

Understanding & Influencing IMF Policy Advice in Myanmar



A Guidebook for Engaging the International Monetary Fund

ABOUT THIS GUIDEBOOK

Understanding the role of the International Monetary Fund (IMF) in shaping the economic policies of developing countries can be a challenge, especially in a country like Myanmar where the political and economic fabric of the country is rapidly changing. The purpose of this guidebook is to provide essential information about the IMF to civil society groups and other interested stakeholders in Myanmar so that they can actively and effectively shape the institution's involvement in their country.

This guidebook is organized into four parts, each of which can be used as standalone elements.

Part I provides an overview of the content in this guidebook. This section can also be used as a primer for civil society organizations who may not be familiar with the technical language used by the IMF or who just want a brief introduction to the topic.

Parts II and III form the heart of this guidebook. These sections include a summary of the IMF and its core functions; a review of the IMF's activities in Myanmar and how these activities can impact key policy areas; and advice for civil society on how to engage with staff at the International Monetary Fund and influence the policy discussions between the IMF and your government.

Readers can use the appendices in **Part IV** to learn more about the IMF's history, structure, and voting membership. This section also includes a short introduction to macroeconomics as well as contacts for key staff within the IMF and the civil society organizations that monitor the IMF's activities.

This guidebook can be used for training or workshops.

Acknowledgements

This guidebook is the product of a long collaborative process between the Bank Information Center (BIC) and New Rules for Global Finance. We would like to thank those who drafted this document, particularly Nathan Coplin and Jo Marie Griesgraber (New Rules), Carmen Cummings (Duke University), and Sarah McNeal (Bank Information Center). We would like to thank all those who provided technical advice and editing support, including Jelson Garcia, Sean Turnell, Jerry Fowler, Kelley Currie, and Amanda Guedes De Oliveira, as well as staff from the International Monetary Fund, among others.

Finally, this guidebook would not have been made possible without the generous financial support of the Open Society Foundations and Oxfam Novib. Thank you.

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PART I: WHY CARE ABOUT THE IMF?

A. What is the IMF?

The International Monetary Fund (IMF or The Fund) is an international financial institution (IFI) that was established in 1944 to promote global economic growth and financial stability after World War II. The IMF is different from other IFIs such as the World Bank Group (WBG) and other multilateral development banks because it does not fund development projects. Instead, the IMF helps countries improve how they manage their money – what it calls “good macroeconomic policy” – by providing advice, training, and, in some cases, loans to member countries to help them during times of crisis (e.g. government cannot afford to import basic goods like grain or oil).

B. What is the IMF doing in Myanmar?

The International Monetary Fund’s goal in Myanmar is to help stabilize the economy and strengthen the government’s ability to regulate trade. Unlike the World Bank Group and the Asian Development Bank, the IMF did not stop providing advice and technical support to the Government of Myanmar during the rule of the military junta. However, until 2012, the annual IMF reports on the status of Myanmar’s economy were kept private.

The IMF is currently focused on helping the government implement economic policy reforms in the following areas:

- **Agriculture:** While the IMF does not explicitly provide advice in this sector due to lack of expertise, to date the Fund has recommended that the Myanmar Agricultural Development Bank expand access to rural credit and lower interest rates on loans to farmers.
- **Natural Resource Management:** Since the majority of the Government of Myanmar’s income, or revenue, is dependent on the export of natural resources such as oil and gas, the IMF is focused on improving the government’s ability to collect and manage revenue from natural resource extraction and encouraging the use of transparent rules and contracts in the extractive industries.
- **Government Revenue and Spending:** The IMF is helping the government manage its budget – both what it receives as revenue from collecting taxes and what it spends on other services – by assessing the country’s public financial management systems and by providing advice and technical training to improve those systems.
- **Exchange Rate:** The IMF is working with the Central Bank of Myanmar (CBM) to strengthen its ability to manage the constantly changing value of the kyat after the Fund helped the government move to a unified floating exchange rate (i.e. shifts with changes in the global market) in 2012. Prior to that, the kyat had several fixed rates as set by the government.
- **Money Flows:** The IMF is assisting the Central Bank of Myanmar to improve its ability to handle the large amounts of foreign investment that is expected to pour into the country in the coming

years. This includes providing training on macroeconomics and financial statistics to Myanmar government workers, modernizing the CBM's operational standards, and strengthening supervision of the financial sector.

The IMF's role in shaping economic policies is critical for low-income countries such as Myanmar because the IMF's "stamp of approval" often provides governments with greater access to private financial markets and other IFIs. In order to become a member of the World Bank Group, for instance, a country must first become a member of good standing in the IMF.

Unfortunately, because the IMF often focuses on how to prepare a country for integration in the global economy, some of the policies that the IMF recommends can have negative impacts on a country's domestic economy and citizens. For example, the IMF may encourage the government to liberalize certain sectors of the economy, perhaps by reducing taxes on imports. If the liberalized sector is not strong enough to compete with foreign imports, domestic producers will suffer. In addition, this will mean less government revenue. To help with tax revenue, the IMF may recommend broadening or introducing a Value-Added Tax (VAT). The problem is that VATs are regressive, which means the poor pay proportionately more tax.

C. How can you engage with the IMF?

Because of the IMF's influence on economic decision-making, it is important to understand the recommendations that the IMF is making to your government, as well as the IMF's policy research on poverty or other issues important for your country. With this information, civil society can better determine if IMF advice is pro-poor or not and oppose or support certain policies. Civil society is also encouraged to take its concerns directly to the IMF itself, which in recent years has begun to encourage staff to interact more frequently with civil society organizations (CSOs) in its member countries.

While the IMF is not required to meet with or consult CSOs in its operations, the Fund has sought to improve CSO relations primarily as a way to "deepen country ownership," which the IMF believes is critical to improve the credibility of the institution, its lending programs, and advice to governments. The IMF is still working out how it can improve CSO participation in a systematic way, but currently civil society can engage the fund through the following channels:

- **Resident Representative:** The Resident Representative (or Res. Rep.) is the IMF staff based in member countries where the IMF has active programs. Developing a good relationship with the Res. Rep. in your country early on can help influence staff thinking and planned policy discussions. The Res. Rep. should communicate CSO policy concerns and recommendations to IMF management, which can influence the agenda for country-level IMF missions.
- **Article IV Consultations:** The Article IV Consultation is an annual review of a country's economy and its policies. While the IMF mission team is only required to meet with government officials during the consultation, they may meet with other stakeholders such as representatives from private sector, trade unions and civil society depending on the time and agenda of the meeting. It is important to request to be part of this consultation.

- **Loan Agreements:** Before the IMF loans money to a member government, the two parties develop an informal economic reform plan to accompany the government's loan request. The IMF then reviews the country's economic policies against this economic reform plan every time it disburses funds. These loan reviews are critical periods for CSOs to challenge the policies adopted by the government or suggested by the Fund.
- **Technical Assistance (TA):** The IMF is the largest provider of technical assistance in the world, focused mostly on building government capacity in areas such as public financial management. However, these activities are not public information. CSOs should ask their governments and IMF staff to publish information about ongoing assistance and suggest areas where government needs capacity building.
- **Independent Evaluation Office (IEO):** The IEO was set up to objectively evaluate the IMF's policies and activities and operates independently of IMF management. CSOs can contact the IEO if they have any concerns about the Fund's activities in their country.
- **Public Consultations:** The IMF often holds public consultations on general issues or policy areas relevant to the Fund's activities. The majority of these consultations are online only, meaning that the IMF will post the issue under consideration on its website and accept written feedback via email, though occasionally the IMF will organize in-person meetings and/or conference calls.

An important element to consider when engaging with the IMF is that staff will always encourage CSOs to take their concerns to the relevant national authorities first. This means that it is critical to understand your government's positions and policies and meet with the relevant Ministry or Parliament staff about your areas of interest before reaching out to the International Monetary Fund. Talking with your government will provide you with the information you need to tell the IMF which recommendations you can and cannot support and why. Since the IMF is ultimately responsible to its member countries, having the support of your government as well as the governments of donor countries such as the United States and the United Kingdom can serve as an important pressure point on the IMF.

In addition, the IMF does not like bad press. If negotiating with your national authorities is not possible and IMF staff are not interested in meeting with you, public actions such as protests, petitions, and open letters to the IMF can serve as another pressure point to influence the IMF's actions. Building partnerships with local and international media, other CSOs, academic institutions, and business associations will make your critiques and recommendations more visible to a broader community and more likely to make an impact on the IMF in the public sphere.

Finally, international networks can play a crucial role in helping local groups engage with the IMF. Organizations that follow the IMF closely, such as New Rules for Global Finance, can serve as resource for CSOs by i) breaking down technical IMF reports into understandable language and ii) alerting CSOs to upcoming IMF consultations or programmatic activities. These organizations also have established working relationships with IMF staff based in the Washington D.C. headquarters and are well-placed to elevate local CSO concerns to IMF Senior Management.

PART II: WHAT IS THE IMF DOING IN MYANMAR?

A. Overview

The IMF's goal is to encourage international trade and cooperation, promote exchange rate stability, and to provide loans in times of crises. The IMF also asserts to promote high employment and sustainable economic growth, and reduce poverty around the world.

What does the IMF do?

The IMF is different from the World Bank Group (WBG) and other multilateral development banks such as the Asian Development Bank (ADB). The IMF does not fund projects – rather, it supports “good” economic policy through its three key functions: 1) *Surveillance* (monitoring and evaluation of global, regional, and national economic conditions); 2) *Lending* (financial assistance to member countries with “balance of payment” problems such as not enough money to import food and fuel); and 3) *Technical Assistance* (advice and training to member countries in order to design and implement effective economic policies). The current technical assistance provided to Myanmar is described on pages 44-45 of the [2015 Article IV report](#).

Why does the IMF matter?

The IMF advises countries on policies that have long-term impacts for its economy and citizens. Advice covers a broad range of policy areas, such as: budget spending, tax collection, investment, exchange rate, trade liberalization, labor, public financial management (including natural resource revenue), financial sector regulation and subsidy reform. IMF advice is especially influential in low income countries because the IMF “stamp of approval” can help governments attract investment and improve their access to private financial markets.

