burma entered into a contract with a leading American engineering firm, Knappen Tippetts Abbett (KTA), to produce a “comprehensive, integrated program for the over-all development of the resources of Burma.” Two other firms were engaged as partners in this project: a mining engineering firm and the economic consulting firm of Robert R. Nathan Associates. The program was delivered in August 1953 in two volumes exceeding 800 pages. The dollar costs of this undertaking were funded by the Technical Cooperation Administration (TCA), an early foreign aid agency of the U.S. government.

The program was heavily oriented toward infrastructure rehabilitation because of the extensive damage suffered during World War II. Much of the program, known in Myanmar as the “Pyidawtha Plan,” was implemented during the 1950s and components of the program (specifically in the irrigation sector) are still being implemented. Partly because of his height, Robert R. Nathan was the most prominent personality involved in the Pyidawtha Plan. As one of the first economic development plans

adopted by a developing country in the post-war period of decolonization, it was a model for others.

In 2000, a comparable effort was launched with Japanese funding. Known as the Myanmar Economic Structural Adjustment Program (MESAP), it was carried out by four joint working groups: fiscal and monetary policy, trade and industrial policy, information and communications technology, and agriculture and rural economy. Dozens of Japanese experts participated in these working groups. The completed program was delivered to the Government of Myanmar in March 2003, but the timing was unfortunate. As a result of the attack against Aung San Suu Kyi and her supporters at Depayin and the sacking of General Khin Nyunt the following year, virtually none of the MESAP was implemented. Moreover, its recommendations have never been publicly disclosed.

If the MESAP can be considered Pyidawtha Plan 2.0, then Pyidawtha Plan 3.0 is the National Comprehensive Development Plan for 2011-2031 due to be presented to the legislature in the second half of 2013.

The third national plan—and the most important for aid donors at the beginning of 2013—is the “Framework for Economic and Social Reforms” (FESR). Work on the FESR began in May 2012 at the Center for Economic and Social Development (CESD) of the Myanmar Development Resource Institute (MDRI) at the request of the Office of the President and in consultation with the NPED Ministry. Covering three years, it serves as a bridge to the National Comprehensive Development Plan and somewhat resembles the “poverty reduction strategy papers” that have been produced by low-income countries in all regions of the world as a guide for development assistance from multilateral and bilateral donors. The impetus for producing the FESR was the government’s eagerness to convene a conference where donors

would pledge funding for specific projects and programs. An important feature is a set of “quick wins” identified in nine sectors. Examples are replacing the commercial tax with a general sales tax at a single rate, and replacing old gas turbine power plants with more efficient combined cycle plants.

At the monthly donor meeting hosted by the NPED Ministry in December 2012, the government announced that the first Myanmar Development Cooperation Forum would be held on January 19-20, 2013, in Naypyitaw. The draft FESR was approved by the Planning Commission at its December 26-27 meeting, and on December 28 it was sent to donors (in Burmese and English) “for your review and comments.” The draft FESR was highly praised by the donors at the January forum. It will be finalized over the coming months, with input from Myanmar’s development partners, and presented to the legislature for approval in mid-2013.

The draft FESR provided to the donors in December included a section on “costing and financing of development programs” that was incomplete. It was also missing appendices on key policy actions, public expenditure and financing projections, and economic and social development targets. Nevertheless it is an impressive statement of the government’s near-term development strategy and priorities. As such, it represents a strong expression of country ownership and serves as a vehicle for ensuring that donor aid programs are aligned with the development programs of the Myanmar government. (See Exhibit 6.)

Myanmar’s record of national planning over the past 60 years—and indeed the global record of national planning—offers little confidence that these new plans will succeed, but the political will of the Thein Sein government appears to surpass that of all previous governments. Moreover, the support received from the donor community may go beyond what other countries have obtained in terms of effectiveness. Ultimately, the success of Myanmar’s transition will depend on mutually reinforcing reforms by the government and support by its development partners.

Exhibit 6

*The Framework for Economic and Social Development***FROM THE EXECUTIVE SUMMARY**

This revised draft of the 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. . . . it provides a reform bridge linking the ongoing programs of the government to the National Comprehensive Development Plan, a 20-year long-term plan, which the government is drawing up in consultation with parliament . . . it can serve as a guide for building lasting cooperation with development partners as well as international bodies to obtain mutual benefits.

. . . maintaining a stable macroeconomic framework is the first order of reforms . . .

. . . the [ASEAN Economic Community-AEC] targets will be an important driver of further reforms.

The government 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 . . .

Given a high percentage of agricultural contribution to GDP and employment in the country, agricultural growth is critical for inclusive development.

In order to ensure that the extraction of natural resources produces real benefits for people, the government is . . . committed to early adoption of the [Extractive Industries Transparency Initiative—EITI] .

The FESR . . . has set an ambitious target of reaching 80 percent [mobile phone] penetration by 2015.

There is no doubt as to the critical importance of major improvements in Myanmar's infrastructure . . .

FROM THE TEXT

42. Four areas of policy priorities:

- Sustained industrial development to catch up with global economies.
- Equitable sharing of resources, both budgetary and foreign aid, among regions and states.
- Effective implementation of people-centered development.
- Reliable and accurate gathering of statistical data.

46. Short and Long-term Goals

- Full implementation of ASEAN economic integration in accordance with its 2015 schedules.
- Achievement of the Millennium Development Goals by 2015.
- Graduation from least developed country status by 2020.

47. Targets

- An average annual GDP growth rate of 7.7%
- Industry share of GDP rising from 26% to 32%.
- Per capita GDP growth of between 30-40% from the base year.

4. Foreign Aid Management by the Government

For decades before the Paris Declaration on Aid Effectiveness was adopted in 2005, donor coordination was seen mostly from a donors' perspective, partly to avoid duplication of activities but also to enhance the impact of foreign aid by encouraging governments in recipient countries to adopt pro-growth, pro-poor policies and programs. The Paris Declaration reflected a major shift in emphasis toward seeing country ownership as the key element of aid effectiveness. At the heart of country ownership was the idea that the governments of partner countries (aid recipients) should be responsible for developing their own strategies for broad-based growth and poverty reduction. Of course, country strategies are articulated by governments, not by countries. Typically, governments claim to represent their countries even though new governments often start by repudiating the policies of their predecessors. At Busan, the participants sought to mitigate this problem by stressing the importance of private sector and civil society participation in designing national strategies. In this way, foreign aid would have the greatest beneficial impact when the strategies to which donors aligned their programs reflected the full range of each country's social interests.

Multilateral and bilateral donors to Myanmar have exhibited a keen interest in coordination. As early as 2009, the Partnership Group on Aid Effectiveness (PGAE) operated as a forum where donors could work toward shared objectives and principles. Chaired by DFID, it now includes 45 donor agencies, most of them from OECD countries. The PGAE has created several working groups, including one on governance. It caucuses in advance of the regular meetings with donors convened by the NPED Ministry in an effort to be more helpful by speaking with one voice. It will presumably remain at the center of the Development Partner Group being formed after the January 2013 forum (see below), with the chairmanship rotating between multilateral and bilateral donor agencies.

In February 2012, a smaller more informal group of donor agencies that came to be known as "the Valentine Group" met for the first time for the express purpose of enhancing coordination in keeping with the principles of the Paris Declaration. An AusAID non-paper prepared for the meeting highlighted the potential for destructive competition, and "negative-sum games" among donors. The Valentine Group is no longer active but its members are at

the heart of donor efforts to make aid to Myanmar more effective than it has been in other countries in the past.

An informal donors' retreat, facilitated by the United Nations and JICA, was held on May 15-16, 2012, in Mandalay. The retreat sought to produce "principles of effective cooperation in Myanmar anchored on the Global Partnership for Effective Development Cooperation from Busan." Twenty-one countries and organizations were represented, but not the Government of Myanmar. According to the "Facilitator's Summary," the participants took note of the Busan partnership and supported eight practical options to improve aid effectiveness (including avoiding recruitment of current civil servants into donor activities, and avoiding project proliferation and separate implementation structures). An effort by the U.N. Resident Coordinator to assert leadership in donor coordination was rebuffed by the bilateral donors.

In June 2012, the Thein Sein government took a major step to establish control over donor activities by establishing three linked aid coordination bodies. At the apex is the "Foreign Aid Management Central Committee" chaired by the President and composed of the two Vice Presidents and 26 cabinet members. Its primary mandate is to "manage for effectively allocating and utilizing foreign aid, grants and loans in addition to the state budget, and foreign and direct investment, through the national development plan and the reform strategy for the socio-economic development of the nation and its people." It meets on an ad hoc basis when important decisions need to be made. It is noteworthy that the mandate encompasses foreign investment.

The "Foreign Aid and Grant Management Working Committee" is chaired by U Soe Thane, who was the Minister of Industry when the committee was formed but several months later was elevated to become one of the four coordinating ministers in the Office of the President. The working committee is composed of 16 ministers and deputy ministers. Its primary mandate is to "manage the allocation of foreign aid and grants through discussions with international agencies, donor countries, and donors while submitting priority sector [plans] and priority area [plans] to the Central Committee after coordinating with the National Development Plan and Reform Strategy and with the National Economic and Social Advisory Council." In effect, the role of the working committee is to implement the policy guidance provided by the Central Committee.

The third coordination body, the National Economic and Social Advisory Council (NESAC) is composed of 18 prominent individuals drawn from government, the business community, and civil society. The Patron is retired Yangon Institute of Economics professor U Maw Than. The Chairman is retired Ministry of Agriculture official U Tin Htut Oo. The Secretary is Deputy Minister of NPED Dr. Set Aung. Other distinguished members include Dr. Kyaw Yin Hlaing (former professor at the City University of Hong Kong), U Thant Myint-U (noted author and historian), U Tin Maung Thann (President of Myanmar Egress), U Win Aung (President of the Union of Myanmar Federation of Chambers of Commerce and Industry), and U Than Lwin (Deputy Chairman of KBZ Bank). The primary mandate of the NESAC is to

“advise [on the formulation of] the National Development Plan and Reform Strategy, promotion of domestic and foreign investment, and foreign aid and grants.”

The NESAC is an interesting body that has the potential of playing a pivotal role in Myanmar’s economic development. It meets on an ad hoc basis and has formed several working groups, including one on foreign aid. So far, it has delivered its advice directly to President Thein Sein’s office without any prior public deliberation or dissemination afterward. Its members work on a pro bono basis and overhead costs are being met by contributions from leading Myanmar businesses.

Beginning in November 2012, the Minister of National Planning and Economic Development began holding monthly meeting with donors to discuss urgent matters and plan future activities. As noted above, at the December 2012 meeting, the minister announced the convening of the First Myanmar Development Cooperation Forum on January 19-20, 2013, in Naypyitaw. It is significant that the government chose to lead the event. Other countries beginning to build relationships with aid donors have agreed to let the United Nations or the World Bank host donor coordination meetings.

Participants in the January 2013 forum included many Myanmar ministers, members of the legislature, senior officials from donor country capitals, high-level representatives from U.N. agencies and the leading multilateral financial institutions, country directors from the most active international NGOs, representatives of the business community, and the press. President Thein Sein delivered the opening speech, NPED Minister U Kan Zaw delivered the keynote address, Deputy NPED Minister U Set Aung presented an overview of the national planning process, MDRI-CESD Research Director U Zaw Oo presented the Framework for Economic and Social Reforms, and NESAC member Dr. Kyaw Yin Hlaing gave a presentation on promoting a culture of democracy and building national harmony. In twelve parallel sessions, ministry representatives rolled out proposals for donor assistance to their respective sectors.

The final act of the forum was the adoption by acclamation of the “Naypyitaw Accord for Effective Development Cooperation.” Drafted in consultation with donor representatives and inspired by the Busan Partnership for Effective Development Cooperation, the Accord spells out commitments by the Myanmar government and by its development partners to take steps designed to ensure that foreign aid to Myanmar achieves a high degree of effectiveness. It is modeled on agreements negotiated by other countries in Asia and elsewhere with the donor community. It was reviewed by the NESAC and approved by the cabinet. (See Exhibit 7.) A key feature of the Accord is the formation of a joint Myanmar-donor working group to develop an action plan for implementing the Accord. The Foreign Economic Relations Department in the NPED Ministry is creating a Foreign Aid Information Management System to support the monitoring and evaluation process.

Exhibit 7

The Naypyitaw Accord for Effective Development Cooperation

"The Government of the Republic of the Union of Myanmar and its development partners agree to take concrete actions to make their cooperation more effective.

"... the Accord has been informed by deliberations at the Fourth High Level Forum on Aid Effectiveness and takes forward the principles of ownership, focus on results, inclusive development partnerships, and transparency and accountability, embodied in the Busan Partnership for Effective Development Cooperation.

"The Government of the Republic of the Union of Myanmar commits to:

- Continue to deepen consultation on development priorities and plans.
- Focus on achieving national priorities.
- Enable effective decision making.
- Further develop coherent and efficient aid management systems.
- Strengthen public administration to enhance the transparency and effectiveness of government programs and foreign assistance.

"Development partners commit to:

- Take the unique local context in Myanmar as the starting point.
- Align development assistance with national priorities.
- Participate in and be guided by country-led coordination processes.
- Use conflict-sensitive and inclusive approaches to support peace and state building.
- Focus on maximizing development results for the people of Myanmar.
- Work with government to strengthen institutions, build capacity, reduce transaction costs and increase aid effectiveness.

"Performance Assessment. A joint Government of the Republic of the Union of Myanmar-Development Partner working group will be formed to prepare a performance ... framework or action plan to guide implementation of this agreement. This framework will include a manageable number of key indicators of the standards and benchmarks that will be used to assess the extent to which its commitments are being kept. They will be reasonable, achievable, and monitorable."

To the immense credit of both the government and the donors, Myanmar's payment arrears to the World Bank, the Asian Development Bank, and bilateral creditors—estimated by the IMF to total \$11 billion at the end of 2012—were cleared in a series of operations in late January 2013. Arrears to the World Bank and ADB of roughly \$440 million and \$520 million, respectively, were cleared through a refinancing facilitated by a bridge loan from the Japan Bank for International Cooperation (JBIC). The bulk of the remaining arrears were owed to Japan, which committed to carry out an exceptional cancellation and rescheduling of these obligations. Other bilateral official creditors reached agreement in the Paris Club on cancelling half of the arrears owed to them and rescheduling the remaining half on generous terms. These arrangements will be implemented in the context of a program of economic policies and institutional reforms during 2013 that was developed by the government in consultation with the International Monetary Fund.

Although the arrears clearance operations took place a few days after the Myanmar Development Cooperation Forum, they were understood by all to be imminent and they contributed materially to the positive atmosphere of the forum.

Finally, a brief word about the international NGOs. While they are not categorized as development partners in Myanmar, they were participants in the January 2013 forum. They have taken steps to organize themselves to engage in dialogue with the government, and the government is beginning to work with them collectively to align their activities with its national development plans and policies. International NGO working groups for specific sectors (e.g. health, education, microfinance) and regions (e.g., Rakhine state) have been formed and meet regularly. These groups include representatives from U.N. agencies, local civil society, and officials from government ministries.

