

Ex-Ante Evaluation (for Japanese ODA Loan)

Southeast Asia Division 4, Southeast Asia and Pacific Department, JICA

1. Basic Information

Country: The Republic of the Union of Myanmar (Myanmar)

Program: COVID-19 Crisis Response Emergency Support Loan (Investment Promotion and Financial Sector Development Program Loan)

Loan Agreement: September 1, 2020

2. Background and Necessity of the Program

(1) Current State and Issues of the Collective Sector Involving the Macro Economy, Investment and Trade Environment Improvement, and Finance in Myanmar

Since its transition to civilian rule in 2011, Myanmar has been experiencing solid economic growth. It has continued to achieve a GDP growth rate of over 6 percent per year on the back of increases in exports and foreign direct investment (“FDI”). However, the spread of the novel coronavirus (“COVID-19”) since January 2020 is likely to take a heavy toll on the nation’s economy. The World Bank estimated that the GDP growth rate will fall to 0.5 percent for the 2019/20 fiscal year.

After the first case of COVID-19 was confirmed in Myanmar on March 23, 2020, the government stepped up measures to control the virus, including suspending passenger flights and imposing lockdowns in some parts of Yangon. It is feared that the real economy will be significantly affected on both the demand and supply sides. Trade has also been affected. Since late January, exports and imports across the border with China, which account for nearly 20 percent of Myanmar’s total trade, have registered a drop of almost 50 percent from the previous year, according to the Ministry of Commerce. There are also no grounds for optimism for future inflows of FDI. Foreign companies have been reducing their operations in Myanmar and sending their employees back to their home countries.

Because of all these negative effects, a drop in tax revenues, as well as an increase in public finances to support the economy and public health among other sectors, will likely expand the fiscal deficit. Growing trade deficit and declining foreign investment inflows are also expected to deteriorate the balance of payments.

In response to the economic fallout from the COVID-19 pandemic, the

Government of Myanmar announced the COVID-19 Economic Relief Plan (“CERP”) on April 27, 2020. CERP has seven pillars, under which are laid out a total of 76 actions to be taken by the end of 2020. Through CERP, the Government of Myanmar aims to minimize the economic fallout from COVID-19 and achieve rapid economic revitalization. It estimates that the implementation of CERP will entail the expenditure of 2 billion dollars, underscoring the urgent need for budget support that underpins this spending.

Myanmar has close economic ties with Japan, which accounted for 7.7 percent of its exports and 4.2 percent of its imports for the 2017/18 fiscal year. It also maintains active people-to-people exchanges with Japan. Containing COVID-19, and maintaining and revitalizing economic activity in Myanmar will also contribute to the Japanese companies operating there and, by extension, the Japanese economy.

To achieve stable economic growth after COVID-19 is brought under control, it is essential to further galvanize FDI that will support the Myanmar economy as well as the domestic market. Improving the investment and trade environment requires streamlining related procedures and speeding up custom clearances, among other challenges. In the financial sector, institutional modernization has made progress in some aspects, including the adoption of a modern payment system at the Central Bank of Myanmar. However, developing financial infrastructure calls for, among other remaining challenges, establishing connections between different payment systems at different financial institutions, developing the related human resources, and improving the operation and maintenance of these systems.

Under these circumstances, the COVID-19 Crisis Response Emergency Support Loan (Investment Promotion and Financial Sector Development Program Loan) (“the Program”) has been designed to revitalize the Myanmar economy with budget support for the Government of Myanmar, and contribute to the country’s stable economic growth through policy and institutional improvements which help to both improve the investment and trade environment, and to develop financial infrastructure.

(2) Japan’s and JICA’s Cooperation Policy and Operations in the Collective Sector Involving the Macro Economy, Investment and Trade Environment Improvement, and Finance

Japan’s Economic Cooperation Policy for Myanmar, which was announced in

April 2012, identifies “assistance for capacity building and institution development to sustain the economy and society” as one of its priority areas. The Program falls under this particular priority area. The Japan-Myanmar Cooperation Program, which was agreed upon between the Government of Japan and the Government of Myanmar in November 2016, sets out, among other pillars, “urban manufacturing accumulation and industrial development,” “enrichment of education widely received by the people, and job creation in line with industrial policies,” and “cooperation for the improvement of the financial sector.” The Program is also consistent with these cooperation policies.

(3) Other Donors’ Activities

In response to the COVID-19 fallout in Myanmar, the World Bank has approved loans for the health sector while the IMF has committed emergency loans. To support improvement of the investment and trade environment as well as the financial sector, the ADB has been conducting a project called “Support for Strengthening the Business Climate” since 2017, while the World Bank has been supporting the Financial Sector Development Project since 2016. The IMF has been assisting Myanmar in many aspects of the financial sector, including monetary and exchange policies.

3. Program Description

(1) Program Objective

The objective of the Program is to support implementation of COVID 19 Economic Relief Plan which is an economic measure by the Myanmar Government and to improve policy for promoting investment and trade and financial sector in Myanmar becoming more affected by the spread of COVID 19 infection by/through providing budget support, thereby contributing to promoting the economic revitalization, the economic stabilization and development efforts of Myanmar.

(2) Program Site / Target Area

Nationwide

(3) Program Components

The Program will assist, through budget support, economic measures that the Government of Myanmar implements based on CERP. It will also encourage the government to redress policy and institutional issues in order to help maintain the subsequent economic growth. To this end, the Program will monitor the

government's performance with regard to a policy matrix based on the pillars shown below, thereby supporting the government's initiatives and continuous efforts for the improvements.