Understanding the IMF positions on these policies is important for two reasons: 1) So that civil society can oppose the adoption of harmful policies, such as reduced spending on education and health programs or hasty subsidy reforms that increase energy costs; and 2) When the IMF advises positive policies, civil society can use this as leverage when urging governments to adopt better policies.

In Myanmar, the IMF's goal to promote economic stability means strengthening the Central Bank of Myanmar (CBM), ensuring the value of the kyat is stable, and making sure the country earns enough foreign currency through exports to be able to import goods. A strong and stable economy allows the people of Myanmar to: 1) Buy imported cars, cell phones and other goods; 2) Get loans at a fair price; and 3) Change kyat into foreign currency at the bank.

To achieve these goals, the IMF is providing policy advice to the Government of Myanmar (GOM) through Article IV Consultations and a Staff Monitored Program. Specifically, the IMF works with Central

Bank of Myanmar staff, Ministry of Finance and Revenue staff, Union Parliament committees (on investment or currency laws), and the Attorney General (on investment or currency laws).

Article IV Consultations

As a member of the IMF, Myanmar is required to have IMF staff come to the country every year to conduct an Article IV consultation. The Article IV consultation, which is named for the section of the IMF Articles of Agreement that describes this work, is a single-country monitoring program intended to assess a country's economy and provide recommendations to ensure long-term economic stability. Until 2012, the Government of Myanmar kept the Article IV Consultation reports private. Since 2013, the IMF has held consultations with the public to discuss the results of the previous year's report.

Staff Monitored Program

A Staff Monitored Program (SMP) is an informal and flexible program for dialogue between the IMF and a member country on its economic policies. The IMF agreed to an SMP with Myanmar in 2013 at the request of the government to oversee the implementation of the country's economic reform strategy. This program does not involve any lending from the IMF to Myanmar.

Prior to the approval of an SMP, the Ministry of Finance and Revenue and the Central Bank of Myanmar writes a Letter of Intent (LOI), outlining the policies they plan to implement. The LOI represents the intentions of the government, but IMF staff usually helps governments prepare these policy plans. The IMF staff then helps the Central Bank and Finance Ministry implement these reforms by providing recommendations, technical training, and support.

The government of Myanmar is likely to prepare future LOIs. Civil society can review LOIs to evaluate the policies the government plans to implement. LOIs are published unless the government request that documents not be disclosed.

Countries in “Fragile Situations”

The IMF could classify Myanmar as a “fragile state.” Its current framework fails to recognize the complexity of the relationships between Myanmar's Union government, the sub-national governments, the ethnic groups and the non-state armed groups. According to the IMF's *Guidance Note on the Fund's Engagement with Countries in Fragile Situations*, the IMF should apply certain principles, including: Explicit consideration of the political context; an appropriate pace of macroeconomic adjustment; and inclusive growth and social protection.¹

¹ IMF. *Guidance Note on the Fund's Engagement with Countries in Fragile Situations*. 2012
http://reliefweb.int/sites/reliefweb.int/files/resources/full%20report_117.pdf

B. Agriculture

Myanmar's agricultural history is rich. From the 1920s to the 1960s, it was the world's largest rice exporter. Today, Myanmar's main crops are rice, sugar cane, beans, and pulses, and corn.²

The Myanmar Agricultural Development Bank (MADB) was established in 1953 to support the development of the nation's farms. As of 2012, there were 206 MADB branches in the country, serving 1.87 million people (out of a population of 52.8 million).³ The MADB is one of few institutions allowed to loan money to farmers.

It is difficult for small farmers to access credit in Myanmar. Most farmers have to turn to local moneylenders to access capital. These lenders often charge double or triple-digit interest rates (up to 120 percent per year, according to the World Bank)⁴, making it nearly impossible for the borrower to get out of debt.⁵ The MADB will loan to small farmers, but interest rates are high and loans only cover a small portion of production costs. Additionally, women farmers often have more difficulty accessing credit than men.

Policy Challenges

Farmers in Myanmar have limited access to formal credit. This is caused by lending restrictions placed on banks, including:

- *Who can lend to small-holder farmers.* Currently, most commercial banks cannot lend directly to farmers.
- *What types of collateral banks can accept.* MADB requires high collateral for its loans in the forms of land and equipment.
- *Interest rate caps and floors.*

There is a lack of rural infrastructure including roads, irrigation systems, water control systems and power generation.⁶ Public investment is needed to develop the framework for increased small-farm production.

The Ministry of Agriculture and Irrigation is also understaffed. Staff work long days with imperfect data. The IMF has provided support to improve data collection systems, but capacity is at times limited due to a shortage of human capital.

² Food and Agricultural Organization of the United Nations, FAOSTat Myanmar, 2014, http://faostat.fao.org/CountryProfiles/Country_Profile/Direct.aspx?lang=en&area=28

³ The World Bank Group, "Myanmar Agricultural Development Bank: Initial Assessment and Restructuring Options", 2014,

⁴ Ibid.

⁵ Reuters, "As currency floats, Myanmar's banks rise again", 2012, <http://www.reuters.com/article/2012/04/02/us-myanmar-banks-idUSBRE83107F20120402>

⁶ Ibid.

Role of the IMF

The IMF does not generally handle agricultural issues, but sometimes the IMF addresses certain issues that relate to or impact domestic agriculture, such as agriculture banking, trade, taxes and subsidies. Recently, MADB lowered its interest rates, expanded the credit limit for farmers and broadened allowable collateral to include some export crops. In its Article IV Consultations, the IMF advised the government to end its financing of the Myanmar Agricultural Development Bank (MADB) due to concerns about inflation. The IMF also expressed concern about rapid credit growth, such as increased lending to farmers.

Greater access to finance can help farmers to develop their farms and improve their yields. However, according to a study, many Burmese farmers are already in debt and increased access to finance at lower interest rates will not necessarily increase productivity.⁷ Instead, many farmers use the less expensive debt to pay off their higher cost debt, which still leaving them vulnerable to buy-outs from large (and foreign) farms. For this reason, it is important that farming associations and other civil society engage with the IMF staff and explain how policies at the top impact citizens on the ground.

The IMF will work with governments to reduce “tax exemptions” – which is usually a positive step since many exemptions only benefit a small segment of society. However, tax exemptions for livestock food, seeds and other agricultural inputs may require a different approach. This may also be true for subsidy reforms and trade policies that impact small-to-medium sized domestic farmers.

The IMF staff is encouraging the government to implement agricultural reforms as an important tool for reducing poverty in rural areas. This is another area where civil society views can inform IMF policy recommendations to the government of Myanmar.

⁷ Harvard Kennedy School Ash Center, “Myanmar Agriculture in 2011: Old Problems and New Challenges”, 2011, <http://www.ash.harvard.edu/extension/ash/docs/myanmar1111.pdf>

C. Natural Resources

Myanmar is well endowed with natural gas, oil, timber, rubber plantations, gems, minerals, and hydropower potential.⁸ Oil and gas have been the country's largest source of official exports for more than 20 years.⁹ Unfortunately, Myanmar has a long history of corruption and embezzlement in the natural resource industry. Myanmar's biggest challenge today is not what to do with natural resource revenue, but how to make sure the government captures as much of it as possible and manages that revenue in a transparent way.

Policy Challenges

Governance

In the 2013 Resource Governance Index, the National Resource Governance Institute ranked Myanmar last in the world of resource-rich countries in terms of the quality of governance of natural resource management.¹⁰ Myanmar's oil and gas revenues are controlled by the Ministry of Energy through the state-owned Myanmar Oil and Gas Enterprise (MOGE), which has continued to lack transparency in revenue and extraction management.

The government does not report the total amount of revenue received from oil and gas extraction or how it spends its resources.¹¹ In addition, military companies such as Union of Myanmar Holdings Limited (UMHL) are invested in natural resource extraction, though the extent of their activities is unknown.¹² The vertical integration of the natural gas and oil industries in general makes them more difficult to regulate.¹³

Informal Extraction Industry

The informal extraction industry in Myanmar is large but its exact size is unknown. In logging and jade extraction, the informal sectors are estimated to be larger than the formal sectors.¹⁴ The smuggling of natural resource goods, a key element of the informal sector, results in lost revenue for the state and makes it difficult for the government or third parties to track resource depletion. Regulating the gemstone and jade industries will be particularly difficult, as the product is small, easy to hide, and easy to carry across the border.

⁸ Natural Resource Governance Institute, Myanmar Country Overview, 2014, <http://www.resourcegovernance.org/countries/asia-pacific/myanmar/overview>

⁹ Open Oil, "Myanmar Extractives in 10 Minutes", http://english.panglong.org/wp-content/uploads/2012/09/images_docs_2012_myanmar_extractives_in_ten_minutes.pdf

¹⁰ Natural Resource Governance Institute, "Resource Governance Index", 2013, <http://www.resourcegovernance.org/rgi/>

¹¹ Arakan Oil Watch, "Burma's Resource Curse: The case for revenue transparency in the oil and gas sector", 2012, <http://www.burmacampaign.org.uk/images/uploads/Burmas-Resource-Curse.pdf>

¹² The Asia Foundation, International Growth Centre and MDRI, "Natural Resources and Subnational Governments in Myanmar", 2014

¹³ Email from Bob Conrad, August 1, 2014

¹⁴ Ibid.

Natural Resources and Ethnic Groups

Myanmar's ethnic populations live in the country's most resource-rich areas. Under military rule, many ethnic groups were removed from their homeland so that the central government could take over the land for resource extraction.¹⁵ The revenue collected from natural resource extraction in ethnic states was not shared with the people living there.

Subnational governments currently have no management or revenue rights in the oil or gas industries. Today, these state and regional governments are calling for increased revenue sharing of money collected from extraction in their areas. However, some groups require local licenses (in addition to central government licenses) for extraction.¹⁶ This can be confusing and may encourage informal sector activity.

Role of the IMF

Revenue transparency in Myanmar is a serious issue. Corruption and misappropriation robs the government of millions of dollars each year. The IMF and the Union Parliament must work together to ensure that the natural resource revenue is accounted for in the government budget. This is money that could help Myanmar reduce its deficit and increase spending on health, education and infrastructure.