Summing up, we give high marks to the Myanmar government for its national planning process and its management of foreign aid at this very early stage in the country's transition to democratic rule and economic liberalization. The government seems to have learned from the positive and negative experiences of other countries and designed approaches well tailored to Myanmar's own circumstances.

5. Donor Performance Against the Paris and Busan Standards

While we bring to this assessment almost 100 years of combined experience with foreign aid and developing countries, it is more impressionistic than robust by academic standards. In the time available, it has only been possible to skim the surface of a complex subject. Moreover, we are passing judgment at a very early stage, considering that aid to the Thein Sein government began less than two years ago. In addition, the facts on the ground are changing so rapidly that what is accurate and relevant at the beginning of 2013 may not be so by mid-2013.

Myanmar's aid donors—or development partners—are doing best in the area of country ownership and their performance is mixed in the areas of alignment and harmonization. There was not enough evidence to assess performance in the areas of results-oriented aid and mutual accountability, because the aid effort we are focusing on began so recently.

Our concerns about donor performance are greatest in an area implicit in the Paris Declaration that perhaps should have been a first principle: do no harm. This concern was hammered home when the country representative of a leading donor bluntly stated in January 2013: “we will do damage.”

Do No Harm

We describe in Appendix B how the Paris Declaration on Aid Effectiveness was a response to widespread frustration over the extent of global poverty and conflict after more than a hundred billion dollars of development assistance had been disbursed in the preceding 50 years. The frustration derived partly from examples of aid projects that had an adverse impact on the well being of the people ostensibly being helped, and partly from the substantial number of countries that appeared to be no better off after receiving large volumes of foreign aid over many years. This record suggests that a useful first principle in the foreign aid business, as in the medical profession, is to do no harm.

At this early stage in Myanmar's transition, the sheer number of aid-related visitors requesting meetings with government officials was compromising aid effectiveness more than any other factor. The requests were making it extremely difficult for officials to spend enough time on urgent matters of policy formulation and implementation.

Of course government officials could avoid this problem simply by deciding not to have so many meetings, but two factors militate against this. First, there is little cultural support for saying no to visitors. Second, after being a pariah state for so long it is very hard to say no to presidents and prime ministers, legislators, aid agency directors, CEOs of multinational corporations, Nobel Prize winners, movie stars, etc.

Specific comments we heard included:

- The government is being drowned.
- We are inundated with visitors.
- Myanmar is suffering from a "Visitor Curse."
- We spend a huge amount of time on airport arrivals and departures.
- We meet with every Tom, Dick, and Harry.
- Now the elephants are coming [referring to Japan, the World Bank and USAID].

The problem is universally recognized but a strategy to mitigate it has yet to materialize. There is some evidence that the government is mentally prepared to start saying no to visitors, but there will be some embarrassing moments if this sentiment becomes stronger and visitors fail to get meetings they were expecting to have.

There is also a difference between visitors coming for a few days to "show the flag" or undertake scoping missions and visitors based locally who are trying to implement specific programs and projects. In the coming months, there may be fewer of the former but more of the latter as country offices are established and staffed up. It is also possible that bureaucratic obstacles in Myanmar, such as slow processing of visa applications, will mitigate the problem. Even if the flood of aid-related visitors recedes in 2013, an escalation in the number of investment- and business-related visitors may continue to impede sound and timely policy implementation.

One source of harm is throwing money at problems. Examples include the large EU commitment for funding projects in conflict areas and the World Bank's community-driven development project. Another source is when donor agencies select as partners the same prominent local NGOs to the point of overburdening them while neglecting smaller but competent NGOs.

A particularly troubling source of harm is the hiring by donor agencies of highly competent Myanmar people from the public sector and civil society, hollowing out the organizations they are leaving.

A general concern we heard is that donors fail to understand the local dynamics of Myanmar: how feudal and personalized the society is, or how choosing one local partner can close doors to working with other partners, for example. Or they initiate dialogues with the government without the basic knowledge of the country required for fruitful results. Part of the problem here is related to language, with both sides speaking English as a second language and consequently talking past each other. Another part of the problem is the ethnic divisions in the country, making it far easier for donors to work with the Burman majority than the dozens of ethnic minorities that need to feel they are being treated fairly in order to arrive at a durable peace agreement.

On the positive side, we did find donor offices that have taken steps to discourage visitors who jet in and jet out, and to cut back on the number of conferences and workshops being organized. In one of its statements at the January 2013 donor forum, the EU representative said: “. . . as we plan and scale up our support in the future, we will do so in a way that supports peace and state-building and ‘does no harm’. We encourage other development partners to follow suit.”

As we surveyed the range of donor activities, the two that stand out for being most certain to do no harm are funding education abroad and facilitating the return of the Myanmar diaspora. Sadly, these do not appear to be high priorities for most donors, the exceptions being Japan and Singapore. One appealing proposal from a local business executive was to create a “brain gain campus” in Yangon: a cluster where highly skilled diaspora members on six-month or one-year fellowships could work together to develop start-up companies or find attractive positions, thereby overcoming a major hurdle of resettlement.

Principle 1: Host-country ownership

Given the starting point for the Thein Sein government in March 2011, we were impressed by the progress it has made in asserting ownership of its development agenda. This progress is reflected both in the work undertaken to produce a set of national plans to be implemented with the support of donors and the arrangements it has made to engage donor agencies in a principled dialogue.

We were also assured by all of the donor representatives we met that they believe in country ownership and are being diligent in respecting this Paris principle. Nevertheless, we came across two challenges to country ownership, both of which illustrate how donor resistance to an approach preferred by the government can lead to better aid effectiveness.

One challenge arose in connection with the nature and timing of the country’s first major donor conference. The government wanted to have one sooner rather than later and to include pledging on the agenda. Sharply different reactions came from the U.N. agencies and

the bilateral donors, with the latter prevailing in persuading the government to convene the conference at a later date and to put off any form of pledging.

The other challenge arose from the government's inclination to present the donors with a list of projects to be funded, while the donors wanted to begin with a dialogue on sector objectives and strategies.

Principle 2: Alignment with the host country's objectives

A Myanmar official involved in the planning process said to us directly: "donor plans are not aligned with ours." A foreign expert providing policy advice to the government said: "some of the biggest donors just want to 'do it their way'."

We saw a gap between the rhetoric of country ownership and the day-to-day business of starting up donor programs designed to make a difference. To be fair, however, until the draft Framework for Economic and Social Reforms was provided to the donors in December 2012, it was not easy for donors to be sure of the government's development plans and priorities. Furthermore, it is not easy in less than two years to build trust and develop a dialogue with the government to the point required to achieve a high degree of alignment.

Among the examples of non-alignment mentioned, two stand out:

- The World Bank's Community-Driven Development project was criticized for having been rushed to a conclusion, under pressure from both sides for different reasons. The preparation of the project involved less civil society participation and less transparency than both the government and the World Bank claim to be their objectives, although the design of the project includes a high degree of participation and transparency in the process of being implemented.
- New Zealand decided that almost 85 percent of its aid to Myanmar over the next five years would be allocated to upgrading dairy farming even though this has a low priority in the government's plans.

The point is not that these are bad projects. There are compelling arguments for going ahead in each case. Instead the point is to illustrate how common it is for donor activities to be driven by donor interests and constraints rather than Myanmar's needs and current opportunities. An example of a potentially high-impact activity being neglected is described in Exhibit 8.

A more fundamental alignment issue is how resource extraction by foreign investors relates to the aid programs of their home countries. A key premise of our assessment is that Myanmar's natural resources are being extracted at an unsustainable pace and in ways that divert value from the country as a whole in favor of foreign operating companies or powerful interest groups in the country. Accordingly, donor activities that help the government manage

resource extraction more sensibly can be high-value activities. Happily, the U.K., Norway, and the World Bank are all working with the government to help it reach the goal of participating in the Extractive Industries Transparency Initiative (EITI). Some other countries seem more inclined to help their companies obtain natural resource concessions on favorable terms.

Exhibit 8

Economics for Translators

Language is a more important issue in Myanmar than donor agencies seem to realize. Donor experts generally meet with Myanmar counterparts who converse easily in English and leave feeling there has been a high degree of mutual understanding. Experience on the ground, however, shows it is not uncommon that as much as 80 percent of such conversations is perceived differently by the Myanmar and foreign participants. Moreover, most short-term visitors do not have opportunities to see how weak English language skills are below the small number of Myanmar counterparts who engage on a daily basis with foreigners.

The benefits of improving English language training are apparent to all of the experienced donor agencies, and plenty of assistance in this area is likely to materialize in the short term. Two specific kinds of English language training, however, deserve more attention than they are getting. One is simultaneous interpretation, especially for workshops and conferences. Enough hardware for this has been ordered, it appears, but a severe shortage of good interpreters will exist in 2013 unless training is stepped up quickly.

The bigger challenge is training translators and interpreters to find appropriate Burmese language words for economic concepts in English. Most policy-relevant concepts do not have universally accepted

equivalents in Burmese. A striking example is that the Burmese word for “economics” is the same as the Burmese word for “business.” It is also impossible to translate properly when the translators are unfamiliar with the basic principles of economics.

The U.S.-funded Fulbright School in Ho Chi Minh City solved this problem in Vietnam 20 years ago when it created a course on “economics for translators.” It took several years to achieve consensus on most Vietnamese language equivalents, but within ten years the vocabulary developed for the Fulbright School curriculum was being used throughout the country by government officials, businesses, the media, and other important groups. The benefits of initiating a similar course in Myanmar must be at least as great as they have been in Vietnam.

Some Myanmar officials have discounted the importance of such an initiative on the grounds that English is being taught in schools from the primary level up. The general skill level, however, will remain low for many years and the great majority of the population will be conversing about economic matters in Burmese. Having a common economics vocabulary in Burmese should make it easier for the government to build public understanding and support for its economic policies.

A politically sensitive issue related to alignment is the assistance that some donor countries, notably the United States, still provide to “pro-democracy” groups opposed to the Thein Sein government and operating outside of Myanmar (mostly in Thailand). Until there is

overwhelming evidence that human rights abuses by the government have stopped and democratic rule has been consolidated, this form of assistance will continue.

A final issue related to alignment is how Western aid differs from Asian aid. The pattern we see is that the Asian donors (e.g., the ADB, China, Japan, Korea) are inclined to move quickly and opportunistically and with few conditions. The Western donors (e.g., the World Bank, the United States, the United Kingdom) are inclined to proceed at a measured pace within a clear framework of objectives and priorities, and with a number of laudable conditions. Asian donors also stress mutual benefit while Western donors stress the benefits being conferred on the recipient countries. It could be argued that the approach of the Asian donors is more aligned with Myanmar's interests, but perhaps only in the short-term. The short-term/long-term trade off is not an easy one to make.

Principle 3: Harmonization among donors

Foreign and Myanmar participants in aid activities felt there was a lack of harmonization generally and cited some specific examples of disharmony. In the words of an international NGO leader: "there is no culture of donor coordination here."

Competition among donors was generally seen to be at a high level, leading to some duplication of effort. Terms used to describe this behavior were "unfortunate commonality" and "crowding in." Overconcentration was a concern not only with respect to certain sectors but also in geographic regions. We even heard a reference to competition between agencies from the same donor country.

Specific examples cited at the strategy level were disagreements between the IMF and the World Bank, between U.N. agencies, and between the UNDP and bilateral donors. Such disagreements come to the attention of host-country policymakers and tend to be addressed in due course. Probably more damaging is donor competition at the lower levels. With more on-the-ground interviewing of donor agency experts, we would surely have come across more examples. Common failings in other countries have included getting a flawed program approved by a ministry because of preferential access; poaching staff from other donors; hiding flaws in a project from the rest of the donor community; and treating access to or knowledge gained from Myanmar policymakers as privileged information not to be shared with other donors.

One small example of poor donor harmonization was a joint donor plan to organize a trip to Vietnam in mid-2012 for senior Myanmar officials. On the eve of finalizing arrangements for the trip, one of the donors surprised the others by announcing it had just arranged for senior Vietnamese officials to visit Myanmar within the next few days.

To be fair, we did see plenty of efforts by donors to avoid duplication and strengthen cooperation among themselves. Still, aid professionals generally do not get promoted in their organizations for being good cooperators. They advance by responding to the headquarters agenda, by showing that their organization is doing something that makes a difference, and by speeding up disbursement of resources under their control.

The one area where harmonization is strong is the operation of the multidonor trust funds. For example, DFID has allocated 75 percent of its recent funding to these trust funds. Harmonization would improve if an increasing share of total donor aid were allocated to these funds. The more likely trend is that the share will decline as multilateral and bilateral programs settle into comfortable grooves.

Principle 4: Results-oriented aid

It is far too early to measure results from the donor programs initiated with the Thein Sein government. The Naypyitaw Accord, however, commits the government and the donors to establishing benchmarks and introducing procedures for measuring results in a meaningful way.

Principle 5: Mutual accountability

The steps taken by the government during the past year to convene regular meetings with multilateral and bilateral donors give us confidence that mutual accountability will be above-average as long as Myanmar's transition has no major setbacks. In the words of the FESR:

The essence of partnership is mutual accountability and this should be the case with partnerships organized around FESR's development objectives. . . . [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 regular monitoring of results.

The Naypyitaw Accord reinforces these sentiments and includes a commitment by the government to "create one framework to monitor government and development partner aid effectiveness performance."

Nevertheless, it is not easy to find another country where the principle of mutual accountability has had a measurable impact on donor and government performance. The lack of clear agendas covering similar time periods (program years for donors often differ from those of their partner countries) is just one factor that tends to make discussions vague and unproductive. Self-criticism is not part of the culture of foreign aid.

The Busan Elements

The elaborations of the Paris Declaration that emerged from the Busan meeting in 2011 have particular relevance to Myanmar because of the important role of Asian donors. Three elements of the Busan Partnership for Effective Development Cooperation are reflected in the Naypyitaw Accord: support for South-South cooperation, dialogue with the private sector, and engagement of the whole of society. These are all useful steps that can contribute to aid effectiveness in Myanmar.

Overall Assessment

We give high marks to Myanmar's aid donors for their rhetoric on aid effectiveness. For example, at the January 2013 forum, the AusAID representative pledged to do all it could to reduce the burden on the government of aid administration, the U.S. representative stressed the importance of donor cooperation to avoid overwhelming the government, and the Swiss representative warned against overburdening the government with too many meetings. At the same time, we found evidence of practices that have undermined aid effectiveness in other countries. It remains to be seen how far the donors go in matching their actions to their rhetoric.

If you don't speak Burmese, you don't
know what's going on in Myanmar, and
you cannot know. And I don't speak
Burmese.

*—Lex Rieffel, normally before
offering his views on Myanmar*

Two factors may help donors do better in Myanmar. One is the awareness of the Paris Declaration and the Busan Partnership among Myanmar's government officials. The other is Myanmar's high visibility, largely linked to the figure of Aung San Suu Kyi. Because of this visibility, any perceived failures of foreign aid in Myanmar could have an adverse impact on donor operations globally. A success, by contrast, could be the best news for foreign aid since the transitions in East Europe and the Former Soviet Union two decades ago. The open question is whether Myanmar's broad policy objectives will prevail over the day-to-day political and institutional pressures bearing on the donors.