- 1) Sustaining macroeconomic stability through monetary and fiscal policies
- 2) Recovery of the private sector through improvements of business, investment and trade environment
- 3) Revitalizing business activities through establishing advanced financial platforms

(4) Estimated Program Cost (Loan Amount): 30,000 million yen

(5) Schedule: The Program will be completed when the loan is disbursed (scheduled for October 2020).

(6) Program Implementation Structure

- 1) Borrower: The Government of the Republic of the Union of Myanmar
- 2) Guarantor: None
- 3) Executing Agency: The Ministry of Planning, Finance and Industry
- 4) Operation and Maintenance Agency: The Ministry of Planning, Finance and Industry

(7) Cooperation and Sharing of Roles with Other Donors

1) Japan's Assistance Activities:

Japan's assistance in improving the investment and trade environment include two technical cooperation projects: The Project of Capacity Development for National Single Window and Customs Modernization by Introducing Automated Cargo Clearance System in Myanmar (2014-2020), including Phase 2 of this particular project (2020-2023); and the Project for Promoting Investment for Enhancing Industrial Competitiveness (2019-2024). Among the ongoing assistance activities for developing financial infrastructure are a technical cooperation project titled "Project for Modernizing the Funds Payment and Securities Settlement Systems in Myanmar" (2014-2020); a Grant project titled "Project for the Development of Financial Market Infrastructures," for which a G/A was signed in 2018; and an ODA loan project titled "Project for the Development of Finance for Small and Medium-sized Enterprises (Phase 2)," for which an L/A was signed in 2018. The Program is aiming to generate synergy by coordinating with the existing assistance activities, including those mentioned above, during the processes of developing the policy matrix and monitoring the performance.

2) Other Donors' Assistance Activities:

In developing the policy matrix, JICA is holding consultations with the IMF and other donors that are considering granting similar emergency loans to Myanmar. It is also planning to cooperate with such donors in monitoring CERP progress.

(8) Environmental and Social Considerations / Cross-Cutting Issues / Gender Category

1) Environmental and Social Considerations

① Category: C

② Reason for Categorization: The Program is likely to have minimal adverse impact on the environment under the JICA Guidelines for Environmental and Social Considerations, released in April 2010.

2) Cross-Cutting Issues

Poverty reduction and considerations: CERP, the implementation of which will be supported by the Program, includes two pillars that call for easing the impact on workers and households. Specific actions to be taken under these pillars involve handing out food and money to vulnerable people who are affected by the fallout of COVID-19, including ethnic minority communities with higher poverty rates. Accordingly, JICA will monitor CERP progress during the monitoring period under the Program so that these actions will also benefit the vulnerable.

3) Category of Gender: Not applicable; GI (gender mainstreaming needs assessment and analysis project)

<Description of activities and reason for classification>

Although it was agreed that women should account for not less than 30 percent of the staff at the Program Implementation Unit, the Program stopped short of incorporating any specific component that will contribute to gender equality or women's empowerment.

(9) Other Important Issues: Not in particular

4. Targeted Outcomes

(1) Quantitative Effects

Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline	Target (2022) [Expected value 2 years after program completion]
Balance of Loans for small and medium-sized enterprises* ¹	1,274,605 Million Kyat (June 2019)	1,500,000 Million Kyat
Number of regions where MACCS is in operation* ²	3 (April 2020)	4
Number of banks which directly connected to CBM-NET2* ³	-	9

*¹ Total number of state-owned banks and commercial banks as announced by the Central Bank of Myanmar

*² MACCS: Myanmar Automated Cargo Clearance System

*³ CBM-NET2: A payment system provided under the Project for the Development of Financial Market Infrastructures

(2) Qualitative Effects

The recovery and stabilization of economic activity, the maintenance of employment, the promotion of investment and trade, and stable economic growth

(3) Internal Rate of Return

Not calculated because the Program is a program loan.

5. External Factors and Risk Control

(1) Preconditions: Not in particular

(2) External Factors: Measures to put COVID-19 under control are maintained globally and the rapid deterioration of the situation is avoided.

6. Lessons Learned from Past Programs

In the aftermath of the financial crisis of 2008, JICA carried out three ODA loans for emergency budget support to three Southeast Asian countries: (1) the

Emergency Budget Support Japanese ODA Loan for the Philippines; (2) the Climate Change Program Loan (II) (including the Economic Stimulus and Budget Support Loan) for Indonesia; and the Eighth Poverty Reduction Support Credit with Economic Stimulus Support for Viet Nam. The ex-post evaluation of these loans, conducted in 2011, emphasizes that since one of the objectives of emergency budget support is to extend financing in a timely manner to facilitate crisis responses, the timing of the financing is crucial for maximum effectiveness. It concludes that the procedures up to the loan disbursement should preferably be as simple and as flexible as possible.

Having learned the lessons described above, the Program has decided to speed up the processing procedures used by officials in both countries, including completing the necessary approval procedures on the Myanmar side beforehand under certain conditions. It will also design a policy matrix so that it will be aligned with the outcomes of the completed technical cooperation and other projects. These are some of the arrangements that have been made for the timely delivery of assistance that is characteristic of Japan.

7. Evaluation Results

The Program is consistent with the development issues and policies of Myanmar as well as Japan's cooperation policies. It is also designed to assist the Government of Myanmar in implementing CERP, and making policy and institutional improvements that will help to both improve the investment and trade environment, and to develop financial infrastructure, thereby contributing to economic revitalization as well as stable growth and development efforts in the country. Additionally, the Program will likely contribute to two of the SDGs: Goal 8 (Decent Work and Economic Growth) and Goal 9 (Industry, Innovation and Infrastructure). In light of all these aspects, it is highly necessary to support the implementation of the Program.

8. Plan for Future Evaluation

(1) Indicators to be Used

As indicated in sections 4. (1) to (2).

(2) Timing

Ex-post evaluation: Two years after program completion

End