To date, the IMF has provided technical assistance on taxation of natural resource extraction industry; trained Myanmar's Large Taxpayer Office staff and assessing Myanmar's tax system and administration; recommended that Myanmar reform its tax policies and strengthen tax administration to reduce dependence on natural resource revenue; and encouraged the use of transparent rules and contracts in extractive industries.

Going forward, the IMF will provide technical assistance to Myanmar officials through a Staff-Monitored Program and normal IMF technical assistance channels. The IMF could train government staff on standard taxation, revenue and power-sharing contracts in the hydropower industry. Today, Myanmar only has rights to 10 percent of some of its hydropower projects.¹⁷ This rate not only is less than that offered by similar projects in the region, but also undervalues the displacement of people in the area, and the value of the downstream damage caused by such dams.¹⁸ The IMF can provide technical assistance to develop better revenue-sharing schemes between central and sub-national governments. Natural resource extraction should take into account the costs borne by residents of the area, either through displacement or environmental damage.

IMF Fiscal Transparency Code: Tool to Evaluate Resource Revenue Transparency

Fiscal transparency is essential to hold governments accountable for past, present and future budget decisions. The IMF [Fiscal Transparency Code](#), which was recently updated, serves as the global standard

¹⁵ Oxford Burma Alliance, "Ethnic Nationalities of Burma", <http://www.oxfordburmaalliance.org/ethnic-groups.html>

¹⁶ Ibid.

¹⁷ Harvard Kennedy School Ash Center for Democratic Governance and Innovation, "China and Yunnan Economic Relations with Myanmar and the Kachin State: Powering the Peace Process", 2012, <http://www.ash.harvard.edu/extension/ash/docs/chinayunnan.pdf>

¹⁸ Ibid.

for information disclosure in 4 areas: 1) fiscal reporting; 2) fiscal forecasting and budgeting; 3) fiscal risk analysis and management; and 4) resource revenue management. The IMF also conducts Fiscal Transparency Evaluations (FTEs) which assess governments in these 4 areas, but FTEs must be requested by countries.

Civil society can work with parliament to urge the government to request an FTE from the IMF. Civil society can also urge IMF staff to recommend the FTE to the government of Myanmar. The evaluation includes capacity building for the government in areas of greatest need, such as natural resource revenue management or producing a “citizen budget.”

What is the Extractive Industry Transparency Initiative?

The Extractive Industry Transparency Initiative (EITI) is a group of government, civil society organizations, and companies working to improve accountability in natural resource extraction. EITI requires that groups publish oil, gas, and mining project payments. EITI also recommends company ownership be made public, but allows the multi-stakeholder group setting the country-specific rules to mandate this practice.

In 2014, the EITI accepted Myanmar as a candidate country. The EITI will require Myanmar to:

- Publish an independent report documenting the flow of natural resource revenue from receipt to expenditure (called the EITI Report)
- Undergo an independent review to ensure Myanmar is following all of the EITI guidelines.

The IMF should encourage Myanmar to follow through with its EITI obligations as a way for the Myanmar government to increase its “capture” of natural resource revenue and reduce embezzling or the use of bad or unfair contracts. This will help improve Myanmar’s governmental budget, create room for additional social safety net spending and potentially reduce the deficit.

D. Government Revenue and Spending

Transparency in managing the government's yearly budget continues to be an issue in Myanmar. While Parliament now has the authority to approve the budget, it does not have an independent budget office to analyze whether or not spending in one area is too high or too low.¹⁹ Little information is available to the public on revenues and spending, and what information is available is rarely complete. This lack of transparency led the World Bank to give Myanmar a grade of 'D' on "public access to key fiscal information" in its Public Financial Management Performance Report.²⁰

Policy Challenges

The Central Bank of Myanmar continues to print money to pay for the governmental deficit. By increasing the money supply to finance the government's deficit, the Central Bank loses its ability to effectively expand and contract the money supply to influence the economy. As a result, the government can only use fiscal policy (revenues and spending) to influence the macroeconomics of the economy, and therefore loses a significant portion of its potential influence and control.²¹

Myanmar does not yet have a unified treasury account. A unified treasury account acts as a bank account for the government. Having a unified account makes it easier to ensure that cash payments are coming in on time, any cash not being used is earning interest and money is not being borrowed unnecessarily. Myanmar has included a treasury department in its public financial management reform plan with the IMF, but it has not yet been established.

Tax administration and collection in Myanmar is weak. Administrative bodies have discretionary power on when to apply tax incentives.²² The World Bank report on public financial management gives Myanmar a 'D+' on the "effectiveness in collection of tax payments," "effectiveness of measures for taxpayer registration and tax assessment," and "predictability in the availability of funds for commitment of expenditures."²³

Role of the IMF

To date, the IMF has provided technical assistance to Myanmar to assess the country's public financial management systems, tax administration, and tax policies. The Fund is also providing ongoing technical assistance to Myanmar to develop accurate and timely government financial statistics.

In its 2013 Article IV Consultation, the IMF notes that public spending on health and education programs is key to long-term, sustainable development. The Fund notes that while expenditures on health and

¹⁹ Deutsche Gesellschaft fuer Internationale Zusammenarbeit, "Parliamentary Budgeting and Transparency in Six ASEAN Countries", 2014, <http://www.aipasecretariat.org/wp-content/uploads/2014/03/Parliamentary-Budgeting-and-Transparency-in-Six-ASEAN-Countries.pdf>

²⁰ World Bank Group, "Public Financial Management Performance Report", 2013, <http://documents.worldbank.org/curated/en/2013/05/17718311/republic-union-myanmar-public-financial-management-performance-report-vol-2-2-full-report>

²¹ Email from Sean Turnell, July 26, 2014

²² Ibid.

²³ Ibid.

education have increased in recent years, allocations will need to increase further to, “reduce the human effects of poverty and improve the productivity of the workforce.”²⁴ Despite the fact that defense spending in Myanmar remains higher than spending on health and education combined, the IMF has remained (publicly) relatively silent on the topic of military spending in Myanmar. However, in general, the IMF supports minimizing “unproductive expenditures” (of which it considers military spending largely unproductive) to make room in the budget for infrastructure or human capital investments (or, in some cases, lower taxes).

The IMF can help Myanmar reduce corruption, increase transparency in the budgeting process and improve the capture of state revenue. Up to now the IMF has been focused on the spending side of the budget, but little on the revenue side. Myanmar could reduce (if not eliminate) its deficit and increase its social spending if it were to reduce the embezzlement of state revenues. Improving revenue transparency will also ensure that MPs can hold the government accountable for the budget.

What about the Informal Economy?

Myanmar’s informal economy remains, by some estimates, as large as the formal economy. Because the government cannot collect tax revenue from the informal economy, Myanmar may be missing out on a largely profitable sector.

Smugglers move gemstones, cars, cellphones and other goods across the border illegally in part because of higher **rents** on the products. Rents are defined as the difference between the minimum value of the product and the actual market cost of a product. For instance, if the cost of producing a cellphone is 50,000 kyat, but cellphones on the formal market cost 90,000 kyat, the rent on the cellphone is 40,000 kyat. If people do not want to or cannot pay those prices, they may turn to the informal economy in order to get more value for their money.

Myanmar’s bureaucracy can also, at times, inhibit formal economic activity. The country’s weak judicial system coupled with a legacy of military cronyism make it unlikely the informal sector will be completely transformed anytime soon.

Source: The Irrawaddy, “Burma’s Busy Black Economy Threatens Reforms”, 2013, <http://www.irrawaddy.org/economy/burmas-busy-black-economy-threatens-reforms.html>

If the government is going to reduce its dependence on natural resource revenue in the long-term, it needs to grow its tax base. To do so, the government could implement a value-added-tax system (VAT). VATs are generally less administratively burdensome than other taxes (such as income). To minimize the VAT’s impact on Myanmar’s poorest citizens, the VAT needs to have a high threshold (this may also help mitigate tax evasion and minimize the resulting administrative burden).²⁵ Without a threshold, the VAT is similar to other regressive consumption taxes. The government can also use exemptions to mitigate the tax’s impact on the poor, but the IMF warns against exemptions that are not easily reversed in the long-term.

²⁴ International Monetary Fund, “Article IV Consultation and First Review Under the Staff Monitored Program”, 2013

²⁵ International Monetary Fund, “Revenue Mobilization in Developing Countries,” 2011, <http://www.imf.org/external/np/pp/eng/2011/030811.pdf>

E. Multiple Exchange Rate Regime

In the past, Myanmar had a dual exchange rate system, with an “official” exchange rate (about 6 kyat to 1 US dollar) and “unofficial” exchange rate (about 800 kyat to 1 US dollar). Having two different rates gave exclusive benefits to actors who could access foreign markets. In 2012, the IMF helped Myanmar move to a floating exchange rate. This was important for transparency in public financial management, confidence for investors and it also improved the value of the recorded revenue from state-owned enterprises. However, because much of this revenue is still embezzled, the full benefits of exchange rate liberalization have yet to be seen.²⁶

Policy Challenges

With the floating exchange rate, the value of the kyat will depend on market demand. If there is less demand, the Central Bank can buy kyat to stabilize the currency. However, CBM’s monetary policy tools are not yet well-developed to effectively stabilize the exchange rate or inflation. This is in part due to constraints of the CBM’s budget for monetary policy operations.²⁷

The Bank doesn’t have the technology to receive real-time data from commercial or state banks. This limits its ability to respond quickly to fluctuations in the exchange rate and its effective supervision of the financial sector.

The inter-bank foreign exchange market was established in 2013, but hasn’t taken off. In particular, commercial banks often do not trust each other due to the lack of transparency between banks.²⁸

Role of the IMF

The IMF helped Myanmar officials rewrite the Foreign Exchange Management Law in 2012 to bring it into compliance with Article VIII of the IMF’s Articles of Agreement. Article VIII prohibits countries from maintaining multiple exchange rates or from restricting the transfer of foreign exchange for business transactions. The IMF has also provided Myanmar technical assistance to strengthen its bank supervision capacity, modernize the operations of the CBM and develop foreign exchange auctions.

What is Currency Valuation?

Currency valuation is the process used to determine a currency’s value relative to other global currencies, also known as the foreign currency exchange rate. In the past, the value of a country’s currency (such as the kyat) was determined by the amount of gold held in the country’s treasury. Today, currency valuation is based mainly on the imports and exports of goods and services from a particular country.