Our assessment has focused on the main multilateral and bilateral donors. While we have noted the engagement of a large number of international NGOs and other kinds of donors, we did not discuss their role with enough government officials or interview enough managers of these other categories of donors to reach any conclusions about alignment, harmonization, and the other principles of aid effectiveness. This could be a significant shortcoming of our assessment because some of these other donors "punch above their weight" and all of them

together may have as much of an impact on Myanmar's development (political, economic, social) as some of the largest official donors. For the moment, the government is managing these miscellaneous donors in a decentralized manner, mostly by means of memoranda of understanding with individual ministries. Other countries have promoted alignment and harmonization with these donors through special sessions linked to periodic donor forums. For now, the decentralized approach looks sensible. Two or three years down the road, the benefits of aid from the other donors might be enhanced by bringing them more formally into the planning and evaluation process.

6. The Main Forms of Foreign Aid to Myanmar

We have adopted a broad definition of foreign aid because of the proliferation of forms beyond the official multilateral and bilateral agencies over the past 20 years. We group the forms into five categories: multidonor trust funds, multilateral agencies, bilateral agencies, international NGOs, and other. Snapshots of the major programs are provided in the next and last section of our report.

Multidonor Trust Funds

Four multidonor trust funds have been formed in Myanmar, three of which were operating at the beginning of 2013. This form of foreign aid is inherently the most effective because it eliminates the friction associated with the different policies and procedures of individual donors. Some concerns exist about the effectiveness of the multidonor trust funds in Myanmar, however.

Myanmar's oldest multidonor trust fund is the "3 Diseases Fund." It was established in 2006 following the withdrawal of the Global Fund the year before for political reasons, and it stopped funding new projects after June 2012. Focused on reducing the burden of HIV/AIDS, tuberculosis, and malaria, it was supported by six bilateral donors plus the European Commission. Together they contributed roughly \$140 million.

The 3 Diseases Fund was succeeded at the end of 2012 by the "3MDG (Three Millennium Development Goals) Fund," reflecting the return of the Global Fund to Myanmar as well as a desire to demonstrate quick and substantial support for the reforms being undertaken by the Thein Sein government. It focuses on the same three diseases but is expanding the scope of activity to include maternal and child health. It is supported by the same donors, who together intend to contribute roughly \$300 million in the first four years.

The "Multi-Donor Education Phase II Fund," focusing on primary school education, builds on a Phase I fund. It is supported by four bilateral donors, the European Union, and UNICEF. Together, they intend to contribute roughly \$65 million over four years (2012-2016).

The “Livelihoods and Food Security Trust Fund (LIFT)” was formed in 2009 with the aim of helping Myanmar reach Millennium Development Goal One—eradicating extreme poverty by 2015—by increasing food availability, income generation opportunities, and food use for 2 million target beneficiaries. This 7-year fund was supported initially by seven bilateral donors and the European Union. Together they intend to contribute at least \$170 million. In late 2012, USAID and the French aid agency announced decisions to participate in the LIFT fund.

One effectiveness issue related to these funds is the extent to which their operations are integrated with Myanmar’s government systems or are working through separate systems. In the past, the norm was to work outside the government with international and local NGOs. Steps are being taken now to operate through government channels as confidence in the government’s financial management grows.

A particularly contentious issue related to the multidonor trust funds is how they compete with the UNDP program for bilateral donor funding. As a result, some U.N. agencies have discouraged the establishment and expansion of these funds. The Myanmar government finds the controversy unhelpful.

In terms of aid effectiveness, the arguments for establishing additional multidonor trust funds and getting more donor agencies to participate in them are compelling. In particular, they are well aligned with the government’s development priorities. They are also in the best position to scale up support for some of the quick wins spelled out in the Framework for Economic and Social Reforms.

Multilateral Aid Agencies

The United Nations has been operating continuously in Myanmar since 1948. Represented today by the UNDP and more than a dozen specialized agencies, it has been at the center of foreign aid to Myanmar for the past 40 years. In 2011, the U.N. agencies as a group were the country’s largest aid donor, providing about \$150 million, all in the form of grants. Because of their experienced Myanmar staff and close working relationships with government ministries, the U.N. agencies have done the most capacity building in Myanmar over the past two decades.

It is difficult to characterize the U.N. role in Myanmar today because it has a tangled mix of positive and negative features. As a consequence of its political nature, U.N. expertise is spotty because it is not always merit-based. Furthermore, its implementation procedures are among the most burdensome in the donor community. At the same time, when directed by outstanding administrators, the country operations of individual U.N. agencies can have a powerful and positive impact in their respective sectors. More generally, the U.N. country team is under strong pressure from the New York headquarters to assert leadership in donor

coordination. This pressure creates tensions with bilateral donors and complications for the Government of Myanmar.

In the years ahead, the technical assistance and financing activities of the World Bank Group and the Asian Development Bank in Myanmar stand a good chance of outpacing the activities of the U.N. agencies as a group. Both of the multilateral development banks suspended operations in Myanmar after 1988 when the anti-democratic and anti-human rights actions of the military regime became intolerable. This suspension deprived the country of the high-quality, analytical work on major macroeconomic and sectoral issues normally carried out by these two agencies and relied on by the rest of the donor community. The absence of this analytical underpinning was a major handicap for donors seeking to respond quickly and effectively to the improved policy environment created by the Thein Sein government.

In anticipation of the arrangements to clear Myanmar's arrears that were carried out in late January 2013, both multilateral development banks began in 2012 to prepare for the resumption of normal grant and loan operations. A Public Expenditure and Financial Accountability Assessment (PEFA) and a Public Expenditure Review (PER) being undertaken by the World Bank are particularly important because they are key steps toward channeling foreign aid through the Myanmar government's own systems. Ten preliminary sector assessments completed by the ADB in 2012 are useful guides for other donors in designing effective aid programs.

The World Bank and the ADB have both developed interim strategies for the next 16-24 months, pending work in collaboration with the government on longer-term strategies. (See Exhibit 9.) Their broad agendas have the potential for overlap and conflict, but an encouraging step that may mitigate this problem was agreeing to co-locate their country offices in Yangon.

Bilateral Aid Agencies

A compilation of donor programs in September 2012 by the Partnership Group for Aid Effectiveness listed 25 bilateral donors operating in Myanmar, including non-OECD donors China, India, Thailand, and Singapore. Some, like Norway, had been interacting with the government well before the change in government in 2011. Most of these donors had programs emphasizing humanitarian assistance to victims of disasters, poor

**People rushed in here believing they
could and would Make A Difference. I
call it the MAD Disease.**

*— Australian economist in Jakarta, personal
interview, September 2012*

communities, and ethnic minorities. They were at pains to prevent any funding from flowing to or through the Government of Myanmar.

After the inauguration of the Thein Sein government in March 2011, especially after Daw Suu Kyi became a member of the country's legislature in April 2012, the government's relationship with donors was transformed. Working through the Government of Myanmar was no longer off-limits. Senior officials from donor countries began arriving at a rapid pace to meet with Myanmar's new ministers and seek ways for their country's aid program to "make a difference" in Myanmar's political and economic transition.

Exhibit 9

Interim Strategies of the World Bank and the Asian Development Bank

WORLD BANK INTERIM STRATEGY, NOVEMBER 2012–JUNE 2014

The World Bank's interim strategy for Myanmar, approved by its Executive Board on 1 November 2012, rests on three pillars:

Rebuilding and Transforming Institutions. This pillar deals with analytical and technical issues, including a Public Expenditure and Financial Accountability Assessment (PEFA), a review of public expenditures (PER), and policy advice on macroeconomics and public sector management.

Building Confidence. This pillar aims to support the peace process in ethnic minority areas through community-driven development programs, to promote dialogue among civil society, local governments, and the national government, and to focus on activities that have a quick and tangible impact on communities across a range of sectors.

Preparing for the road ahead. This pillar largely consists of the type of analytical and diagnostic work

long associated with the World Bank. The Bank proposes only limited involvement in the health and education sectors, where other donors are strongly committed.

ASIAN DEVELOPMENT BANK INTERIM STRATEGY, OCTOBER 2012–DECEMBER 2014

The ADB's interim strategy, approved by its Executive Board on 26 October 2012, also rests on three pillars:

Human and institutional capacity. Grants for capacity building and institutional support to a wide range of ministries, as well as policy advice.

Promoting an enabling economic environment for growth. Policy-based loan and technical assistance will help to sequence and implement reforms in macroeconomic policy, trade, and investment.

Increased access and connectivity to markets. This includes grants for community-based rural initiatives, road connectivity with neighboring countries, and increasing energy supplies.

Donors establishing new offices or expanding existing ones immediately faced serious logistical and staffing problems. In particular, they needed to find Burmese-speaking local staff with sufficient administrative or technical expertise, not easy to find because of the decades-long neglect of the country's education system and the flight of many of the best and brightest. Similarly, Yangon's current real estate bubble made decent offices and staff housing expensive and hard to find.

The bilateral donors that have been the most active in promoting donor coordination and aid effectiveness are the U.K.'s DFID, Australia's AusAID, and the European Union.

A growing division of responsibilities among the donors is visible. For example, AusAID is Myanmar's lead donor in the education sector, partnered with UNICEF. DFID is the lead donor in the agriculture sector, partnered with FAO. The EU is the lead donor in the health sector, partnered with WHO. Another Western donor that merits being singled out is Norway, which has been working quickly and flexibly to assist the government in dealing with priority policy issues, with special attention to peace building. An example of this responsiveness is described in Exhibit 10.

Exhibit 10

Policy Advice from Harvard's Ash Institute

The Ash Center for Democratic Governance and Innovation at Harvard University's John F. Kennedy School of Government is carrying out a series of technical assistance missions funded by Norway. It stands out among other aid activities for having a high policy impact at a relatively low cost.

The high impact comes in large part from the role played by a Myanmar-based NGO, which drafts the terms of reference for each mission. This NGO, Proximity Designs, originated in 2004 as the country office of an American NGO promoting appropriate technology for the agriculture sector in a small number of countries. The founders are a Burmese

woman and her American husband who both earned master's degrees from Harvard's Kennedy School in 1990.

Building on their Harvard connections and excellent working relationships with Myanmar's government officials, they arranged a series of missions by Harvard experts and others to focus on policy issues. The first mission in January 2009, focused on the agriculture sector and was supported by Norway and the United Kingdom. Three missions in 2012 have yielded five published reports with important policy recommendations in areas ranging from electric power to industrial policy to urban development.

While the Western donors are explicitly and formally committed to respecting the Paris principles, Asian donors are marching to different drummers. Japan has been Myanmar's biggest source of foreign aid historically. After 2003, Japan sharply scaled back its aid and aligned itself with the United States and other Western donors imposing sanctions against Myanmar's military regime. In 2011, anticipating the lifting and suspension of sanctions, Japan began taking steps to ramp up its aid to Myanmar. Following the U.S. decision in early 2012 to suspend most of its sanctions, Japan quickly established itself as Myanmar's most generous donor (see the description of Japan's aid in the next chapter's section on bilateral aid).

China does not consider itself to be an aid donor, but it emerged in the early 2000s as Myanmar's major source of aid through a wide range of non-transparent activities that included contributions to the new capital in Naypyitaw. China also displaced Thailand in 2010 as Myanmar's leading source of foreign investment, highlighted by the construction of

dual gas and oil pipelines from the Indian Ocean port of Kyaukphyu to Kunming, the capital of Yunnan Province.

India has a deep historic relationship with Myanmar that originates in their common origin as British colonies. The emotional ties became stronger in the 1950s when General Aung San's widow, the mother of Aung San Suu Kyi, was posted to New Delhi as Burma's ambassador to India. As a democratic country, India's relations with Myanmar soured when Aung San Suu Kyi was placed under house arrest and the military junta refused to accept her party's landslide victory in the 1990 election. By the mid-1990s, however, the Indian government took steps to improve relations with Myanmar as part of its "Look East" policy. While the Indian government aspires to be a friend of Myanmar on par with China, it has never come close to this goal because of financing constraints, the physical barrier of the mountains separating the two countries, the political barrier of an uncooperative Bangladesh, and internal resistance from democracy advocates.

Korea has emerged in the past five years as one of Myanmar's major donors, partly motivated by its leading role in the global debate on aid effectiveness—reflected notably in the Busan Partnership, but also related to commercial interests. Equally significant is the technical assistance extended to Myanmar in recent years by Singapore and a range of ASEAN and other regional programs. For example, Singapore in the past ten years has provided training to more than 8,700 of Myanmar's government officials. Thailand, Malaysia, and Indonesia have also been quietly supporting needs-based capacity building in Myanmar.

International NGOs

The group of international NGOs active in Myanmar is hard to describe for three reasons: it is large, it engages in a vast range of activities, and many of its members are vehicles for implementing projects funded by multilateral and bilateral aid agencies.

International NGOs have existed for more than 100 years, taking the International Committee of the Red Cross, created in 1863, as an example. They only became significant aid donors globally in the 1980s, however.

Very few international NGOs survived the socialist and isolationist Ne Win period, but after the regime change in 1988 they began to trickle into Myanmar. Over the ensuing 20 years, the political and financial sanctions on Myanmar imposed by the United States and other Western countries were a major barrier for most international NGOs, on top of severe limitations on their activities maintained by the military regime.

Cyclone Nargis in May 2008 pushed open the door enough to enable a sharp increase in international NGO engagement from around 40 to more than 100, with the increase concentrated on relief and recovery in the disaster-impacted Ayeyarwady Delta. From this

new peak, there was a gradual withdrawal of international NGOs to around 65 in early 2011 when the Thein Sein government was inaugurated.

After President Thein Sein's breakthrough meeting with Aung San Suu Kyi in August 2011, the situation changed dramatically. It now appears that international NGOs from every corner of the world and in every sphere of activity want to play a role in Myanmar's transition and show its supporters that it can "make a difference." We were told that Myanmar is now the first choice of an assignment for the best performers in many international NGOs.

As of mid-November 2012, according to the Myanmar Information Management Unit (MIMU), there were 87 international NGOs active in Myanmar. This figure substantially understates the reality because a number of international NGOs are missing from the list and because new ones seem to be establishing themselves in Myanmar at the rate of one per week, if not faster. Another component missing from this count is international NGOs working with Burmese refugees and Burmese civil society groups inside Thailand.

Programmatically, the vast majority of international NGOs focus narrowly on humanitarian assistance, especially health and community development projects. Another common characteristic is keeping the government at arm's length but working closely

There are some NGOs doing good work here, but their contribution is like feeding an elephant with a handful of sesame seeds.