A currency can become **overvalued** when demand for the currency at the stated foreign exchange price is less than the supply. An overvalued currency makes exports relatively expensive (for other countries) and imports relatively cheap.

A currency can become **undervalued** when demand for the currency at the stated foreign exchange price is greater than the supply. An undervalued currency makes exports relatively cheap (for other countries) and imports relatively expensive. Undervaluation is used by some countries to protect their export industries.

²⁶ Email from Sean Turnell, July 26, 2014

²⁷ International Monetary Fund, “Second Review Under the Staff-Monitored Program-Staff Report and Press Release”, 2014, <http://www.imf.org/external/pubs/ft/scr/2014/cr1491.pdf>

²⁸ Myanmar Times, “Jumpstarting forex trades”, 2014, <http://www.mmtimes.com/index.php/business/11082-jumpstarting-forex-trades.html>

F. Money Flows

As more and more foreigners start investing in Myanmar through financial assets such as foreign direct investment and bank bonds, the amount of foreign money entering the Myanmar economy (known as capital inflows) is expected to increase significantly. In the 2013 Letter of Intent, Myanmar's Union Minister of Finance and Revenue, U Win Shein and Governor of the Central Bank of Myanmar, U Than Nyein expressed concern over the ability of the Central Bank to manage these capital inflows over the coming years.

Policy Challenges

The capacity of the Central Bank to influence economic conditions and manage the money supply is not yet developed. While Myanmar has increased its international reserves over the last two years, the IMF still classifies the reserves as, "significantly short of desirable levels."²⁹ Adequate foreign reserves allow the Central Bank to manipulate the exchange rate. The Central Bank can sell foreign reserves to buy kyat to appreciate the exchange rate, or vice versa.

The CBM also faces personnel challenges. Well-trained economists will, as in most other countries, always be able to earn more in the private sector than in the government. Departments are also frequently staffed with political appointees, who have no real knowledge of economic policy and simply wish to collect a paycheck.³⁰

Role of the IMF

The IMF has provided different types of technical assistance and training support to try and strengthen Myanmar's Central Bank mechanism. Throughout 2012 and 2013, the IMF's Statistics Department provided technical assistance to Myanmar on governmental data collection and monetary and financial statistics. The IMF's Technical Assistance Office for the Lao PDR and the Republic of the Union of Myanmar (TAOLAM) has also run a number of trainings on macroeconomics and financial statistics for Myanmar government workers.

It is important to note that the IMF often recommends that a country such as Myanmar liberalize its capital account, which would open up the domestic market to foreign investment and competition. While the IMF Articles of Agreement allow countries to retain restrictions (or controls) on capital flows, the Fund argues that capital account liberalization provides insurance against volatile national incomes, insulating the country from shocks in domestic consumption.

What is the Capital Account?

A **capital account** is the record of the international public and private investments (or **financial capital**) both entering (inflow) and leaving (outflow) a country.

A country can try to limit the amount of money being transferred internationally by using **capital controls**. Capital controls can take the form of taxes, volume restrictions, or outright bans on foreign capital.

²⁹ The International Monetary Fund, "Second Review Under the Staff-Monitored Program – Staff Report and Press Release", 2014, <http://www.imf.org/external/pubs/ft/scr/2014/cr1491.pdf>

³⁰ The Wall Street Journal, "Myanmar to Grant Licenses to Foreign Banks", 2014

Capital account liberalization can also promote governmental accountability in developing countries. Governments may adopt sound economic, social, and legal policies to prevent foreign investment from fleeing in the face of instability. Theoretically, liberalization also provides capital-poor countries with money that can be used to raise living standards and promote economic development.

However, the Fund acknowledges that the link between capital account liberalization and economic growth in low-income countries is weak. Even the IMF's own research acknowledges that capital account liberalization is one of the largest drivers of growing inequality in the developing world,³¹ as foreign money inflows do not necessarily lead to increased domestic investments. In addition, as foreign investment tends to mirror changes in the local economy, any downturn in Myanmar's domestic economy would be amplified by the shrinking (or outflow) of foreign capital.

How can Capital Account Liberalization affect me?

Markets are driven by people and people are not always rational actors. As a result, at times, markets overreact to political situations or economic changes. This can result in large inflows or outflows of capital in an economy and can potentially destabilize the economy. The Asian Financial Crisis of 1997, for instance, was made worse when foreign investors withdrew funds from countries like Thailand where the currency had been devalued.

Additionally, a weak central bank system will be particularly strained by poorly timed capital account liberalization. If the banking system lacks a strong supervisor, independent banks may take unnecessary risks, putting additional pressure on the financial system. The central bank may be unable to appropriately adjust the money supply to control inflationary pressures resulting from large capital inflows. This may mean an increase in product prices coupled with a decrease in the value of the kyat, putting many basic services out of the reach of the average citizen.

In spite of its own evidence, the IMF has promoted financial openness in Myanmar in its Article IV Consultations as well as in its rhetoric to Myanmar's leaders.

The Fund recognizes that without the appropriate supervisory and regulatory frameworks and improved Central Bank capacity, Myanmar will not be able to appropriately control the new influx of capital. As a result, the Fund has provided technical assistance to Myanmar in developing its new Central Bank of Myanmar law, in strengthening its bank supervision skills, and in modernizing the operational framework of the CBM. Additionally, the IMF has emphasized the importance of sequencing capital account liberalization activities to ensure the country develops the supervisory and regulatory capacity before opening itself up to a free flow of investment from other countries.

³¹ International Monetary Fund, "Who Let the Gini Out?", 2013, <http://www.imf.org/external/pubs/ft/fandd/2013/12/furceri.htm>

G. Quick Glance: 2014 IMF Article IV*

<p>Economic highlights</p>	<ul style="list-style-type: none"> • Inflation rose to 6% in 2014 • Economic growth is strong – 8.25% (estimated) in 2013/2014 • Deficit dropped to 1.5% of GDP in 2013/2014 due to increased foreign direct investments and inflows related to telecommunications licenses. • The medium and long-term economic outlook is good, but requires sustained policy and institutional reforms.
<p>Economic risks</p>	<ul style="list-style-type: none"> • Inflation. Increased foreign money or crisis (e.g. natural disaster) may put pressure on the kyat and the Central Bank does not yet have the ability to manage inflation. • Political instability. Ethnic and religious conflicts could undermine the economic stability of Myanmar. • Administrative capacity. Myanmar’s government offices that deal with economic activity may not have the ability to keep up with the rapid changes. • Government Budget. Tax exemptions are increasing (leading to less revenue collection), while spending is increasing, putting pressure on the government budget. • Foreign Banks. The entry of foreign banks will put strain on the capacity of the government to supervise bank activities and manage the exchange rate.
<p>IMF Policy Advice</p>	<ul style="list-style-type: none"> • Stop printing money to pay for government deficit (5 year timeline). • Do not relax constraints on lending. Doing so could lead to too much economic growth, too fast. • Give the Central Bank of Myanmar authority over its own budget and allow it to conduct monetary policy independent of the rest of the government. • Continue to develop the management and organizational capacity of the Central Bank of Myanmar so that it can manage financial flows in and out of the country. • Ensure strong banking regulation and supervision of microfinance institutions, foreign and state-owned banks. • Allow domestic banks time to modernize and catch up with international banking standards. • Do not create joint-venture banks separate from wholly-owned national banks. • Reform tax policy to increase revenue collected and reduce dependency on natural resource revenues. • Do not increase revenues drastically in years of high natural resource revenue. • Tax policy should focus on cutting back exemptions, unifying the commercial tax rate, and introducing an excise tax which would lay the foundation for a VAT in the medium term • Once a broad tax base is established, use natural resource revenue for investments, not everyday expenditures. • further expansion of education and health services will be needed • Introduce VAT starting in 2018; reduce commercial tax exemptions; excise taxes • Preserve Central Bank discretion to approve capital flows • End Multiple Currency Practice by September 23, 2015

*The 2015 Article IV was released in September 2015, but advice has remained mostly consistent.

PART III: HOW CAN YOU ENGAGE WITH THE IMF?

The IMF Managing Director, Christine Lagarde, said that civil society plays an essential part in the "new multilateralism" and "that is why I always relish listening to civil society, and why I always encourage IMF staff to do so."

The IMF is not required to meet or consult with civil society. However, in recent years, the IMF has been encouraging its staff to reach out and engage with civil society as much as possible. In addition, the IMF is taking steps to make engagement with civil society more systematic. This a positive sign for the future of CSO-IMF engagement, but it important to understand the various opportunities to engage with the IMF and to manage expectations for interactions. This section suggests several channels for engaging with the IMF and its staff at different levels.

A. Why does the IMF care about civil society?

First, it is useful to understand why the IMF wants to engage with civil society. The IMF recognizes the importance of meeting with civil society for a number of reasons. The IMF views CSO engagement as a way to "deepen country ownership," which the IMF believes is critical to improve the credibility of the IMF, its lending programs, and its advice to governments. Specifically, the IMF sees 4 benefits to CSO engagement:

- Improve program design and traction of IMF policy advice by providing IMF staff with insight, analysis and knowledge of local context to supplement official data and perspectives.
- Contribute to constructive public debate on policy options.
- Help IMF staff assess political feasibility for certain policies and promote citizen oversight.
- Enhance IMF legitimacy among public and reduce bad reputation or stigma of IMF presence.

Civil society should keep these things in mind when meeting with the IMF. When IMF staff visit a country to do their work (Loan negotiation, Article IV, technical assistance, etc.), they will be busy and focused on their narrow objectives. It is crucial to remind IMF staff why consultation with CSOs is so important. Use the opportunities with IMF staff to demonstrate the value of CSO engagement.

B. Engaging: When to intervene? Where? How?

The guidelines below are intended to help civil society increase and strengthen their interactions with the IMF, ensure productive engagements that improve follow-up from IMF staff and demonstrate the value of CSO views for policy negotiations between governments and the IMF.

It is important to note two things: First, the IMF views itself as a "trusted advisor" to its member countries. This means the IMF staff may keep some information confidential as requested by the

government, and this can limit the extent of IMF staff engagement with CSOs. Second, IMF staff is more likely to consult with CSOs when the IMF has a program with that country (either lending or non-lending programs, such as Staff-Monitored Program (SMP) or Policy Support Instrument (PSI)).

Below are several channels for engaging the IMF.

Resident Representative: IMF staff based in your country

The resident representative (Res. Rep.) is advised (not required) to consult with CSOs ahead of IMF staff missions and, as appropriate, incorporate civil society views into the missions' preparation. This can be important for influencing the staff's thinking and its planned policy discussions or mission briefs. As such, CSOs should reach out to the Res. Rep. and develop a relationship with this office as soon as possible. Give the Res. Rep. opportunities to engage with civil society by inviting this person to public events, meetings and conferences. Not all countries have an IMF Resident Representatives, but countries with an IMF program, like Myanmar, do have a Res. Rep.

Article IV Consultations

IMF staff visit each country once a year to conduct an Article IV consultation. As described above, the Art IV is an annual review of a country's economy and its policies. During the Art IV review, an IMF mission team is required to meet with national authorities. Depending on the IMF mission team agenda and time, it may consult with other stakeholders, including private sector, trade unions and civil society.

Taking part in the Art IV consultation

The first challenge is to learn the dates of the Article IV consultation. Typically, Art IV consultations occur on a 12 month cycle. Since Art IV documents are published on the IMF website, you can view the previous year's Art IV report and its date. For example, if the 2015 Art IV consultation happened from June 17 – July 1, the 2016 Art IV consultation should take place in mid to late June in 2016. It is a good idea to confirm these dates with your Res. Rep or the IMF Communication staff in Washington D.C., and follow-up with a request to meet with the IMF mission team during their visit.

Prior to meeting with IMF staff

IMF staff is advised to share previously published Art IV reports and other relevant IMF documentation. Civil society should also request these reports (in local language if possible), as well as inquire about the issues that IMF staff expect to discuss on their mission. CSOs can also share the issues they expect to discuss with IMF staff. This will help ensure a more productive consultation. It is also a good idea to reach out directly to the IMF mission chief, since this person sets the priorities for the IMF staff visiting your country and may better understand the value of CSO engagement. It is also useful to increase public attention and build pressure around key issues before the IMF staff visit your country.

Building Pressure on the IMF

For critical issues and policy decisions, especially if related to an IMF loan program, it is important to increase public attention and scrutiny.

Pressure at the “front door”: The IMF does not like negative press. So a good way to build pressure is through domestic and international news media. Reach out to local newspapers and radio stations, publish reports, write press releases or blogs, or organize petitions and public events. Outreach to international NGOs and media outlets can help increase international attention.

Pressure at the “back door”: In addition, it is strategic to reach out to your national authorities and parliament. IMF staff is required to meet with national authorities, and often meets with parliament, since they are responsible for approving and implementing IMF policy advice. It is crucial to understand their positions and explain why another policy might be a better option. Keep in mind that the IMF will take into account government views and concerns, which can be positive for your positions – however, the government may also request that certain issues be excluded from discussions with CSOs. In some extreme cases, the government may tell the IMF not to meet with CSOs.

During the meeting: Be critical, constructive and courteous. It is okay to challenge IMF positions and policies, but try not to attack individual IMF staff. If you disagree with a policy that the IMF is promoting, explain why this policy is not appropriate for your country – and where possible, use evidence to demonstrate your position. Keep in mind that IMF staff may not know much about your country, so they may also be eager to learn the impact of certain policies, such as energy subsidy reform or a VAT tax. Be prepared to comment on policies that the IMF has promoted in recent years (reference previous Art IV reports or loan agreements).

Follow-up: This is a critical step, especially to ensure that the IMF’s final policy advice and recommendations consider or incorporate the views from civil society. Summarize the key issues, concerns, recommendations following the meeting with IMF staff. The IMF should have also prepared a summary of the meeting. Request a copy of this summary and compare it with your summary (coordinate this with other CSOs that participated in the consultation). Share your summary with the IMF, highlighting issues and concerns that the IMF summary missed.

It is important to do the follow-up as soon as possible. When the IMF staff complete the Art IV consultation, they return to Washington D.C. to write the Art IV report which is then reviewed and approved by IMF Executive Board. Once approved, the review and recommendations in the report become official. This process can take from 2 weeks up to 2 months. If there is an important issue that should be addressed, you can write a letter to the Executive Director that represents your country (see contact information below).

If civil society views and positions are not incorporated into the Art IV report, this does not mean that the consultation was a failure. You can request an explanation why CSO input was not incorporated. This approach can help to build positive relationships with the IMF staff.

How to Read an IMF “Article IV”

Key Components

1. **Press Release:** This contains a summary of the IMF’s evaluation of your country’s economic policies, and an **Executive Board Assessment**, which discusses the issues that the IMF will likely prioritize during their next engagement with your government. *This can be found in the first few pages of Art IV report.*



INTERNATIONAL MONETARY FUND



Press Release No. 15/428
FOR IMMEDIATE RELEASE
September 18, 2015

International Monetary Fund
Washington, D.C. 20431 USA

2. **Who Met With the IMF:** Every Art IV contains a brief description about who the IMF met with during the consultation. If the IMF met with Civil Society, Academics, Labor Unions or Think-Tanks, it is typically listed here. *This description can be found on the “Contents” page.*

Approved By
Hoe Ee Khor and
Dhaneshwar Ghura

Discussions took place in Nay Pyi Taw and Yangon during June 17–July 1, 2015. The staff team comprised Mr. Yang (head), Mr. Kashwase (both APD), Mr. Eckhold (MCM), Ms. Flamini (FAD), and Ms. Jahan (SPR). Mr. Khor (APD), Ms. Creane (head of TAOLAM), Mr. Cowen (incoming TAOLAM head), and Mr. Ojima (incoming Resident Representative) participated in some discussions. Ms. Wong (Resident Representative) assisted the mission. Ms. Tangcharoenmonkong and Ms. Tun (both OED) also participated in discussions. To-Nhu Dao and Sharlin George assisted in preparing this report.

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3. **Staff Appraisal:** This section summarizes the recommendations from the IMF. These recommendations are informed by IMF policy positions and the views of IMF staff. IMF recommendations can be changed if the Managing Director or a Deputy Director approves the change. *This is the last section in the “contents” section of the Art IV report.*

MYANMAR

STAFF APPRAISAL

34. **The year 2015 marks a major milestone in Myanmar’s political transition.** A successful conduct of the November general elections and a timely conclusion of the peace negotiations will provide a firm basis for greater political and social stability and underpin continued economic transition.

4. **Statement from Your Country’s Representative:** This statement represents your government’s response to the Art IV consultation. It is made by the Executive Director’s office that represents your country. *This is the final attachment, found at the very end of the Art IV report.*

Statement by Ms. Pornvipa Tangcharoenmonkong, Alternate Executive Director
and Ms. Nwe Ni Tun, Advisor to the Executive Director
August 28, 2015

Introduction

1. On behalf of the Myanmar authorities, we would like to express our deep appreciation to Mr. Yongzheng Yang and his team for the productive discussions during

5. **Information Annexes:** Most Art IV reports contain several annexes. These contain information about your governments relations with the IMF and World Bank, such as details about loans or technical assistance that your government receives.

NOTE: A quick glance over the 2014 Article IV is included on page 19 in this document. Although the 2015 Article IV has already been released (in September 2015), the highlighted economic facts and risks as well as the IMF policy advice remained mostly consistent through 2015.

Loan Agreements

There are no contracts between the IMF and its member countries. Instead there are two commitments made – where a country commits to make certain economic reforms and the IMF commits to provide the loan.

How a country requests a loan from the IMF

The government submits a request to the IMF. The IMF reviews that country's eligibility, based on its macroeconomic policies. Next, an IMF delegation will visit the country to meet with government authorities to discuss the loan and its accompanying economic reform plan.

At this point, negotiations between the government and the IMF begin. The government and IMF go back-and-forth until there is an informal agreement on an economic reform plan. This economic reform plan is called the **Letter of Intent (LOI)** which is attached to the government's official request for a loan. The LOI is a critical document as it contains the policies that the government intends to pursue under an IMF program.³² It is important to engage the IMF and national authorities before the LOI is submitted (see diagram below). Despite any influence the IMF may have in preparing the LOI, this is technically a "government-owned" document.

Once the LOI is submitted to the IMF, the Executive Board will review the LOI (i.e. economic reform plan) and approve it. Following this step, the IMF and member country will sign parallel agreements which will finalize the loan. Keep in mind that the IMF will review the country's economic policies each time a disbursement is made. These loan reviews, along with regular Art IV consultations, will be important moments for civil society to intervene and challenge harmful economic policies.