– A local NGO leader in *Myanmar Times, Special Report on NGOs, November 2012, p4.*

with local NGOs. Most international NGOs operate under memoranda of understanding with one or more government ministries. Because of financial sanctions and reputational risks, they have shied away from co-financing projects with the government and from capacity building projects for the government. As the Thein Sein government has gained credibility in pursuing political and economic reforms, the international NGOs have started to work more closely with the government.

The international NGOs as a group will contribute measurably to political, social, and economic development in Myanmar as they move beyond humanitarian aid delivered directly to needy communities to initiate projects in other sectors and to help build capacity within the government and within local NGOs.

In terms of donor coordination, the international NGOs have taken the laudable step of establishing an NGO Resource Center in Yangon as a vehicle for sharing experience, avoiding competing or overlapping projects, and speaking with one voice in dialogues with the Myanmar government. The government in turn is cognizant of the prospect of getting strong

support from the international NGOs for its development program. The government allocated five seats for the international NGOs at the January 2013 forum and is expected to establish a more formal basis for coordination with them in the months ahead. Already, international NGO representatives have been invited to participate in some of the sector working groups.

In the limited time available for our in-country interviews, we only met with representatives of seven international NGOs. Short descriptions of three of them—HOPE International, PACT, and World Vision—are provided in the next section. An example of how a relatively small international NGO can have a major policy impact is described in Exhibit 11.

Exhibit 11

The Friedrich-Ebert-Stiftung and the Central Bank of Myanmar

Since the Thein Sein government came to power, an especially impressive activity by foreign donors is the support for economic reform provided by the Friedrich-Ebert-Stiftung (FES). (The German government provides most of the funding for FES.)

From its regional office in Kuala Lumpur, FES took an early interest in supporting economic reform in Myanmar. It employed a Burmese liaison officer in Yangon who had the confidence of key policymakers and it began in 2011 to fund activities such as a visit to Jakarta by a small group of policymakers to learn lessons from Indonesia's experience in managing its economy. These activities were carefully tailored to

the interests of the officials and were implemented quickly with a minimum of paperwork.

An outstanding example relates to the government's decision to abandon the country's grossly overvalued official exchange rate in favor of a market-determined rate. Frustrated by the slow pace of technical assistance from the IMF to prepare for this reform, policymakers sought help from a source that could respond rapidly and confidentially. FES rose to the occasion. Its support was instrumental in bringing to the Central Bank of Myanmar a small team from Thailand's central bank, led by a retired governor, to assist in implementing this reform.

Other Sources of Foreign Aid

One substantial source of foreign aid not captured in the categories discussed above might be called "transitory aid." It takes the form of invitations to conferences and workshops inside or outside of Myanmar and ad hoc visits by experts sometimes arranged on the basis of personal connections. An interesting example is the two "Green Economy Green Growth" workshops initially convened in November 2011 and repeated in November 2012. A Burmese professor at a university in the United States was the principal organizer. Another example is student volunteers from universities in the United States and other countries teaching English at schools in Yangon or interning with NGOs.

Three subcategories of other aid—faith-based, military/quasi-military, and corporate—merit further elaboration. Faith-based foreign aid to Myanmar has a legacy stretching back decades before independence. The most significant form of this aid has been Christian missionaries living among the ethnic minorities in the mountainous regions on Myanmar's borders. As a

result, some of the largest ethnic minorities—notably Chin and Kachin—are predominantly Christian. The amount of faith-based foreign aid today seems small in dollar terms, but some faith-based organizations have a significant voice in shaping Western donors' aid policies toward Myanmar. A new participant in this subcategory is Christian community development volunteers from Korea.

Independent but anti-communist Burma received some military aid from Western countries in the early decades of the Cold War. In the 1980s, the United Nations, the United States and some other countries provided what can be called quasi-military aid to support the suppression of narcotics production and distribution in Shan State (between China and Thailand). After 1988, military aid from Western sources was totally stopped and the Tatmadaw turned to suppliers from China, North Korea, and Russia. It is assumed that Myanmar had to pay cash for most of the military hardware it purchased, or engaged in barter transactions. Some training may have been free.

Under the Thein Sein regime, it looks as though military transactions with North Korea will stop and those with China will be curtailed. By contrast, the Western countries—including the United States—have taken steps to resume military aid to Myanmar. Aid to the Myanmar police, another form of quasi-military aid, could become substantial in two to three years.

Corporate aid is a subcategory we have invented to capture a wide range of activities that, in Myanmar, fall under the rubric of Corporate Social Responsibility (CSR). Perhaps because of the role of merit in the Buddhist faith, people in Myanmar have come to believe that all profit-making corporations should undertake charitable activities along the lines of funding orphanages and schools and health clinics. While such activities represent a rather small part of the spectrum of activities related to CSR in the rest of the world, they seem to represent close to 100 percent of what people in Myanmar expect from CSR. Because this is a relatively new concept, resembling a fad, the aggregate amount of this corporate aid flow today is not large. However, if foreign investment grows at the pace anticipated by the Thein Sein government, this form of corporate aid could represent a significant fraction of the humanitarian aid flowing to Myanmar from foreign sources.

The point of mentioning these other sources is not to suggest that they will have a measurable macroeconomic impact. Instead it is to underscore the burden government officials bear in managing the full range of foreign aid and other financial flows. Together, foreign visitors calling on senior officials in the Myanmar government to discuss military aid, corporate aid, other miscellaneous forms of foreign aid, and direct investment represent a substantial diversion from essential work on policy analysis, formulation, and implementation.

7. Myanmar's Major Development Partners

Multilateral Donor Agencies

UNITED NATIONS

Because of its unique international character, the United Nations has been engaged in aid activities in Myanmar through the good years and the bad. Moreover, because the third U.N. Secretary General was Burmese (U Thant) the United Nations has probably been more engaged in Myanmar than it would have been otherwise.

After 1990, when the military junta set aside the results of the national election won by the NLD, U.N. activities in Myanmar went into a decline. The decline accelerated when Western sanctions were tightened in 2003. In particular, UNDP activities were sharply circumscribed by U.S. legislation that effectively limited them to humanitarian aid delivered outside the reach of the government. Low points were reached by the United Nations when the government refused to approve a visit of the Secretary-General's Special Envoy to Myanmar (2004), when the Global Fund to Fight AIDS, Tuberculosis and Malaria pulled out of the country (2005), and when the UNDP resident representative was expelled (2007).

The United Nations, however, also helped the former government re-engage with the international community. After Cyclone Nargis struck Myanmar in May 2008, causing unprecedented loss of human life, the United Nations—along with ASEAN and the Government of Myanmar—became a member of the Tripartite Core Group that oversaw the international relief and recovery effort. In December 2009, the U.N. Economic Commission for Asia and the Pacific (ESCAP) arranged for Nobel Prize-winning economist Joseph Stiglitz to visit Myanmar. That visit sparked the first serious international discussion of public policy at the cabinet level in decades and was a harbinger of the sweeping economic reforms that the Thein Sein government would initiate in 2011.

ESCAP continues to engage with the Government of Myanmar and its development partners through high-level policy dialogue and capacity development initiatives. Its technical assistance includes development of statistics, facilitation of Myanmar's integration with the

ASEAN Economic Community, implementation of development-oriented macroeconomic policies, promotion of SMEs and public-private partnerships, and transfer of environmentally sound modern technologies. It will be establishing a regional technical support office in Myanmar in 2013.

Beginning in 1994, UNDP has implemented a series of projects under its Human Development Initiative. Phase IV of the initiative, which began in 2003 and is now coming to a close, included five projects: integrated community development, community development in remote townships, HIV/AIDS prevention and care, microfinance for the poor, and integrated living conditions. The microfinance project appears to have been especially successful.

By the end of 2012, the restrictions on UNDP activity had been largely lifted. It is now preparing a normal country program in Myanmar that will focus on sustainable and inclusive community development, climate change and disaster risk reduction, and democratic governance. UNDP will also give high priority to the promotion of livelihoods in cease-fire areas. The U.N. agencies as a group provided about \$150 million of assistance in 2011, making them the single largest source of foreign aid that year. U.N. assistance can be expected to rise substantially during the 2012-2015 strategic planning period, but the actual level of assistance will depend on contributions from the U.N.'s member governments.

Space constraints make it impossible to do justice to the range of U.N. activities in Myanmar. The best we can do is list the agencies involved beyond UNDP: FAO, ILO, IOM, OCHA, UNAIDS, UNESCO, UNFPA, UN Habitat, UNHCR, UNICEF, UNODC, UNOPS, WFP, and WHO. Among these, the work of the ILO stands out for its beneficial impact on policies under both the previous and the current government.

INTERNATIONAL MONETARY FUND

The IMF is not a donor agency. It would be a mistake, however, not to mention its role in Myanmar's transition. In the Than Shwe/SLORC/SPDC era, the IMF sent Article IV consultation missions to Myanmar roughly once each year to assess the country's macroeconomic policies and performance. The mission reports were issued only to IMF's Executive Board until May 2012, when the authorities for the first time consented to the publication of the latest report on the IMF's website. The Thein Sein government signaled its seriousness about economic reform when it invited the IMF in mid-2011 to assist it in moving from a multiple exchange rate system with a hugely overvalued official rate to a market-based system that would meet the Article VIII standard for current-account convertibility. On April 1, 2012, Myanmar abandoned its fixed official rate and introduced a floating rate system for retail transactions.

During 2012, the IMF's technical assistance activities increased substantially, focusing on operational independence for the Central Bank of Myanmar, financial sector reform, and statistics. In November 2012, an IMF mission held discussions with the government that led to

a program of economic policies and institutional reforms to be implemented through December 2013 and monitored by the IMF. The staff report on this program was posted on the IMF's website on the eve of the first Myanmar Development Cooperation Forum. The program provided crucial support for the following week's arrangements to clear Myanmar's arrears to the World Bank and the Asian Development Bank, and for the exceptional debt cancellation and restructuring agreement with the Paris Club creditors concluded on January 25.

WORLD BANK

The World Bank began lending to Myanmar in 1956, primarily to repair infrastructure damaged in World War II. It suspended lending after 1987 as its major Western shareholders reacted to the suppression of the emerging democratic movement. Myanmar stopped making payments on outstanding IDA loans in 1998 and arrears started to accumulate, reaching \$436 million at the end of 2012. In response to an invitation from the Thein Sein government to normalize relations, the World Bank Group has been moving rapidly on several fronts.

First, it collaborated with the Government of Japan, the Asian Development Bank, and the Paris Club in the January 2013 operation that cleared Myanmar's arrears to the World Bank, an essential step to resuming normal lending. Second, on November 1, 2012, the World Bank Executive Board approved an "Interim Strategy Note for the Republic of the Union of Myanmar for the Period FY13-14." This note provides justification for an IDA credit of \$407 million in the FY2013 (essentially refinancing the arrears), and an allocation of IDA credit of \$165 million in FY2014. (Highlights of the strategy note can be found in Exhibit 9.) Third, the Executive Board on the same day approved a grant of \$80 million to fund a "National Community Driven Development Project." Finally, and again on the same day, the IFC Executive Directors approved a \$2 million investment in a microfinance scheme.

In mid-2012, the World Bank opened a resident office in Yangon, co-located with the Asian Development Bank's office. Under its new president, Jim Yong Kim, the World Bank is implementing a major organizational reform with the objective of providing real time support to its developing country clients. Myanmar could be one of the main beneficiaries of this change.

ASIAN DEVELOPMENT BANK

The ADB suspended lending to Myanmar after 1987 for the same reasons as the World Bank. Myanmar's arrears to the ADB reached \$517 million at the end of 2012. The ADB moved more quickly and broadly than the World Bank in reengaging with Myanmar's new government. It started sending scoping missions in 2011 and started a number of sector assessments in 2012. At the end of October, the ADB announced agreement on a "Reengagement Strategy for Myanmar 2012-2014" and posted a document describing the strategy on its website. The priority areas under the strategy, closely aligned to the government's development plans, are

building human resources and capacities in public sector agencies, promoting an enabling economic environment, and increasing access and connectivity to markets. (See Exhibit 9 for more detail.) The strategy is elaborated on in ten sector assessments and thematic analyses also posted on the ADB website. They cover agriculture and natural resources, energy, post-primary education, transport, urban development and water, environment, economic policy, gender, poverty, and regional cooperation and integration.

After Myanmar's arrears were cleared in January 2013, the ADB announced the disbursement of a new loan ("special allocation") from its concessional window of \$512 million, effectively refinancing the arrears. Over the next three years, the ADB is allocating \$3 million per year for Myanmar from its Technical Assistance Special Fund. The ADB will also use grant resources from trust funds and co-financing arrangements to support development activities in Myanmar during this period. In mid-2012, the ADB opened a country office in Yangon, co-located with the World Bank's office.

ASSOCIATION OF SOUTHEAST ASIAN NATIONS

ASEAN is not a donor agency and it does not have a formal aid program. It would be remiss, however, to ignore the assistance ASEAN is providing to Myanmar in many forms and in almost every sector. The most basic form of assistance is delivered indirectly through the participation of Myanmar's government officials in ASEAN meetings, numbering in the hundreds each year, from the working group level to the summit level. Next in importance are ASEAN's special efforts to raise performance in four lagging member states—Cambodia, Laos, Myanmar, and Vietnam—to ASEAN norms, especially for economic integration. A number of these efforts are funded by western donors, notably Japan and the United States. This kind of assistance will increase sharply in 2013 as Myanmar prepares to chair the ASEAN community in 2014.

Bilateral Donor Agencies

JAPAN

Since independence, Japan has been Myanmar's biggest source of foreign aid, by far. Its level of activity has ebbed and flowed in response to developments inside Myanmar. Activity declined in the late 1990s as a result of Japan's alignment with the United States to express concern about the suppression of the democratic movement and well-documented human rights abuses. Japan's concerns deepened when a Japanese journalist was killed while covering the Saffron Revolt in September 2007.

Myanmar stopped making full payments on outstanding loans from Japan in the late 1980s. As a consequence, arrears reached about \$6.6 billion at the end of 2012 (according to the IMF).

At the time of President Thein Sein's visit to Tokyo in April 2012, the Government of Japan announced its intention to provide ¥500 billion (\$6 billion) of debt cancellation and rescheduling in three tranches. The first tranche of ¥199 billion will involve a rescheduling of arrears via an ultra short-term commercial loan bridging to a quick-disbursing long-term concessional loan. The second tranche of ¥127 billion will cancel debt that Japan had agreed to write off a decade earlier. The third tranche of ¥176 billion consists of charges on overdue payments that will be waived after joint monitoring of Myanmar's program of economic policies and institutional reforms for 2013.

Japan also played a key role in clearing Myanmar's arrears to the World Bank and the ADB in January 2013 by means of bridge loans totaling roughly \$900 million from the Japan Bank for International Cooperation (JBIC).

Japan's exceptionally strong support of Myanmar is surprising in light of the occupation of the country by Japanese forces in World War II. It reflects in part Japan's support of the independence movement in Burma on the eve of the war, including military training for General Aung San (Aung San Suu Kyi's father) and others in a group of senior officers. It also reflects Japan's strategic rivalry with China, although the emotional and sentimental dimension of the relationship seems stronger.