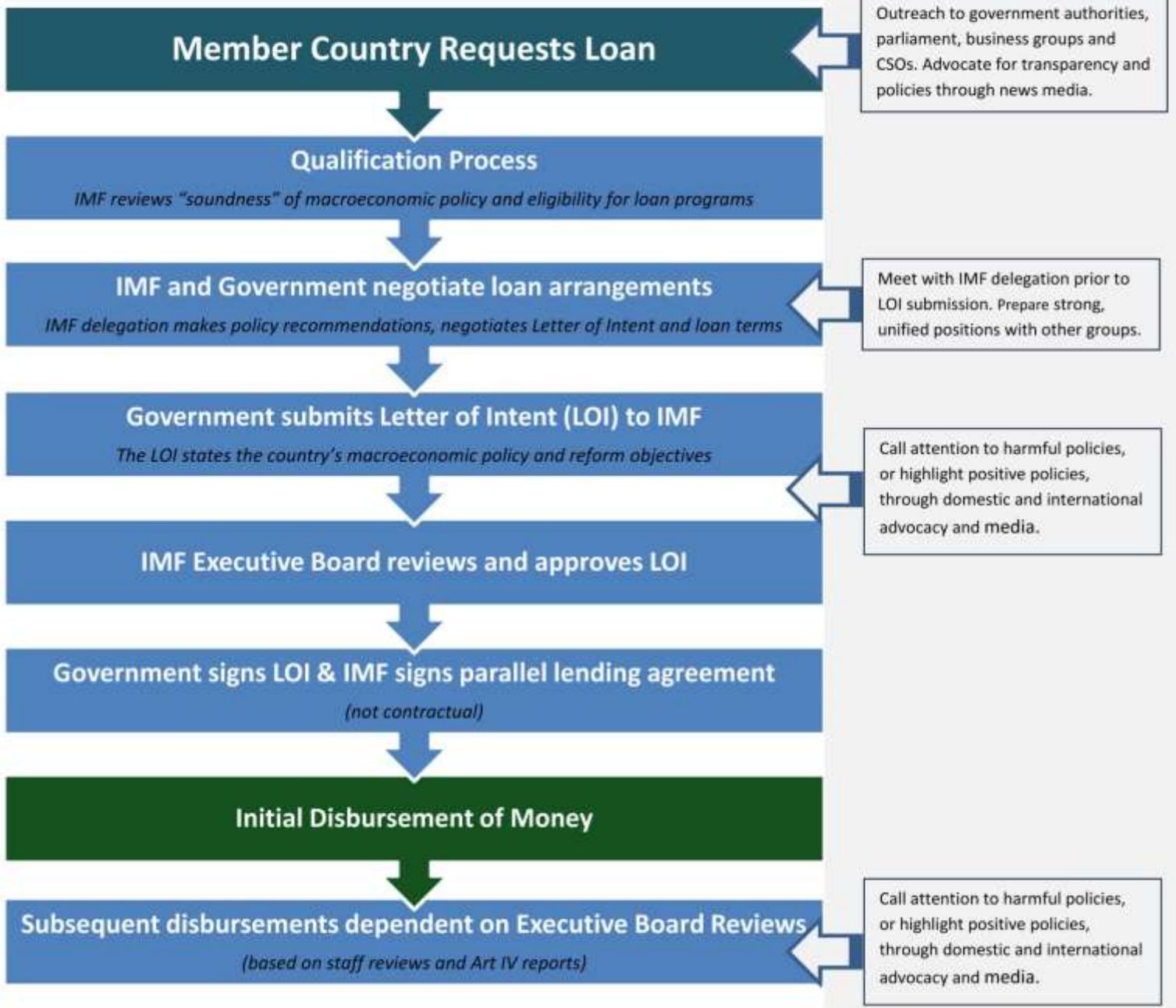
Important language in lending agreements

Be sure that "adjusters" are included in the LOI or loan agreement. This allows the government to "adjust" or increase spending levels (i.e. go above limits agreed to in loan) when possible, especially for spending on health, education or other areas critical for poverty reduction.

³² Note: Letters of Intent also accompany non-loan programs, such as Staff-Monitored Programs and Policy Support Instruments.

IMF Lending Process

Critical Points of Intervention



Technical Assistance

Technical Assistance (TA) is a big part of what the IMF does every year. The IMF is the world's largest provider of TA, which helps countries build capacity in areas such as tax and customs administration, financial regulation and supervision, and public financial management. For the most part, this assistance responds to the needs of many developing countries. However, the TA provided by the IMF is usually not public information – and this makes it difficult to evaluate.

What can civil society do?

Civil society can request that its government publish information on the TA that it receives from the IMF. CSOs can also read reports and track activity of different IMF Technical Assistance Centers (TACs). There are 9 IMF TACs and most have their own websites: <http://www.imf.org/external/np/exr/key/RTACs.htm>. When meeting with the IMF, civil society can ask about the TA being provided to their government or recommend that the IMF provide TA in certain areas where the government has a weak record.

Independent Evaluation Office (IEO)

The IMF has an independent evaluation office (IEO), which was established to conduct independent evaluations of IMF policies and activities. Civil society should feel free to reach out to the IEO with any concerns about IMF activity or policies. IEO website: <http://www.ieo-imf.org/>

Public Consultations

The IMF conducts public consultations on various issues and policy areas. Often the IMF will seek public consultation when it is reviewing and updating its own policies, such as its Transparency Policy or its Fiscal Transparency Code. These consultations are generally posted on the IMF website. Occasionally, the IMF will host in-person meetings and/or conference calls for public consultations. The best way to learn about these public consultations is to check the website (www.imf.org) regularly or sign-up for IMF email alerts. Organizations that follow the IMF closely, like New Rules for Global Finance, reach out to help other CSOs engage on important consultations.

C. Good practices for CSOs Engaging the IMF

- **Be part of IMF consultations**, especially Article IV consultations.
- **Use the opportunity with IMF staff to demonstrate the value of CSO engagement.**
- **Demand more research/evidence** to prove that “policy of concern” is appropriate for achieving objective (e.g. reduce inflation or improve competitiveness).
- **Understand government policies and positions.** If possible, meet with relevant national authorities or parliamentarians.
- **Identify where your organization agrees with government positions and promote those positions through interactions with IMF staff** (phone calls, email or face-to-face). If the IMF is recommending something different than your government (e.g. advising higher VAT), explain why civil society supports the government’s position. The IMF understands that public support is essential for traction, i.e. implementation of policy advice.
- **Ask the IMF staff what policies (from Art IV or loan agreement) they think impact the issues you care about.** For example, you can ask “Will policy reforms in the loan agreement help farmers or improve the agricultural sector?” It is always useful to see if and how they are thinking about this.
- **The IMF advises its staff to *always* encourage CSOS to take their views and proposals to the relevant national authorities.** When IMF staff suggests this course of action, civil society should not view this as a negative response. CSOs should inform IMF staff if they have presented their proposals to national authorities and encourage IMF staff to incorporate CSO proposals into their official reports or advice. It can be useful to explain the importance of your proposal as it relates to the IMF’s own policy positions and goals.
- **Coalition building:** Collaborate with other CSOs, academic institutions, business associations and other groups as much as possible.
- **Identify the role of Parliamentarians in IMF negotiations and feedback.** Do not presume that they know what is going on and encourage them to use the power of their office. Indonesia and Ghana are examples of civil society and parliament working together to strengthen positions
- **Stay up-to-date on IMF policy positions and use IMF positions for positive reform.** Sometimes the policies promoted by the IMF (e.g. Gender equality) may be useful for advocating for positive changes with your legislators and national authorities. In addition, IMF research can be a great source for evidence on some policy issues, including on gender, income inequality, climate change, water policy, fossil fuel subsidy reform and non-productive expenditures, like military spending.

For Example: **Fiscal Transparency Assessments (FSA)** can be useful for strengthening confidence of foreign investors, combating corruption and enhancing public accountability through the creation of a “citizen’s budget”. However, this is voluntary and governments must request that the IMF conduct this assessment. If your government does request an FSA, public consultation should be a key component, especially when assessing the strength of the “citizen’s budget.”

PART IV: ADDITIONAL RESOURCES

A. Introduction to Macroeconomics

What is macroeconomic policy?

Macroeconomic Policy = *Monetary Policy* (how much money is active in the economy) + *Fiscal Policy* (government revenue and spending).

What is monetary policy?

It's what a country's monetary regulation body, such as the Central Bank of Myanmar, does to influence how much money is available in the economy to purchase goods and services. This can include:

- *Interest rates* = the cost of money. Higher interest rates mean that borrowing money is more expensive.
- *Buying and selling money (such as bonds or other securities)*. Buying securities = an increase in the money supply. Selling securities = a decrease in the money supply. When there is less of something, it tends to be more expensive (there are very few good quality rubies and therefore they are more expensive). The same is true for money. When there is less money (like the kyat) floating around in the economy, the value goes up and interest rates go up, too. When there are more kyats floating around, they are less valuable.
- *Making banks hold more or less money compared to what they lend out*. For example, \$10 must be held in reserve by a bank for every \$100 lent. This is called the "reserve requirement" and helps protect banks during crises.
- *Charging a higher or lower interest rate to banks that borrow money from the Central Bank of Myanmar*. This is called the "discount rate."

Do we want more or less money available in the economy?

It depends. *Increasing* the money supply can help spur economic growth, but it can also result in inflation. *Decreasing* the money supply can slow economic growth and inflation.

What is inflation?

A steady increase in the price of goods and services so that 1000 kyat today will buy you less than it bought a year ago. Example: a cup of coffee today costs 1200 kyat, whereas last year it cost only 1000.

What causes inflation?

There are many things that can cause inflation. When the demand for goods and services is high, it forces the prices up and causes inflation. Inflation can also be caused by too much money in the economy.

What is fiscal policy?

Fiscal policy is anything the government does to influence its revenues (taxes, income from state owned enterprises, investment income) or expenditures (spending on the military, health, education, etc.).

How can fiscal policy influence the economy?

The Gross Domestic Product (GDP) is made up of individual consumption (people buying cars, food or other goods and services), investment (for example, individual investment in securities), the value of goods exported minus the value of goods imported, and the amount of money the government spends. This means that the government can directly influence the GDP by spending more or less on goods and services.

By spending more money, the government puts money into the economy, fueling demand for goods and services, but also putting upward pressure on prices.

What is a deficit?

When the government spends more than it takes in through taxes, grants, fees, loans, and revenue from state-owned enterprises, it creates a deficit.

What is governmental debt?

Governmental debt is the sum of all of the money the government has borrowed, plus interest owed. Governmental deficits contribute to the debt.

Why does a country need foreign money/currency (also known as foreign exchange)?

Countries need foreign currency to be able to import goods from other countries. If a cell phone distributor wants to import cell phones from China, the Chinese business will want to be paid in Chinese Yuan.

How does a country earn foreign currency?

Countries earn foreign currency by exporting goods to other countries.

What is a trade deficit?

When a country imports more than it exports, the supply of money to pay for the imports is in short supply. This debt is what brings the IMF into a country. So in order to help a country resolve its trade imbalance, the IMF tries to get the country to export more and pay its international debts. The IMF assessment is that the country has been spending too much on other priorities, and not bringing in enough money. Often, the IMF also tries to curb inflation as well.

What does the IMF usually want countries to do to solve this trade imbalance?

To reduce demand and inflation, the IMF tries to get the country/national government to spend less by hiring fewer workers and lowering wages (so these workers have less money to buy (or “demand”) goods and services). It also encourages governments to cut subsidies. In some cases, it has encouraged governments to reduce “unproductive” expenditures, the phrase the IMF uses for military spending. For this same reason the IMF promotes the sale or *privatization* of state owned enterprises which are seen as inappropriate work for government that “crowds out” the private sector and usually seen as—and may often be so in fact—to be inefficient, run by and for government cronies, and themselves in debt.

B. History and Structure of the IMF

The World Bank and the International Monetary Fund (IMF) were created together at the Bretton Woods Conference in 1944. As two pillars of the global economic and financial system, they were designed to serve distinct but complementary roles. The IMF was tasked with maintaining stability of exchange rates in the global economy and promoting expanded trade through short-term loans for general budget support and economic policy advice to any of its member countries. The World Bank was tasked with helping to rebuild specific sectors of country economies and promote economic growth and development by providing long-term loans to governments of its poorer member countries for public works and other investments to boost economic activity.

The IMF is concerned with macroeconomic and financial sector issues, while the World Bank focuses on long-term poverty reduction and sustainable development. Countries must first be a member of the IMF to be eligible for World Bank membership.

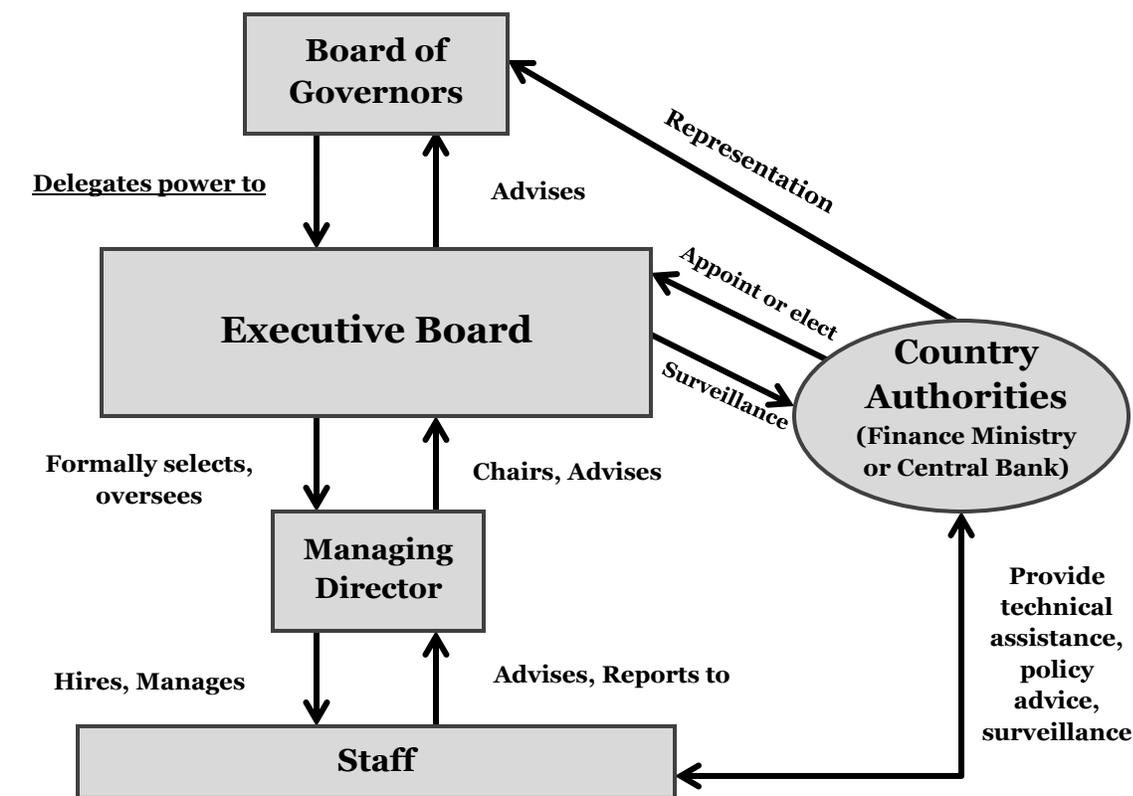
Today, the headquarters of the two institutions sit across the street from one another in Washington D.C., and although they don't always communicate openly they often function in tandem to exert pressure on borrowing governments. Loans from the two institutions frequently contain cross-conditionality, meaning that the policy reforms or actions required of a government in order to access funds from one institution may be tied to requirements specified by the other institution. Beyond this direct influence on governments through the financing they provide, both institutions - the IMF in particular - play gate-keeping functions, influencing a country's access to financing from other public and private sources. **The World Bank and many other donors will lend only to governments that have no outstanding IMF debts and comply with IMF policy recommendations.** This wields the IMF tremendous power over whether countries have access to external financing at all.

Structure of the IMF

Governance of the IMF is dictated by a document called the [Articles of Agreement](#). The Articles describe the purpose of the Fund as well as the responsibilities of the Board of Governors, the Executive Directors, and Managing Director.

Ultimate decision-making at the Fund lies with the **Board of Governors**, to which each member country appoints both a governor and an alternate governor. For most countries, the governor is the Minister of Finance (or the national equivalent, e.g. the Treasurer). The Board of Governors meets once a year at the IMF/World Bank Annual Meetings to review and set broad policies and priorities. Areas of oversight include voting on quota increases, admittance of new members, election and appointment of Executive Directors, and amendments to the Articles of Agreement.

Stylized IMF Organizational Chart



Source: Based on a chart by Leonardo Martinez-Diaz, "Executive Boards in International Organizations: Lessons for Strengthening IMF Governance", 2008, http://www.ieo-imf.org/ieo/files/completedevaluations/05212008BP08_08.pdf.

Most of the day-to-day decision-making of the IMF has been delegated to the 24 members of the **Executive Board**. Out of the 24 Directors on the Board, 8 are appointed by the Fund's largest shareholders (US, Japan, Germany, France, the UK, China, Russia, and Saudi Arabia). The other 16 Executive Directors (EDs) represent members of a group of four or more countries (known as a constituency) represented by one executive director, who is typically nominated by the largest economy in the group. Each ED must vote the combined shares of the entire constituency, even if the countries within the constituency have different positions. Executive Directors serve two-year terms. Areas of oversight include making decisions on loan approvals, approving Article IV Consultation reports, and submitting proposals to change the Articles of Agreement.

The Executive Board is also responsible for selecting the **Managing Director**, who serves as both the Chairperson of the Executive Board and the Chief of Staff. The Managing Director serves a five-year term which can be renewed and is supported by four Deputy Managing Directors. By tradition, the Managing Director is a European citizen. The current Managing Director is Christine Lagarde, who is French.

The Fund currently has around 2,600 staff from 147 countries. The majority of the staff are based in the Washington D.C. headquarters or in one of the six dedicated regional offices. The Fund also has over 85

resident representatives based in member countries. The IMF staff hold significant power within the organization. They make recommendations to the Managing Director and Executive Board, both of which see the staff as subject matter experts. It is rare for the Executive Board or the Managing Director to make decisions contrary to staff advice.

Myanmar Representation at the IMF

Board of Governors

Governor: *H.E. U Kyaw Kyaw Maung, Governor, Central Bank of Myanmar*

U Kyaw Kyaw Maung was appointed to the post of Governor of the Central Bank of Myanmar (CBM) in August 2013. He had previously served as the Governor of the CBM from 1997 to 2007 following a long career in the Ministry of Finance, which he joined shortly after graduating from Mandalay University.

Alternate Governor: *H.E. Dr. Maung Maung Thein, Union Deputy Minister of Finance and Revenue*

Dr. Maung Maung Thein was appointed to the post of Deputy Minister of Finance and Revenue in August 2012. He previously served as the general manager of Myanma Insurance and secretary of the Insurance Business Supervision Committee.

Executive Board

Executive Director: *Marzunisham Omar (Malaysia)*

Mr. Marzunisham Omar was appointed to the Executive Board of the IMF in May 2015. Prior to that, he served as the Assistant Governor of the Bank Negara Malaysia (Malaysia's Central Bank).

Alternate Director: *Pornvipa Tangcharoenmonkong (Thailand)*

Dr. Pornvipa Tangcharoenmonkong was appointed to the Executive Board of the IMF in 2015. Prior to that, she worked for the Bank of Thailand as the Division Executive for International Economic Policy.

Countries in this Group: Brunei Darussalam, Cambodia, Republic of Fiji, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Nepal, Philippines, Singapore, Thailand, Tonga, Vietnam

C. IMF Membership and Voting

Today there are 188 member countries in the IMF. It is designed to be a “cooperative” institution, where each member country is responsible for contributing a certain amount of money to the Fund, called a quota subscription. The money still belongs to the member countries, but the IMF uses it to loan to governments facing crises. The interest paid to the IMF includes a small administrative fee to cover the IMF operating expenses and the rest goes to the country that owns the currency.

The exact quota amount of money is set by the IMF’s quota formula, which is based *mostly* on economic size. Besides determining how much a country must contribute financially to the Fund, the quota determines two more things: 1) the voting power each country gets to influence decisions at the IMF; and 2) how much money a member can borrow. For instance, the United States, the Fund’s largest shareholder, holds 16.47% of the total voting shares, whereas Myanmar currently holds only 0.13% of voting shares.

Most decisions at the Executive Board require a majority vote of 85%. Since the United States has more than 16%, it has veto power over major decisions. Moreover, the 28 European Union member states collectively hold 29.5% of votes. While the European countries are split between several offices, they often coordinate their positions and vote as a bloc. All member countries also receive an equal amount of votes just for being a member, called basic votes. Basic votes originally represented 11.3% of the total votes, but presently they are only 5.502% of total votes.³³ However, basic votes have very little effect on voting power.

Reforms to the quota system have been presented at several recent meetings with IMF members, most notably during the 2010 G20 Summit in Seoul.³⁴ Among the items on the agenda was to move shares to under-represented economies, improve the quota formula, and change the process for selecting Executive Directors.

- *Moving Shares:* IMF member countries have attempted to rebalance the voting arrangement by moving quota shares from over-represented economies (Europe) to under-represented economies (developing economies). Unfortunately, these reforms have done nothing to change the share of votes held by European countries. Instead, quota shares have been taken from middle and lower-middle income countries and giving to emerging economies, while leaving the poorest countries’ shares unchanged. This is in part due to the fact that the small European countries argue that they contribute significantly to the finances of the Fund through their quotas, additional bilateral lines of credit, and contributions to grant-equivalent facilities (funds) needed by the poorest countries.