This historical context helps to explain the "full court press" by Japan that became visible in 2012. Beyond the arrears clearance, Japan's aid to Myanmar has three distinct elements. The first element is grant aid and technical cooperation funded by JICA and delivered by an array of Japanese agencies and organizations to almost every sector. In 2010, this assistance amounted to about \$32 million and is rising significantly. The second element is ODA loans from JICA. In November 2012, Prime Minister Noda announced a loan package of approximately ¥50 billion (\$650 million), to be implemented after the arrears clearance, to rehabilitate power plants, develop rural areas, reduce poverty, and develop the Thilawa Special Economic Zone (SEZ). A third element is assistance provided indirectly through regional organizations, including the Economic Research Institute for ASEAN and East Asia (ERIA)—which is working on the Myanmar Comprehensive Development Vision—the Bangkok Research Center, the Greater Mekong Sub-region, and the Lower Mekong Initiative.

Finally, while it does not qualify as "official development assistance (ODA)", the Government of Japan is encouraging and supporting a large number of Japanese companies considering investment and other business activities in Myanmar. Some of this support will come from JBIC. In particular, Japanese experts are working with Myanmar's government to redesign the multibillion dollar Dawei deep seaport and related SEZ to make them commercially viable. The project will connect mainland Southeast Asia to South Asia, the Middle East, Africa, and Europe via short road, railroad, and pipeline links from this Indian Ocean port at Dawei to Myanmar's border with Thailand. The Government of Thailand is also a strong supporter of this project.

KOREA

The Korea International Cooperation Agency (KOICA) has been providing grant aid to Myanmar since 1991. KOICA uses four modalities: projects with government ministries, funding support to NGOs, volunteers, and training of government officials. It is currently working in four areas: agriculture/rural development, industrial promotion, economic and administrative governance, and human resource development. Other sectors benefiting from KOICA assistance include health, environment, forestry, and information and communication technology. Since 1991, KOICA's average annual funding has ranged from \$3-\$4 million. Reflecting the Government of Korea's eagerness to strengthen relations with Myanmar, funding in 2012 rose to about \$5.6 million and is tentatively planned to reach \$10 million in 2013. One major new project will support the establishment of the Myanmar Development Institute, modeled on the Korea Development Institute. A remarkable feature of KOICA's program in Myanmar is the high degree of coordination with JICA's program. Beyond ODA, it is likely that Korea will soon begin to provide export credit to help Korean companies start or expand their businesses in Myanmar. Korean companies were already in 2011 an important part of the foreign business community in Myanmar.

CHINA

China is not a traditional aid donor and in fact is still receiving aid from some multilateral institutions and bilateral agencies, not to mention being an object of the activities of a large number of international NGOs. China is not a member of the Development Assistance Committee of the OECD. It did sign the Paris Declaration on Aid Effectiveness, but clarified that it was doing so as a recipient of aid not a donor. Nevertheless, China is considered to be one of the biggest aid donors in the world today and Myanmar has been a major beneficiary of China's generosity.

China made an impressive loan commitment to Burma when Premier Chou Enlai

It is difficult to distinguish the Chinese government's genuine development assistance from commercially-based projects contracted by China's enterprises.

— Steinberg and Fan, page 224

visited at the beginning of 1960, but provided little aid to the Ne Win regime (1962-1988), due to its isolationist and anti-communist orientation. In the mid-1990s, China emerged as the leading supporter of the Than Shwe regime, most visibly in 2007 by vetoing proposed U.N. Security Council resolutions to condemn human rights violations in Myanmar. China's economic relations with Myanmar stepped up after 2000 under China's "Going Out" policy that encouraged Chinese companies to invest in natural resource extraction around the world. High level visits between Myanmar and China, resuming at a slow pace in the 1980s and becoming more frequent in each subsequent decade, often resulted in economic and technical

cooperation agreements. Steinberg and Fan have estimated that more than 100 of them were signed up to 2010. Beginning in 1993, interest-free or low-interest loans from China were announced on most of these occasions, generally in increasing amounts.

China's aid agency, located in the Ministry of Commerce, is called the Bureau of Foreign Aid. Funding allocations from it are not transparent. The modalities of Chinese aid can be placed in eight categories: infrastructure and resource projects, commodities, technical assistance, training, medical assistance, humanitarian and disaster relief, youth volunteers, and debt alleviation. James Reilly has estimated that Chinese aid to Myanmar's government between 1997 and 2006 added up to \$24 million in grants and \$483 million in loans. A good number of these loans financed the sale of Chinese equipment to Myanmar's state-owned enterprises. Myanmar also benefits from Chinese assistance to regional organizations in which it is a member. These include ASEAN, the Greater Mekong Sub-region, and the Bangladesh-China-India-Myanmar (BCIM) group.

Infrastructure projects are the largest component of China's aid to Myanmar: roads, highways, bridges, dams, telecommunication systems, agricultural equipment, stadiums, and government buildings. The scale of Chinese activity in Myanmar is illustrated by three examples, all of which involve some degree of support from the Chinese government:

1. In November 2005, the Government of Myanmar moved on very short notice from Yangon to a new capital, constructed in secret, named Naypyitaw. Chinese contractors were engaged to undertake key infrastructure projects, including the highway linking Naypyitaw to Yangon and the Naypyitaw International Airport. The Myanmar International Conference Center in Naypyitaw, completed in 2010, was presented as a "gift" from China to a friendly state.
2. In 2007, the China Power Investment Corporation reached agreement with the Government of Myanmar to construct a cascade of seven hydroelectric dams at the head of the Ayeyarwady River, with as much as 90 percent of the power generated to be exported to China. Construction of the Myitsone Dam began in 2009 but it was controversial at the outset because of cultural, social, political, and economic sensitivities. President Thein Sein suspended construction in September 2011 in reaction to strong public protests, which represented a setback in China-Myanmar relations. The Myitsone Dam project and other Chinese-funded infrastructure projects in Myanmar are not "aid projects" per se, but they benefit from financing provided by China's policy banks, including China Development Bank and the Export-Import Bank of China.
3. In 2008, China National Petroleum Company (CNPC) reached agreement with the Government of Myanmar on building dual natural gas and crude oil pipelines from the Indian Ocean coast diagonally across the heart of Myanmar to Yunnan Province in China. Construction began in 2009 and is due to be completed in 2013. It is a commercial joint venture made feasible by Chinese government support and financing from Chinese banks.

At the beginning of 2013, China was in the process of shifting to “softer,” more people-oriented, and more transparent forms of aid. One element of this shift is that a number of Chinese NGOs are launching programs in Myanmar. Another is a project to stem human trafficking. A third is helping Chinese companies in Myanmar strengthen their corporate social responsibility activities, improve media outreach, and conform to international standards. A fourth is building relations with civil society and the political opposition.

EUROPEAN UNION

Since 1996, the European Commission Humanitarian Office (ECHO) has been supporting activities in Myanmar to prepare for and respond to natural disasters.

While in Myanmar in February 2012, the EU Commissioner for Development announced a aid commitment of Euro 150 million (\$195 million) for 2012 and 2013, a dramatic increase from the 2010-2011 funding level of Euro 47 million (\$61 million), which made it the single biggest bilateral donor (by conventional measures) in these two years. Two-thirds of the 2012-2013 funding will be allocated to multidonor trust funds, which the EU was instrumental in getting launched. The rest is divided among five areas: aid to uprooted people, support to civil society, capacity building for public administration, environment and climate change, and governance and human rights. The allocation for public administration is especially significant as the beginning of aid provided directly to the government. There will also be a trade policy emphasis in the near term linked to the objective of restoring Myanmar’s GSP access to the European market.

UNITED KINGDOM

The United Kingdom’s aid relationship to Myanmar reflects two historic interests: its rule over Burma, initially as part of colonial India and later as a separate colony, and Aung San Suu Kyi’s marriage to a British academic and adoption of the U.K. as her residence, where she raised their two sons. A third interest, however, may be more important in defining the U.K.’s role in foreign aid to Myanmar: the emergence of the Department for International Development (DFID) as arguably the most innovative and principled aid agency in the world today.

After the abortive 1990 election, in which the NLD led by Aung San Suu Kyi won 80 percent of the seats, the U.K. quickly stopped assistance to the government and concentrated on humanitarian assistance, capacity building in civil society, and support for the democracy movement. The U.K, however, was also one of the first countries to sense the drift from authoritarian rule after 2007, which positioned it to be viewed as the lead aid agency in Myanmar when President Thein Sein’s government was sworn in.

DFID’s program for the 2011-2015 period targets the Millennium Development Goals (health, education, food security/incomes, and environmental sustainability) based on five pillars: promoting good governance and public financial management, promoting responsible

investment, improving transparency, strengthening the work of parliament, and helping the process of ethnic reconciliation. Funding is projected to rise from about \$50 million in the first year to \$90 million in the fourth year. So far, all DFID funding has gone to nongovernmental partners, primarily U.N. agencies and NGOs. Unless there is some serious backtracking in Myanmar's transition, it is likely that DFID will begin funding government programs before the end of this program period.

DFID's aid leadership in Myanmar is exemplified by (1) its role in establishing the four multidonor trust funds, which have been in place since 2006; (2) its promotion of donor coordination and adherence to the five principles in the Paris Declaration on Aid Effectiveness; and (3) its provision of funding that enabled the World Bank to conduct analytical work pending clearance of Myanmar's arrears to the World Bank.

AUSTRALIA

Australia's special interest in Myanmar reflects its strategic aim of being a major player in Southeast Asia. While it joined other Western countries in imposing sanctions against Myanmar beginning in the 1990s, it was a step ahead of the United States and Japan in pursuing engagement after the Cyclone Nargis disaster.

Along with other Western donors, AusAID activities during the Than Shwe regime were confined largely to humanitarian assistance. Together with DFID, AusAID was already starting to shift to a more normal long-term development program for low-income countries when the Thein Sein government came to power in 2011. In 2012, AusAID agreed to be the lead donor in the education sector, paired with UNICEF.

Unveiled in January 2013, AusAid's new two-year interim country strategy (2012-2014), reflects the unexpected commitment of the Thein Sein government to political and economic reform. The strategy has four objectives: improve the delivery of basic education and health services to the poor, improve the livelihoods of the rural poor, address the needs of conflict and disaster-affected people, and support reform and improved governance. During these two years, AusAID will be developing a strategy for the next period closely aligned with Myanmar's development plans.

Like DFID, AusAID works with partners, especially U.N. agencies and international NGOs, but it is also providing direct bilateral assistance. AusAID funding in its FY2011-12 amounted to roughly A\$50 million, and the planned level of funding in FY2012-13 is about A\$64 million. No funding levels are spelled out in the 2012-2014 interim strategy, but press reports on the January 2013 visit of an AusAID official mentioned A\$100 million from 2015 onwards.

NORWAY

Norway has taken a special interest in Myanmar since 1991, when it awarded the Nobel Peace Prize to Aung San Suu Kyi. After her release from house arrest in November 2010 and even

more so after her remarkable collaboration with President Thein Sein that began in mid-2011, the Government of Norway moved aggressively to be at the forefront of Western aid to Myanmar, especially in peacebuilding. Through 2012, assistance to Myanmar from Norway's Ministry of Foreign Affairs was directed entirely to NGOs and U.N. agencies, but in 2013 Norway plans to initiate state-to-state bilateral assistance.

Norway is a major supporter of the recently established independent and private sector-funded Myanmar Peace Center that is working to transform the ceasefire agreements with ethnic minorities into a durable structure for internal peace. In January 2012, Norway established the Myanmar Peace Support Initiative (MPSI), which is supporting the ceasefire agreements through education, poverty alleviation, and demining projects. Norway is also chairing the Peace Donor Support Group, established in June 2012, to facilitate dialogue between Myanmar's government and donors and to coordinate donor support for peacebuilding and aid to conflict zones. Additional areas of Norwegian aid activity include capacity building in the public sector (initially focused on the national development planning process), disaster prevention and relief, health, refugees, environment, and human rights.

Norway's level of funding in 2011 was around \$30 million and the level is expected to increase substantially in subsequent years. In the January 2013 Paris Club debt relief negotiations, Norway helped Myanmar obtain exceptionally favorable terms by announcing the unconditional cancellation of all outstanding debt obligations, totaling NOK 3.2 billion (equivalent to \$582 million).

UNITED STATES

The United States has been a laggard in providing aid to the Thein Sein government. With the formal opening of a USAID mission in Yangon in November 2012, it has signaled its intention to be one of Myanmar's lead aid donors. Under the Than Shwe regime, before Cyclone Nargis in 2008, U.S. aid to Myanmar was directed primarily to refugee groups in Thailand and anti-government groups in various parts of the world. The United States played an important role in the international response to Cyclone Nargis, especially with its airlift capacity. Post-Nargis, modest amounts of USAID funding were allocated to civil society groups in Myanmar for a range of humanitarian activities. USAID funding of \$38 million in FY2011 and in FY2012 supported activities in three areas: humanitarian aid, democracy and civil society strengthening, and health.

During President Barack Obama's historic visit to Myanmar in November 2012, the United States announced a program of \$170 million for the next two years. The program will expand USAID's involvement into agriculture and food security, transparent governance, peace and reconciliation, prosperity, and higher education. USAID's descriptions of planned activities, however, seem intended more to generate legislative support than to provide a realistic picture of expected results. An example is in the area of food security, where it proposes to

“design a comprehensive and integrated food security program aimed at addressing the underlying causes of hunger and poverty in Burma.”

International NGOs

HOPE INTERNATIONAL DEVELOPMENT AGENCY

Based in Canada, HOPE operates in 22 countries and has a total funding level of about \$27 million per year. The focus of its small program in Myanmar is peacebuilding, but it is having an impact well beyond its funding level because of the staff's deep knowledge of the ethnic conflicts and its ability to engage constructively with all parties.

PACT

PACT is a U.S.-based NGO established in 1971. It is operating in more than 35 countries, mostly in Africa and Asia, with an annual funding level just above \$200 million. PACT is best known in Myanmar for its microfinance programs, which began in 1997. At an early stage, the UNDP selected PACT to start a microfinance project in the Dry Zone while two other international NGOs were selected to start projects in the Ayeyarwady Delta and Shan State. In 2008, because of PACT's superior performance, the three projects were merged under PACT's supervision. This project now includes more than 475,000 active borrowers with an outstanding loan value exceeding \$42 million, making it one of the 30 largest microfinance programs in the world. PACT is also delivering microfinance services in other parts of the country under a USAID-financed project. PACT recently registered its microfinance operation under the Myanmar Microfinance Law to operate microfinance activities in other parts of the country as the “Pact Global Microfinance Fund.”