³³ Factsheet – IMF Quotas, <http://www.imf.org/external/np/exr/facts/pdf/quotas.pdf>.

³⁴ Embassy of the United States – New Delhi, “G-20/Seoul: Fact Sheet on IMF Reform”, 2010, <http://newdelhi.usembassy.gov/pr111210.html>.

- *Quota Formula:* According to the Articles of Agreement, no country can be required to give up a quota share; they can only lose shares relative to other countries who gain more through changes in the quota formula. However, what is measured and what importance to give to each aspect of an economy in the quota are grounds for intense political fights. At the Seoul meeting in 2010, an agreement was made to measure a country's Gross Domestic Product (GDP) 60% in hard currency and 40% in Purchasing Power Parity (PPP).

What is the Quota Formula?

The **quota formula** is a method used by the IMF to determine the quota share a member country owes to the Fund. This formula is a weighted average based on a country's Gross Domestic Product (GDP, 50%), openness to trade (30%), economic variability (15%) and international reserves (5%). The total is measured in **Special Drawing Rights (SDR)**, which is the IMF's special unit of accounting based on the value of **hard currencies** (ie US dollar, Japanese yen, British pound sterling, or the Euro).

There are disputes about how the formula is calculated. Low income member countries maintain that *need* should be considered when designing the quota formula. Countries with large populations argue that *population* should be included in the formula. Small, open economies insist that being *open to trade* and the free flow of currencies mean they are vulnerable to market volatility. This last group includes several small European countries who currently control a large share of the vote, so their views are captured by the current formula that includes both *volatility and openness* as separate factors in the formula, which actually capture the same aspects of the economy.

Another aspect of the quota formula, or how to measure the size of a national economy, is whether to measure economies in hard currency or in the actual goods and services they create, often explained by saying a cup of coffee in Miami or Madrid is the same as a cup of coffee in Mumbai or Mumbasa. This latter measurement is called **Purchasing Power Parity (PPP)**.

- *Executive Directors:* One of the reforms proposed during the Seoul conference was to make all Executive Directors elected. This would allow the top 5 economies to accept members into their constituencies. The United States sponsored this change so it would be easier for the European countries to combine and recombine their constituencies when and as Europe gives up 2 chairs (another part of the 2010 agreement).

Although the IMF governance reforms were agreed to at the international level in 2010, it took more than five years for the US Congress to ratify the reform package – finally approving them on January 26, 2016.

Now that the 2010 IMF reforms have been implemented, the next major issue for IMF governance will be to review and reform the quota formula.

D. Comparing the International Financial Institutions

Institution	International Monetary Fund	World Bank Group	Asian Development Bank
Mission	The IMF's mission is to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world.	The World Bank Group's twin goals are to end extreme poverty and promote shared prosperity in all regions through its development finance activities.	The ADB's role is to reduce poverty and promote economic development in the Asia-Pacific region.
Function	<ul style="list-style-type: none"> • Monitor global, regional and national economic conditions. • Give countries recommendations on how to improve their economic outlooks. • Give policy advice and training to member countries to strengthen the capacity of the economic policy makers and administrators. • Example: reviewing the statistical reports of the government (for example, the Ministry of Finance, Central Bank, Central Statistical Organization) and making recommendations on how to improve reporting to make the numbers more accurate and consistent. 	<ul style="list-style-type: none"> • As a major lender, the WBG provides much-needed seed money for development projects in the poorest countries. • As a knowledge broker, the World Bank Group publishes the majority of research on development globally. • As a gatekeeper for development finance, WBG research and assessments on things like country policy and investment climate influences the behavior of other investors in the target country. Lenders may also take their cues from the World Bank country strategies in determining which sectors to invest in. 	<ul style="list-style-type: none"> • Provides financial support to member countries through low-interest, long-term loans and grants. • Gives professional advice for economic and social development activities to developing countries. Example: assisting in coordinating development policies and plans of the ADB's Developing Member Countries (DMCs).
Activities	<ul style="list-style-type: none"> • No loans for projects. • Only makes loans to countries that are in or near a state of economic crisis and do not have enough money to pay for their imports. 	<ul style="list-style-type: none"> • Provides loans and equity investments to fund projects in a variety of sectors, such as large infrastructure projects. • Provides technical assistance (usually in the form of grants) for the planning and execution of development projects and programs and for advisory services. • Promotes and facilitates investment of public and private capital for development. 	<ul style="list-style-type: none"> • Provides loans and equity investments to its DMCs to fund projects in a variety of sectors, such as large infrastructure projects. • Provides technical assistance (usually in the form of grants) for the planning and execution of development projects and programs and for advisory services. • Promotes and facilitates investment of public and private capital for development.

E. Defining and Measuring Structural Reforms³⁵

Structural reforms are inherently difficult to measure because they often involve policies or conditions that cannot be easily quantified, particularly compared to the measurability of many macroeconomic policies. In this regard, it is important to acknowledge data constraints — both in availability, measurement, and coverage — that limit the scope for quantitative analysis of structural reforms.

While more exhaustive and granular indicators are more readily available for advanced economies, and in particular types of reforms, this underscores the importance of efforts underway to address data gaps, including by the Fund. Nevertheless, there have been a number of efforts to develop indicators that facilitate cross-country empirical analysis of structural reforms, including work done by the IMF (2008) as well as other international organizations.

The database used for the IMF analysis covers 108 countries (33 advanced markets, 53 emerging markets, and 22 low-income developing countries) during the period 1970-2011. It includes data for 10 types of structural reforms compiled from a wide array of sources such as the Economist Intelligence Unit, Fraser Institute, IMF, and Organisation for Economic Cooperation and Development (OECD). The reform areas covered include financial sector reforms, trade liberalization, institutional reforms, as well as a range of reforms related to the functioning and regulation of markets. Following are the descriptions of the specific types of structural reforms:

Financial Sector Reforms

Banking System Reform: The banking sector reform index is a composite of five sub-indices on: (i) interest rate controls, such as floors or ceilings; (ii) credit controls, such as directed credit, and subsidized lending; (iii) restrictions on bank competition, such as limits on branches and barriers to entering the banking sector, including licensing requirements or limits on foreign banks; (iv) the degree of state ownership; and (v) the quality of banking supervision and regulation, including power of independence of bank supervisors, adoption of a Basel capital adequacy ratios, and framework for bank inspections. Each of these sub-indices is aggregated with equal weights.

Capital Market Development: The index refers to policies that either regulate or encourage the development of securities markets, including the auctioning of government securities, establishing debt and equity markets, policies to encourage the development of bond and equity markets, and on the openness of the domestic stock market to foreigner investors.

³⁵ Excerpt from: International Monetary Fund. “Structural Reforms and Macroeconomic Performance: Initial Considerations for the Fund”. October 13, 2015. Pages 52-54. <http://www.imf.org/external/np/pp/eng/2015/101315.pdf>.

Trade Reform

Trade Liberalization: This index reflects average tariff rates, with missing values extrapolated using implicit weighted tariff rates. It is measured on a scale of 0 to 1, where zero means tariff rates are 60 percent or higher and 1 means tariff rates are zero.

Institutional Reform

Legal System and Property Rights: This index gauges the legal protections afforded individuals and property, and thus a legal system consistent with economic freedom in terms of the rule of law, security of property rights, an independent and unbiased judiciary, and an impartial court system. The index is assembled by EFW-Fraser Institute from three primary sources: the PRS Group's International Country Risk Guide, the World Economic Forum's Global Competitiveness Report, and the World Bank's Doing Business project and Worldwide Governance Indicators.

Market Regulation and Function

Agriculture: This index aims to capture the extent of government intervention in the market for the main agricultural export commodity in each country. Each country-year pair is assigned one of four degrees of intervention: (i) maximum (public monopoly or monopsony in production, transportation, or marketing); (ii) high (administered prices); (iii) moderate (public ownership in relevant producers, concession requirements); and (iv) no intervention.

Business regulation:

- Promotion of competition: This is a qualitative indicator which looks at government policies on actively promoting competition and curbing unfair business practices. It is scored on a 1-5 scale as follows: (1) very poor-no effective competition institutions or legislation; (2) poor-competition policy and legislation exist; little enforcement action; (3) fair-some sanctions to curb monopoly power; reduction of entry restrictions; (4) good-significant actions to reduce monopoly power and promote competition; (5) very good-unrestricted entry to almost all markets. Effective enforcement of well-drafted competition policy.
- Policy environment for foreign investment: This index scores countries between 1 and 10 on a variety of measures, including government policy towards foreign investment, investment protection schemes, and the risk of expropriation, with 1 being the worst and 10 the best.

Labor Market Reforms:

- Hiring and firing regulations: This index is based on an Executive Opinion Survey conducted by the World Economic Forum, which asks whether the hiring and firing of workers in a country is impeded by regulations (=1) or flexibly determined by employers (=7).
- Collective bargaining: This index is based on an Executive Opinion Survey conducted by the World Economic Forum, which asks whether wages in a country are generally set by a centralized bargaining process (=1) or up to each individual company (=7).

Regulation in energy, transport and communications (ETCR): This index summarizes regulatory provisions in seven sectors: telecoms, electricity, gas, post, rail, air passenger transport, and road freight. In this regard, regulations pertain to factors such as market entry, public ownership, vertical integration, and market structure.

Infrastructure

Infrastructure: While to date there is no established index that appropriately captures infrastructure reform, here we use public capital—the principal input into the production of public infrastructure—that is most commonly used in Fund and academic analysis. The PPP-adjusted (\$2005) public capital stock is measured as the accumulated value of public investment over time, adjusted for depreciation which varies by income group and over time.

Innovation

R&D Expenditure: Current and capital expenditures (both public and private) on creative work undertaken to increase stock of knowledge, expressed as percent of GDP.

F. Contacts and Further Information

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Civil Society Contacts

New Rules for Global Finance

New Rules for Global Finance is a non-governmental organization with the aim to promote reforms in the rules and institutions governing international finance and resource mobilization, in order to support just, inclusive and economically sustainable global development. New Rules is a networking, idea generating organization that convenes critical actors and policymakers from developed and developing countries to identify politically feasible and technically sound solutions to systemic issues of international finance and resource mobilization which impede inclusive development.

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The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency, and public accountability in the governance and operations of the IFIs.

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