WORLD VISION

World Vision is an international NGO founded in 1950 and headquartered in the United Kingdom. In 2011, it had more than 45,000 staff working in more than 100 countries and a budget of \$2.8 billion. World Vision has been active in Myanmar since 1991, with current operations in 11 of the country's 14 states, or regions. World Vision's programs span a range of sectors including education, health, agriculture, and child protection. Its microfinance program in Myanmar, in place since 1998, nearly doubled its number of clients in 2012. In addition, it has a significant disaster response capability, with pre-positioned supplies in warehouses in Yangon and Mandalay. It has active partnership agreements with the Ministry of Health, Ministry of Agriculture, Ministry of Social Welfare, and Ministry of Border Affairs. World Vision's 840 staff and 3,200 volunteers in Myanmar work at the community level to build capacity in a range of technical areas. In 2012, its work affected more than 1.9 million people in Myanmar. The level of funding for Myanmar in its FY 2012 was \$24 million.

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Appendix A. The Historical, Political, and Economic Context

Historical Overview²

It can be said that Myanmar/Burma has never existed as a sovereign state. Its borders were drawn by British colonial administrators after the principal kingdoms of the Irrawaddy Valley and related satrapies were conquered in the 1800s. Burma thrived as a colony, becoming the world's largest exporter of rice on the eve of World War II and producing many of Asia's most respected civil servants, doctors, and other professionals.

Much of Burma's modern infrastructure was destroyed during World War II, by the retreating British forces as the Japanese army advanced into the colony and then as the allied forces beat back the Japanese until they surrendered.

It took almost three years after the Japanese surrender for the Burmese nationalists—led by General Aung San, the father of Aung San Suu Kyi—to win independence from Great Britain at the beginning of 1948, but the new Government of Burma was not in full control of its territory. It quickly faced a Communist insurgency and insurrections by a number of ethnic minorities mostly residing in the mountainous regions on Myanmar's borders. The Communist insurgency eventually imploded after China withdrew its support in the 1980s, but the competing visions of the Burman ethnic majority and the ethnic minorities remain the overriding existential challenge facing Myanmar today.

The parliamentary democracy adopted by Burma at independence failed to deliver the economic progress expected and became increasingly factionalized and dysfunctional. General Ne Win led a coup in 1962 to restore order and preserve the unity of the country, but he also adopted extreme socialist and isolationist policies. As a result, Burma slipped down the ranks of developing countries to become one of the least developed countries (LDCs).

² An excellent summary of Burma's political evolution since 1948 can be found in Min Zin and Brian Joseph, "The Democrats' Opportunity," *Journal of Democracy*, Vol. 23, No. 4, October 2012. An excellent snapshot of the political situation in November 2012 can be found in International Crisis Group, "Myanmar: Storm Clouds on the Horizon," Asia Report #238, 12 November 2012.

A mass uprising in 1988 brought an end to the Ne Win regime and a shift back to a market-based economy. Daw Suu Kyi—married to a British academic and living in England—happened to be in Burma to visit her ailing mother when the uprising occurred. Because of her parentage, she became the leader of the movement to end military rule and restore democracy. The military junta that succeeded Ne Win organized a national election in 1990 expecting candidates from the government party to win a majority of the seats. Instead, Daw Suu Kyi's party—the National League for Democracy—won 80 percent of the seats, despite Daw Suu Kyi being under house arrest on election day. The junta, which had renamed the country Myanmar the year before, refused to accept the results of the election. A year later, Daw Suu Kyi was awarded the Nobel Peace Prize.

General Than Shwe emerged in 1992 as the supreme ruler of Myanmar. He used his absolute power to suppress internal dissent and attack the ethnic insurgents. These actions prompted the Western countries to apply progressively stronger political and economic sanctions against Myanmar, especially after the monk-led Saffron Revolt in 2007 was violently put down.

Unlike other dictators in recent times (e.g., Suharto, Mubarak, Gaddafi, Assad), Than Shwe took a remarkable series of steps that have (so far) enabled him to retire gracefully. Following a drafting process that extended over 14 years, he got a new constitution approved in 2008 in a national referendum that was far from free and fair. This set the stage for a multiparty election in November 2010 (equally unfree and unfair). He permitted the release of Daw Suu Kyi from house arrest a few days later, and finally he arranged for the new government that took office in March 2011 to be led by reform-oriented former general Thein Sein.

President Thein Sein's inaugural address, delivered on March 30, 2011, sketched out a vision of political and economic reform that seemed hopelessly progressive, but in less than a year his government produced enough positive results to get most of the Western sanctions suspended or removed and to make Myanmar the number one "frontier country" in the world. One key step was clearing the way for the NLD to win 43 of the 45 open seats contested in a by-election (remarkably free and fair) in April 2012, including a seat easily won by Daw Suu Kyi. Other key steps were releasing political prisoners, restoring press freedom, and enabling 88 Generation exiles to return.

By mid-2012, the best and the brightest—in foreign ministries, multilateral and bilateral aid agencies, international NGOs, multinational corporations, international media, academia, and more—were rushing to Myanmar to take advantage of new opportunities for delivering development assistance, investing private capital, and pursuing a multitude of other interests.

The Political Context

Myanmar's first experience with constitutional democracy was not a success for reasons that will long be debated. Bad luck played a part: the man who led the struggle for independence, General Aung San, was assassinated in mid-1947 along with six other senior leaders, six months before Burma became formally independent. The Cold War played a part: a leadership group dedicated to bringing Burma into the Communist Bloc came close to gaining power by force of arms. The civilian leaders, led by U Nu, had a vision of their country rooted in British socialism and they put Burma on the world stage at the forefront of the Non-Aligned Movement.

Perhaps the main reason why Burma's first parliamentary system failed is that it was imported into an incompatible culture. In particular, it did not give the ethnic minorities—representing 30 percent to 40 percent of the population—a sufficient stake in the system to make it work. Furthermore, it permitted factionalism to run rampant, rendering dysfunctional the process of policy formulation and implementation. The socialist-nationalist orientation of the government produced inefficiencies that kept the economic benefits from independence far below popular expectations and the country's inherent potential. The civilian leaders handed over power to the military in 1958 when that seemed the best way to avoid a descent into chaos. A national election in 1960 essentially restored the previous civilian leadership with no better results. In 1962, General Ne Win led the coup that ushered in 49 years of military rule.

By most accounts, the Tatmadaw remains the main source of political power in Myanmar. President Thein Sein and the Speaker of the lower chamber of the legislature, Shwe Mann, are retired generals, as are a number of the key ministers in the Union cabinet and almost all of the chief ministers of the seven regions and seven states.

The Myanmar armed forces, the Tatmadaw, view themselves as the guardians of the nation's sovereignty and integrity. There is little overt resistance by the Tatmadaw to the political and economic reforms being undertaken by the Thein Sein government, but it has to be assumed that the Tatmadaw stands ready to step in if the government becomes dysfunctional and loses popular support, as happened in 1958. In fact, the 2008 Constitution provides a basis for the Tatmadaw to do so.

On the surface, political power today is being wielded by two distinct non-military groups. In ascendancy is the group of retired military officers supporting President Thein Sein's agenda of political and economic reforms. This group has the backing of an elite drawn from the business community and civil society, epitomized by U Tin Maung Thann (President of Myanmar Egress, an NGO committed to reform within the existing system) and U Myint (the chief economic advisor to President Thein Sein and the originator of the Myanmar Development Resource Institute).

The other group is led by Aung San Suu Kyi, who became a member of the lower chamber of the legislature in the by-election held on April 1, 2012. Her party, the National League for Democracy, is now the main opposition party. Daw Suu Kyi became a global icon of democracy after being awarded the Nobel Peace Prize in 1991 and then bravely asserting her commitment to democratic rule while under house arrest for most of the next 20 years.

The NLD is not institutionally strong, however, and is vulnerable to factional splintering. The governing party, the Union Solidarity and Development Party (USDP), is also held together by personalities, not issues. As a result, the government that emerges after the national election due in 2015 could be quite different from the current government or from the NLD sweep that most observers seem to expect.

The depth of support for the NLD in Myanmar today is an open question, but there is no doubt that the support Daw Suu Kyi enjoys outside of Myanmar is of Olympic proportions. It is equally clear that the personal relationship she has forged with President Thein Sein has been the key to the withdrawal of sanctions against Myanmar and the tsunami of foreign aid and investment that is beginning to hit the shores of Myanmar. (See Exhibit A-1 for a short history of foreign aid to Myanmar.)

There is a fourth group, however, that will make or break this second experiment with democratic rule in Myanmar: the ethnic minorities. The military government negotiated ceasefire agreements with 17 minorities between 1989 and 1995, but was unable to come close to a comprehensive peace agreement with them and another 12 minorities that continued their armed resistance. Since 2011, the Thein Sein government has negotiated new ceasefires with 11 minorities, but remains caught in a complex battle with the Kachin Independent Army (KIA) on one section of the border with China. To make matters worse, communal violence erupted in Rakhine State in 2012 between the Buddhist majority and Muslim minorities, focusing on the Rohingya who have been stateless for decades.

While the Thein Sein government is committed to achieving lasting peace with the ethnic minorities and is negotiating actively to this end, the outcome appears far from certain at the beginning of 2013. The ethnic minorities are so distrustful of the Burman majority (and the Tatmadaw) that the actions required to bring them voluntarily “into the fold” are far-reaching and complex. Furthermore, it remains to be seen whether the intense focus of the rest of the world on Myanmar will expedite the peace process or complicate it.

Exhibit A-1*A Short History of Foreign Aid to Myanmar*

Foreign aid to Myanmar has had an up-and-down history, with the emphasis on down until 2011. Supporters of Myanmar's development in the 1950s saw a bright future for "the rice bowl of Asia," with its educated elite, the product of one of the best national universities in Asia. Foreign aid was provided by more than 40 donor countries, including Russia, India, and Israel.

The United Nations has operated continuously in Myanmar since 1948. The World Bank made its first loans in 1956 for railroads and the port of Rangoon. Myanmar joined the Asian Development Bank in 1973. Both of these multilateral development banks wound down their operations after 1988 in response to the military regime's suppression of the democratic movement.

Japan has been Myanmar's largest and steadiest donor over the past 60 years. China's aid (technical cooperation grants and loans on favorable terms) resumed at a slow pace in the 1980s and then picked up rapidly after 2000, but it is not easy calculate the "aid" component of the Chinese government's support for mining, manufacturing, and infrastructure projects undertaken by Chinese companies.

The United States could be considered Myanmar's lead donor in the 1950s, but its aid mission was expelled in 1962 after Ne Win's coup. Along with Japan and other Western donors, U.S. assistance resumed in the late 1970s, but stopped abruptly when the military moved to suppress the mass uprising against the Ne Win regime in 1988. International NGO activities to address humanitarian needs and support civil society began growing in this period.

Cyclone Nargis in May 2008 opened the door to humanitarian assistance from U.N. agencies, the U.S. government and other Western donor agencies, and numerous international NGOs.

The arrival in March 2011 of Myanmar's first elected government in 50 years and the remarkable collaboration that developed between President Thein Sein and opposition leader Aung San Suu Kyi precipitated a flood of aid donors from every corner of the world, making Myanmar arguably the most popular object of foreign aid in the world today.

At the same time, according to the World Bank, per capita aid (net ODA) received by Myanmar in 2010 amounted to less than \$8 per capita—the lowest among the 49 least developed countries on the U.N. list. By comparison, per capita aid to Cambodia and Laos in 2010 was \$52 and \$67, respectively.

The Economic Context

Much of Myanmar's tragic history since independence is an example of how abundant natural resources can be more of a curse than a blessing. At independence in 1948, Burma's human resources were among the most advanced in Asia. Its abundant natural resources were well known but not overexploited. Since then, control of natural resources has been a life or death issue for the ethnic minorities, and the Tatmadaw was only able to rule the country for 50 years because of its unprincipled exploitation of natural resources while presiding over the systematic depletion of human resources.

Myanmar's natural resources fall into three categories: agricultural, energy, and mineral. In the British colonial period, the Ayeyarwady Delta became one of Asia's leading rice bowls. Rice yields in this part of Myanmar are among the lowest in Asia today, which means that the

country still has the potential to be a major rice exporter. Irrigation works have opened thousands of additional acres to multicropping, and Myanmar has become a major exporter of pulses and beans in the past decade. Low usage of agricultural chemicals across the country is an important comparative advantage, if it can be maintained. Sadly, Myanmar's abundant forest resources, both timber and wildlife, have been overexploited and are still being depleted at an unsustainable pace. Myanmar also has abundant fishery resources but is presumably losing much of the potential value because of poaching by foreign vessels in coastal waters it is unable to control.

Myanmar began exporting natural gas to Thailand from offshore fields in the Andaman Sea in 1998. More will be exported from a new field in the same area beginning in 2013. Even more will be exported to China beginning in mid-2013 from large offshore fields near the Bangladesh border. Exploration and development of onshore oil and gas deposits is underway. Hydroelectric power is the other main energy resource, but like the gas, a high percentage of today's production is being exported to Thailand and China while most of the rural population has no access to the grid and electricity supplied to urban areas and industry is minimal and unreliable. Myanmar also has commercially interesting coal deposits. The most lucrative mineral resource currently is jadeite sold almost exclusively to Chinese buyers. Other important minerals are copper and gems.

None of the concessions to extract natural resources are transparent and consequently it must be assumed that some fraction of the potential profit is diverted by powerful individuals and groups instead of flowing into the budget. Remarkably, the Thein Sein government has declared its intention to participate in the Extractive Industries Transparency Initiative (EITI) and has taken concrete steps to make it happen.

Infrastructure development in Myanmar is at least 20 years behind the rest of Asia. Amazingly, there is not a single highway or railroad today that connects Myanmar with any of its four neighboring countries. Large investments in rural roads, ports, and airports will be necessary to make Myanmar competitive in world markets. Comparable investments in electricity production, transmission, and distribution will have to be undertaken to enable the job creation that leads to rising standards of living. Internet and mobile phone penetration are very low, but progress here is visible.

Myanmar's financial system is a mess. Contributing factors include three demonetizations within living memory, a banking crisis in 2003, and sanctions imposed by Western countries. Myanmar has a cash economy made worse by a shortage of large and small notes. Fortunately, progress in modernizing the banking sector is also visible. The underground or informal economy is very large, partly because Myanmar is Southeast Asia's leading source of opium and methamphetamines.

Macroeconomic management is almost nonexistent. Myanmar's budget process is a work in progress, its exchange rate system only became market-based in April 2012, and its central

bank lacks the requisite operational authorities and autonomy. Here, too, progress can be seen in new laws being adopted and government capacities being strengthened. (The paucity of reliable statistics is described in Exhibit A-2.)

Exhibit A-2

Searching for Good Statistics

A first order problem in any assessment of Myanmar's economic performance is the absence of reliable statistics. To begin with, population estimates range from less than 50 million to more than 60 million. The last national census was in 1983, but it had a number of shortcomings. The only census consistent with contemporary international standards was carried out in the 1930s, when Burma was still a colony. To its credit, the Thein Sein government is working with U.N. and other agencies to carry out a state-of-the-art census in 2014.

GDP data published by the Than Shwe regime showing growth rates exceeding China's are not credible. Various methodologies used to estimate more accurate growth rates have pointed to an average annual GDP growth rate since 1992 of less than 5 percent. Much of Myanmar's economic activity is underground or in the informal sector so these estimates are only useful to suggest trends. The ADB puts per capita income in 2011 at \$857.

Myanmar's balance of payments data is considered reasonably good for what it covers, but under-

invoicing is extensive and much of the country's border trade is not captured. Budget data for past years has no credibility. The Thein Sein government is committed to a high degree of budget transparency, but detailed budget figures showing actual revenues and expenditures as well as planned ones are not readily available in English.

The Central Statistical Office under the Ministry of National Planning and Economic Development has been constantly collecting and reporting statistics. It is now receiving technical assistance from the United Nations and other sources with a view to rapidly producing statistical information on a par with its ASEAN partners.

The World Bank website includes the following statement: "Comparable country data for Myanmar can't be provided at this time. The World Bank and other agencies are re-engaging with the Myanmar government and will support Myanmar in its effort to address the scarcity of reliable data for the country."

Myanmar's economy is performing far behind most of its ASEAN partners in every sector. Poverty reflected in severe malnutrition is widespread. Seventy percent of the population is rural and depends on agriculture, but crop yields may be falling in the absence of the kind of policies and programs used elsewhere in Asia to kickstart broad-based economic growth.

Worst of all, Myanmar's institutional capacity and human resource endowment are at rock bottom, constituting the nation's major impediment to rapid economic progress. A possible bright spot in this area is the Diaspora, which could be mobilized to increase the pace of growth. A potential problem is the role of the Chinese, both the Myanmar-Chinese who have been prominent members of the business community for generations and the hundreds of thousands of Chinese who have moved into northern Myanmar over the past 15 years to exploit a wide range of economic opportunities.

Foreign investors have shown a keen interest in Myanmar in response to the reforms initiated by the Thein Sein government. Companies like Coca Cola and Toyota, absent for many years mostly because of reputational risks, have returned. Leading energy and mining companies are bidding for exploration and production concessions. Foreign banks are establishing representative offices. Global law firms and accounting firms are setting up shop. Major commercial real estate developments have been announced and at least one venture capital fund has been formed.

Inflows of private capital will greatly exceed aid flows as long as Myanmar's transition remains on track. These flows will determine the look and flavor of the economy over the next 3-5 years. How the government manages them will determine whether Myanmar becomes an urbanized and cosmopolitan country like Thailand and Vietnam or a quieter and more balanced country.

Appendix B. The Paris Declaration and Its Sequels

In 2005, forty-five years after the United Nations declared the 1960s to be the “development decade,” and the high-income countries had spent hundreds of billions of dollars to promote “development” in low-income countries, the public perception was that foreign aid was a bottomless pit. Many aid-receiving countries, particularly in Africa, had “undeveloped”: their citizens were living in worse conditions than in 1960. By contrast, China, the world’s largest poor country, had brought hundreds of millions of its citizens out of extreme poverty with little help from the foreign aid community. A consensus emerged on the need to have a serious look at aid effectiveness.

During the decades of foreign aid up through the 1990s, donor coordination was seen as a basic element in successful aid programs. In particular, it was a way of avoiding duplicating activities and sharing information. It was also useful in arriving at a consensus among donors on messages to deliver to recalcitrant governments to encourage the adoption of growth-promoting and poverty-alleviating policies. Donors saw themselves as being more interested in progress than the recipient country’s government. In some cases, a united donor front was able to produce positive policy changes, but donors often failed to agree on what to demand and the recipient countries almost universally resented donor conditionalities. Moreover, at the level of individual projects, each donor tended to go its own way.

Numerous shortcomings of development assistance in past decades had been documented. Among the most egregious:

- Competition emerged among donors for the scarce time of government officials. Each donor had its own programming missions and sought to “make a difference” with its own projects, regardless of conflicting approaches taken by other donors. Success was measured by the volume of aid more than improvements in the well-being of the people in the countries being helped.
- Pressure to accelerate disbursement of budgeted funds led to a proliferation of “project implementation units (PIU),” parallel structures that enabled funding to bypass government ministries. The PIUs attracted outstanding government officials by offering

better salaries, more computers, project-funded motor vehicles, etc. When the project funds were used up and the PIUs were shut down, government ministries were weaker than before the project was launched.

- Donors, driven by demands from the legislatures that were funding them, periodically embraced “new approaches” in an effort to secure more funding. Consequently, country programs were interrupted to embrace the latest fad from headquarters.
- Donors required procurement to be sourced in the home country. As a result, for example, hospitals ended up with graveyards of medical devices due to a lack of training or spare parts.

At the end of a conference in Paris in March 2005, representatives from 55 developing and developed countries and 26 multilateral development institutions issued a statement containing commitments to reform the design and delivery of development assistance. This “Paris Declaration on Aid Effectiveness” contained five principles:

1. **Ownership.** Developing countries will determine their own strategies for reducing poverty, strengthening institutions, and tackling corruption.
2. **Alignment.** Donor countries will align behind these strategies, channel assistance through government budgets, and use sector-wide approaches where appropriate.
3. **Harmonization.** Donor countries will coordinate with each other, adopt common procedures, and share information to avoid duplication. Multidonor planning missions will be organized to reduce the burden on government officials.
4. **Results.** Developing countries and donors will shift their focus from providing inputs to achieving results. Countries will develop standards for measuring results, which donors will use in preference to their own.
5. **Mutual Accountability.** Both donors and partners will be accountable for development results. Periodic, at least annual, meetings between the country and each donor will be held to discuss results achieved, including where each partner may have fallen short in carrying out commitments.

The Paris Declaration, in effect, gave developing country governments the principal responsibility for promoting economic growth and reducing poverty, and placed donors in a supporting role. This role reversal, helped by donor insistence on national discussions of strategy, has led to much more forward-looking planning by recipient governments, and much more dialogue on strategies.

Two follow-up meetings on aid effectiveness were held: in Accra (Ghana) in 2008, and in Busan (Korea) in 2011. The Busan meeting was attended by 160 countries and 30 international organizations, as well as numerous representatives of civil society organizations and the private sector. A split opened up, however, between “North-South” donors and “South-

South” donors. The latter, notably including India and China, viewed the Paris principles as inappropriate for their aid to fellow countries of the South.

An independent evaluation of the implementation of the Paris Declaration prior to the Busan meeting, carried out for the OECD by a team engaged by the Danish Institute for International Studies, concluded that country ownership had been successfully embedded in most donor approaches. Some progress had been made on the principles of alignment and harmonization, although no progress was evident on reducing the burden for partner countries of managing donor assistance. Little progress was found on the last two principles, managing for results or creating mechanisms for mutual accountability.

A second study by the OECD in 2011 checked the 12 time-bound commitments made by donors at the Paris meeting to see which had been met. Only one had: use of partner-country strategies. The study, covering 56 developing countries, concluded that

- Capacity building was still mainly supply-driven.
- Donors were using host-country systems more, but less than promised.
- One-third of the recipient countries improved financial management, but a quarter had regressed.
- The long-term predictability of aid had not improved.
- Joint programming missions, common procedures, and joint projects were not being undertaken.

The Busan Declaration pushed further in three areas. First, it gave greater recognition to “South-South” assistance, essentially exempting aid from other developing countries from the commitments made by developed countries but recognizing them as full partners. Second, it gave greater recognition to the private sector’s role in development and the importance of government policies creating open trade and investment regimes that would encourage private investment. Third, it emphasized engagement of the whole of society, including the business community, civil society, and parliaments in the process of designing and implementing development programs. Previous formulations had tended to treat “government” as synonymous with “country.”

Appendix C. Lessons from Other Countries

Myanmar has launched a reform effort with few successful precedents: a very poor country embracing democratic rule at the same time it is trying to resolve longstanding ethnic conflicts and is opening up its economy to the world after decades of isolation. How to move successfully from autocracy to democracy, from isolation to openness, and from control of economic resources by a small elite to broad ownership, are key challenges for the Thein Sein government. Deciding which path is most likely to produce rapid, broad-based improvement in the economic and social well being of the population is a crucial choice.

Making democracy work in poor countries has not been easy. While democracy has been promoted by much of the donor community as appropriate for all countries at all times, considerable historical evidence contradicts this view. Fareed Zakaria has argued that it is much more important for poor countries to embrace the rule of law than to create democratic political systems.³ Robert Barro, examining the empirical evidence up to the mid-1990s, concluded that poor countries with democracy would evolve into less-democratic polities, because there is not a sufficiently broad base of divergent interests to prevent the ruling coalition from amassing steadily more power.⁴

On the experience of poor countries successfully moving from isolation to openness, the evidence over the decades is clear. Low wages gave them a comparative advantage that allowed for rapid growth in exports, usually of labor-intensive manufactures. Creation of special economic zones or export processing zones was often a way to overcome infrastructure weaknesses. As the national infrastructure improved, exporting companies in other parts of the country became more competitive.

From a long-term perspective, Acemoglu and Robinson (A&R) have attributed the failure of many countries to advance economically to elites who extract the country's wealth to

³ Fareed Zakaria, *The Future of Freedom: Illiberal Democracy at Home and Abroad*, Norton, 2007

⁴ Robert Barro, *Getting It Right: Markets and Choices in a Free Society*, MIT Press, 1998

perpetuate themselves in power while leaving the majority poor.⁵ These elites monopolize the commanding heights of the economy and prevent the “creative destruction” that would otherwise come from non-elite innovators. For A&R, real development is only likely to occur when a critical juncture allows the power of the elites to become limited, permitting the country to move to an “inclusive” polity that redistributes power in a way that allows new economic agents to introduce innovations capable of raising productivity and incomes over the long term. They cite Russia and most of the former Soviet Republics as cases that failed to use a critical juncture to turn from an extractive state to an inclusive one. In their view, the state as the extractive agent was simply replaced by a private sector elite becoming the extractive agent. Similarly, they predict that China’s economic growth will eventually stop, as the elites controlling state-owned enterprises stifle competition from potential innovators outside their control. Myanmar today is facing a critical juncture of this kind.

Abundant natural resources pose a particular challenge, as they tend to generate little employment, and the wealth from them is easily appropriated by elites, producing the “resource curse” visible in many poor countries. Nigeria is the poster child for this problem. Its oil wealth has enriched a small elite while destroying the export competitiveness of its traditional agricultural products and impoverishing millions of its citizens.

Beyond these generalizations, the experience of poor countries in the different regions of the world over the past few decades is summarized in the following paragraphs.

Eastern Europe’s experience with foreign aid was generally positive during its transition from socialist to market economies beginning in the late 1980s. The governments of these countries had a clear idea of where they wanted to go: they wanted to be economically integrated with Western Europe, and even become members of the European Union. It was natural and easy for the Western donors to align their aid programs with these objectives and contribute essential technical expertise.

The results in **Africa** after the end of colonialism (in the 1960s for many countries) were quite different. Most African independence leaders believed that they could modernize their countries quickly after the burden of colonialism had been lifted. The wealthy donor countries contributed massive amounts of foreign aid – often exceeding 10 percent of GDP – to support these efforts. But the aid largely served to entrench governments pursuing mistaken policies. Poverty across the continent persisted and even deepened in some countries. Botswana was the exception. Believing that only careful management of its natural and human resources could lift the country out of poverty, it was able to outpace its regional neighbors and achieve high rates of economic growth after independence. In the past 10-15 years, an increasing number of African countries have adopted similar outward-oriented policies and effective

⁵ Deron Acemoglu and James Robinson, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty*, Crown, New York, 2012

macroeconomic management, and now appear to be on the path of sustained economic growth. Donor assistance remains relatively high, but it is more carefully targeted to supporting private sector-led growth.

Following World War II, most governments in **Latin America** adopted import-substituting policies that entrenched vested interests and limited competitiveness. Western donors generously supported these misguided development strategies. The Latin American countries achieved only modest economic growth through the 1970s and then experienced a “lost decade” while extracting themselves from a continent-wide crisis brought about by excessive external borrowing. Chile was the first country to adopt an alternative path featuring limited government, export-oriented investment, macroeconomic policies that controlled inflation, and enlightened management of its natural resources. Other countries that subsequently shifted to less populist strategies with considerable success included Brazil, Mexico, Colombia, Peru, and Costa Rica. Flows of donor aid to Latin America have eased in the past 10-15 years as more countries have achieved middle-income status, but donors are still struggling to find ways to promote political stability and prosperity in more than a dozen countries, including Haiti and most of the Central American republics.

The **Middle East** has suffered greatly from the resource curse, with autocratic governments able for decades to provide slow improvement in living standards without laying the foundations for sustained economic growth or responsive political systems. Egypt, recipient of more than \$50 billion in aid from the United States alone over the past 36 years, is another poster child for the failure of aid. The “Arab Spring” in 2011 can be seen as a reaction to decades of progress lost to poor governance enabled by large aid flows. Donors are now trying to find ways to avoid repeating the mistakes of the past, but there is little evidence that they are succeeding.

Myanmar is fortunate because the developing countries of **East Asia** stand out in adopting outward-looking economic policies that have led to impressive reductions in poverty and increasingly democratic political systems. The first ones to lead the way were South Korea and Taiwan, in the 1950s. Their success inspired the Southeast Asian “tigers” to achieve high rates of economic growth beginning in the 1970s. All of these countries received substantial amounts of foreign aid, as did Vietnam when it shifted to a more open growth strategy in the mid-1980s. By contrast, foreign aid has played only a small role in China’s phenomenal growth since 1979, with foreign investment being a major driver. India’s experience was quite different. It received relatively large amounts of foreign aid beginning in the 1960s to support an inward-looking growth strategy, but it was unable to achieve high rates of economic growth until the 1990s when it adopted more outward-looking and less aid-dependent policies. The role of foreign aid in Indonesia’s transition to democratic rule since 1998 has some particularly valuable lessons for Myanmar. (See Exhibit C-1.)

Exhibit C-1

The Indonesian Experience

The role of foreign aid in Indonesia since its independence following World War II provides some sobering lessons for Myanmar, especially its role following Indonesia's dramatic transition to democratic rule that began in 1998.

Post-war assistance to Indonesia from the United States and other Western donors was on a par with assistance to other newly independent nations at the outset, but slacked off as President Sukarno led his country down an increasingly nationalist and anti-West path. A bloody transition in 1965 brought General Suharto to the presidency a few years later. He crushed the communist movement and brought order to the country through authoritarian rule. Relations with the donor countries of the West were quickly normalized and large amounts of aid began to flow. To his credit, Suharto effectively delegated economic policy to a group of U.S.-trained technocrats ("the Berkeley mafia"). The combination of sound policies and generous aid yielded one of the fastest growing economies in Asia over the next 30 years.

After 1990, foreign aid to Indonesia slowed, partly because Indonesia was rising in the ranks of middle-income countries but also because the Suharto regime became deeply corrupt and was losing popular support.

Within a few years of Suharto's forced resignation in 1998, Indonesia had become a poster child for democratic rule. Multilateral and bilateral aid to the country soared, both to facilitate the country's recovery from the financial crisis that was Suharto's undoing and to consolidate the transition to democracy. The results over the past 14 years have been underwhelming, however. Despite maintaining above-average macroeconomic policies, the country has been unable to regain the annual growth rates of 7-9 percent that were achieved during most of the Suharto era.

More to the point, the tens of millions of dollars of foreign aid provided after 1998 that were directed toward building an effective legislature and a respectable judicial system have not yielded the improvements they were designed to achieve. Many Indonesians today consider their legislature to be the single biggest obstacle to progress and their judicial system to be more corrupt than it was in 1998.

Millions of dollars of foreign aid are likely to be directed to Myanmar in the coming years to build an effective legislature and a respectable judicial system. It will not be easy for the Government of Myanmar and the donor agencies to find approaches that yield better outcomes than Indonesia has experienced.

In Myanmar's regional peer group, recent studies of donor coordination in Nepal, Cambodia, and Vietnam provide contrasting stories.⁶ In **Nepal**, aid commitments exceeded the country's absorptive capacity. Donor programs tended to be duplicative and sometimes inconsistent. In the words of the study, "the need to demonstrate attribution, a reluctance to align internal bureaucratic processes with those of [the Government of Nepal], and inadequate ownership and interest in the development process from Nepal are the main reasons given [for the ineffectiveness of aid]." Many projects had a standalone character, meaning that they left little

⁶ The three were all done in 2010 in preparation for the Busan follow-up meeting to discuss progress in implementing the Paris Declaration. All three can be accessed from the OECD website.

footprint once the money was disbursed. A separate independent assessment⁷ suggested that some donors “inadvertently” acted to prevent reconciliation among the various political factions in Nepal.

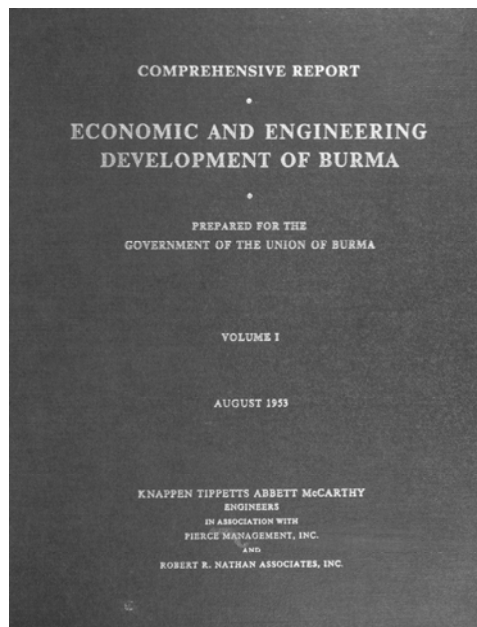
In **Cambodia**, the study reported a “high degree of fragmentation in aid delivery,” partly due to lack of capacity in the government. This weakness was exacerbated by the diversity and complexity of donor programs, which overtaxed the government’s management capacity. Fear of corruption was another factor, as donors mostly opted for use of their own systems for monitoring and implementing their projects.

In **Vietnam**, relatively little foreign aid was provided during the first decade after *doi moi* in 1986. When donor activity accelerated in the mid-1990s, the government established a strong unit to manage foreign aid to the country, and was successful in channeling aid in ways that reinforced government programs in rural areas. Initially the central government directed most aid flows, but gradually more control was delegated to the lower levels of government largely because of pressure from donors.

⁷ International Crisis Group, “Nepal’s Constitution (I): Evolution Not Revolution,” Asia Report No. 223, August 27, 2012.

Appendix D. The Pyidawtha Plan and Its Successors⁸

Burma became independent on January 4, 1948. Planning the country's economic and social development had begun the previous year. Specifically, General Aung San convened a "Rehabilitation Conference" shortly before his assassination in July 1947. This conference initiated work on the "Two-Year Plan of Economic Development for Burma," which was completed in April 1948.



In 1950, inspired by a newspaper report about an economic assessment of Iran's potential carried out by a private firm, Prime Minister U Nu directed his staff to arrange for a similar report on Burma to be undertaken. The result was a two-year contract concluded a year later with the American engineering firm of Knappen Tippetts Abbett in association with the mining engineering firm Pierce Management, and the economic consulting firm Robert R. Nathan Associates. The dollar costs of the work were funded by a \$10 million grant from the U.S. Government (Technical Cooperation Administration).

The formal title of the plan produced was "Comprehensive Report: Economic and Engineering Development of Burma." It was known as the K.T.A. Program or the Pyidawtha Plan. (Pyidawtha has been translated commonly as "happy land," but "prosperous land" may be closer to current usage.) The plan was delivered to the Government of Burma in August 1953 and was presented in two volumes together containing more than 800 pages.

⁸ Nathan Associates has digitized the Pyidawtha Plan and posted it on their website at <http://www.nathaninc.com/myanmar>.

Two aspects of the historical context are worth mentioning. One is the massive destruction of infrastructure in Burma that occurred during World War II, which explains the leading role of the K.T.A. firm and the emphasis in the plan on infrastructure rehabilitation and development. A second aspect is the 1948 Constitution. It had many socialist/welfare elements that were in sympathy with the views of Robert R. Nathan. Nathan had gained prominence as a planner of the wartime mobilization of the U.S. economy and as a liberal thinker.

The work of the K.T.A. team divides into three phases: delivery of the “Preliminary Report and Recommendations” in January 1952, the Pyidawtha Conference in August 1952, and delivery of the final report in August 1953. Around the time the final report was delivered, the Government of Burma shut down the U.S. technical assistance program to protest CIA support of remnants of the Kuomintang forces that had fled into northern Burma as the Peoples Liberation Army established control of mainland China. Significantly, the Nathan team continued to work in Burma for the Economic and Social Board, and the K.T.A. team was retained by the Ministry of National Planning. These arrangements ended in 1959 shortly after the increasingly dysfunctional U Nu government resigned and ceded authority to the Burmese Army.

Louis Walinsky was the General Manager-Chief Economist of the Robert R. Nathan

team advising the government over the six years following the delivery of the Pyidawtha Plan. In his book on this period of Burmese history, Walinsky wrote that the Pyidawtha Plan “dominated the economic and social life of Burma throughout the remainder of the decade, and the fumbling of it contributed in 1958 to a political crisis of major proportions.”

Two assumptions underlying the Pyidawtha Plan contributed mightily to the unhappy results. First, it explicitly assumed that the insurrections against the government would be ended by the beginning of 1954, but they continued with little respite. Second, it assumed that the price for Burma’s rice exports would remain high. Instead, when the Korean War wound down in the mid-1950s, global demand dropped significantly and prices fell. As a result, the

It behooves us therefore to use, with all our energy, this Leftism as a means by which we shall bring to Burma that magic tree. But . . . when we plant that tree, we should not be guided by books of words but plant the seed in relation to Burmese soil, Burmese water and Burmese climate. We should not attempt to read books on how such trees are planted in England, or in Russia, or in China and try to emulate these efforts.

– U Nu in his May Day speech in 1948,
quoted in Walinsky (1962)

amount of foreign exchange available to fund capital projects was considerably lower than expected.

A third factor may have been equally important in upending the implementation of the Pyidawtha Plan: the Burmese army was largely neglected. As a result, General Ne Win had no interest in continuing the plan after his successful coup in 1962.

Three features of the Pyidawtha Plan are worth recalling now. One is that the plan brought local communities into the planning process by giving annual development grants of \$10,000 (unadjusted for inflation) to each township in the country. A second is that several main parts of the plan were implemented by establishing government corporations for minerals, industry, transportation, and agriculture. A third is that the terms of reference for the K.T.A. team ruled out work in the agriculture sector in the belief that the government did not need foreign expertise in this area. Nevertheless, the Pyidawtha Plan did put a great deal of emphasis on agriculture.

The breakdown of funding by sector for the programs and projects in the Pyidawtha Plan was as follows: power-27.3 percent, highways-23.3 percent, ports and waterways-16.1 percent, irrigation-12.8 percent, railways-7.7 percent, industry-6.5 percent, mining-3.3 percent, airways-2.1 percent, and telecommunications-0.9 percent. The goal was to increase national output by 90 percent in eight and one half years. Forty-two percent of the capital formation in this period was to be undertaken by the plan's programs and projects, with most of the rest by the private sector.

Implementation of the Pyidawtha Plan departed in several important respects from what was proposed. In particular, the government expanded from 45 to 65 the number of manufacturing industries to be promoted, and it set aside the three main power projects recommended in favor of others involving less hydroelectric generation and more thermal generation. Furthermore, little progress was made in implementing the proposed highway and irrigation projects. One factor that helped was a reparations agreement with Japan concluded in 1954 that committed Japan to providing \$200 million (unadjusted for inflation) of Japanese goods and services over the next ten years plus \$50 million of loan financing for joint Burmese-Japanese projects.

Macroeconomic weaknesses emerged in 1955 in the form of inflation and balance of payments strains. These led to the first P.L. 480 loan from the United States to Burma (for importing surplus cotton) and to the first drawing of foreign exchange from the International Monetary Fund by any member equal to 100 percent of the member's quota. Related support of note came from Israel and Russia in the form of barter arrangements.



From the *Burma Star*, August 20, 1954. "Prime Minister U Nu entertained at breakfast at his residence this morning four foreign consultants to the government. . . The Prime Minister had been holding consultations on Burma's development program, with particular reference to the provision of funds during 1954-1955 for social and economic development. . . Mr. Nathan came dressed for breakfast in Burmese costume."

The Pyidawtha Plan started to veer seriously off track in the 1957/58 budget crisis, compounded by an ill-fated decision by U Nu to introduce a new Four Year Plan. Implementation of the Pyidawtha Plan effectively ended in April 1958 when the ruling party (Anti-Fascist Peoples Freedom League—AFPFL) split into a "clean" faction and a "stable" faction. In September 1958, unable to get a majority to pass a budget, the parliament agreed to relinquish power to a caretaker government led by General Ne Win, the chief of staff of the armed forces. Ne Win's mandate was to restore order and hold new elections in six months. The elections did not take place until March 1960, and then they returned U Nu's faction to power. Sadly, factional differences again stood in the way of effective governance and in March 1962 General Ne Win seized power in a military coup.

In his analysis of the failure of the Pyidawtha Plan, Walinsky devoted separate chapters to 11 problem areas: internal security, cultural adaptation, specialized manpower, finance, annual budgeting and programming, management of the public enterprises, supervision and coordination, public administration, central economic policy, foreign aid, and technical assistance. He also suggested that a strategy of development that placed more reliance on the private sector could have been more successful. Among the shortcomings was that the two-volume plan diverted attention of Burma's leaders from key needs such as civil order and did not give sufficient emphasis to how effective plan implementation would depend greatly on the active involvement of these leaders.

Implementation of the Pyidawtha Plan was not dependent on foreign aid at the outset, but 50 percent of the public sector's capital expenditures in the second half of the plan period was financed by foreign aid. The main donors, in order, were Japan, the United States, India, Russia, and the World Bank. From Walinsky's perspective, the biggest aid problems arose with U.S. assistance. These included onerous audit and end-use checks, disagreements over the specific projects to be funded with a development loan, and conditions imposed by the

Battle Act (restricting aid to countries selling strategic commodities to Communist countries) and by the Cooley Amendment (requiring 25 percent of P.L. 480-generated local currency to be loaned to American companies and their Burmese affiliates). In short, Burma's aid programs "seemed, for the most part, to have been centered on the several donors' needs, policies and objectives, rather than on Burma's. ... Indeed it seemed almost as though [Burma's] experiences were causing her to withdraw, once again, toward her historic isolation."

Walinsky summarized the 1950s development planning experience as follows: "[The Pyidawtha Plan contributed] a goal, an approach, and a demonstration of the kinds of analysis, organization, procedures and policies necessary to do the job. The effectiveness of this contribution was limited by an incapacity or unreadiness on the part of those whose appreciation was most required to realize its full implications." He further noted that: "... this naïve tendency of the average Burman to expect welfare and abundance to flow automatically from the new-found independence was to persist and provide a major obstacle to real economic advance for some time to come."

Unfortunately, not all of the specialized foreign personnel who came to Burma were desirably motivated and oriented. Some, on the verge of retirement, were interested primarily in the money. Some were maladjusted persons who could not function satisfactorily at home. Still others were adventurers, innocent "do-gooders", impractical academicians, hypochondriacs, egotists, "milktoasts" overeager to please, or cynical sophisticates scornful of the environment in which they found themselves and of the Burmese.

— *Louis Walinsky, Economic Development in Burma 1951-1960. p.552*

It is worth noting that the Pyidawtha Plan took a Keynesian approach that was quite different from the kind of development strategy advocated at the time by the eminent Burmese economist Hla Myint. As a professor at the University of Rangoon (after earning a Ph.D. from the London School of Economics) and an adviser to the National Planning Department, Hla Myint argued in the 1950s for an approach that was more private sector-oriented and that emphasized agricultural development over industrialization. He was skeptical of planning and favored a more organic approach to development. In two areas, however, the Robert R. Nathan approach and the Hla

Myint approach were similar: investing in infrastructure and improving the administrative capacity of the government.

Burma's national planning experiences over the 30 years (1958-1988) following the Pyidawtha Plan were even less satisfactory. When General Ne Win came to power in 1962, Burma turned sharply nationalist, isolationist, and socialist. Most modern industrial enterprises were nationalized. Five-year plans were announced but not implemented with any success. Burma's first demonetization (of three) took place in 1964, and the economy went into a long slide toward widespread poverty.

U.S. assistance was resumed in 1979 with the opening of a USAID mission. The USAID program focused on poverty alleviation (basic human needs, agriculture) and operated at a funding level of under \$5 million per year until it was shut down after the 1988 coup. Other Western donor countries and Japan also stepped up their aid.

National development planning after 1988, under the SLORC and the SPDC, veered away from the socialist path back to market-oriented strategies sketched out in a new set of five-year plans. However, foreign aid from Western donors dried up in the wake of the military's suppression of the 1988 uprising, and toward the end of the decade Myanmar experienced severe balance of payments constraints, exacerbated by the financial crises in Thailand, Indonesia, and Korea in 1997 and by the economic sanctions imposed by Western countries. The balance of payments constraints were largely relieved when Myanmar started exporting natural gas to Thailand in 1998, but the economy continued to underperform relative to most other countries in Asia.

A second attempt to design and implement a comprehensive economic development plan—what might be labeled “Pyidawtha 2.0”—was launched in 2001 by the Government of Japan. For the next two years, a resident team in Yangon supplemented by a large number of Japanese experts worked with their Myanmar counterparts to produce the Myanmar Economic Structural Adjustment Program (MESAP). (The main elements are outlined in Exhibit 5.) The MESAP was delivered to the government in 2003 but it was never implemented for two reasons. First, the attack on Aung San Suu Kyi and her entourage at Depayin in May 2003 prompted Japan to suspend most of its aid to Myanmar. Second, the sacking of Prime Minister and Chief of Intelligence Khin Nyunt in October 2004 removed the project's major client from the scene and no other official replaced him.

What can be considered a fourth phase of national economic planning began with the inauguration of President Thein Sein and his cabinet in March 2011. The first steps in this phase are the subject of our report.

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