



Australian Government

Department of Foreign Affairs and Trade

# Aid Investment Plan

Myanmar

2015-2020

# Strategic priorities and rationale

Myanmar is undergoing a period of remarkable political, economic and social change. After decades of isolation and instability, the country has been partially transformed by three unprecedented reform efforts: a transition to democracy; economic liberalisation; and nationwide peace negotiations. These reforms are complex and interrelated.

While there has been tremendous change under the government of Thein Sein (2011-2015), Myanmar's transition process will encounter its most crucial stage to date in late 2015 and early 2016, with national elections, formation of a new government, and likely culmination of ceasefire negotiations with the country's ethnic armed groups. These milestones will determine the trajectory of the country's development and stability for many years to come. Sustaining reforms and maintaining momentum will be a key challenge for the next government.

If the reform process continues, Myanmar has the potential to be a key player in our region. It is the largest country by land area in mainland South East Asia, has significant natural resources and a young population. It is strategically positioned between two of the world's fastest growing economies (China and India). Myanmar is increasingly active in the region and was Chair of ASEAN in 2014. International interest and engagement in Myanmar has surged. Myanmar has significant potential to benefit from closer integration with global markets through trade liberalisation.

Australia's bilateral relationship with Myanmar has grown quickly in support of the country's reform process. We were the first western country to remove targeted travel and financial sanctions. We now encourage trade and investment, are modestly enhancing our defence relationship and building our government-to-government ties. Australia is working with the Myanmar Government to educate children, improve human rights and reform public financial management.

Australia is working towards an economic partnership with Myanmar, particularly through our support to inclusive economic growth and effective government management. The realisation of this will take a number of years, well beyond the timeframe of this Aid Investment Plan.

Myanmar's development challenges are significant, the legacy of decades of isolation and poor governance and administration. The World Bank estimates 37.5 per cent of Myanmar's population (51 million) are living on less than \$2 a day, with GDP per capita (PPP) the second lowest in South East Asia. Around 10 per cent of Myanmar's population do not have access to enough food and over a third of children under five are stunted due to chronic malnutrition. Myanmar's education system has suffered from years of neglect, with only 54 per cent of children completing even five years of primary education. Graduates lack job-relevant skills. Gender inequality continues to hamper Myanmar's development, with significant disparities in economic, legal and political participation, as well as wage disparities and poor legal protection.

Protracted civil conflict and frequent natural disasters have contributed to the challenges facing Myanmar. Conflict-affected areas in Rakhine, Shan, Kayin, Kayah, and Kachin States represent some of the poorest and most isolated places in Myanmar. There are over 640,000 internally

displaced persons in Myanmar, who have fled their homes due to armed conflict, and the regions along the country's borders hold the largest refugee population in South East Asia. Natural disasters have caused further displacement, including in areas already affected by conflict and violence. The subsequent irregular movement of people to Indonesia, Thailand and Malaysia poses a significant challenge for the region.

Myanmar's capacity to respond to these challenges remains low, including in government, opposition, civil society and the private sector. In addition, the institutions required to implement policy and promote economic growth are limited. For example, Myanmar will be reliant on foreign investment in the coming decades to fund its development, but is consistently rated one of the hardest places in the world to conduct business.

Australia's aid program is a major component of the bilateral relationship. Our assistance is increasingly working in support of the Myanmar Government's reform agenda and using Government systems where appropriate. Australia recognises that this time of significant change presents a unique opportunity to support growth, development and reform in Myanmar.

Within the context of a reduced aid budget, Australian aid will target the areas where we can add value and where we have a good track record. This will require a sharper focus, and we are withdrawing from some sectors where Myanmar's other partners are better placed to contribute. Australia's support will adapt to the changing context, and to Myanmar's ongoing progress and commitment to reform. We will maintain flexibility, including the capacity to expand and contract the program according to opportunities and our assessment of risks.

## Objectives

The overarching goal of Australia's aid program will be to support Myanmar's process of political, social and economic reform.

From 2015 to 2020, the Australian aid program in Myanmar will have the following objectives:

- enhance human development by improving access to quality education including support to schools, teacher training and scholarships
- promote peace and stability through support to the peace process and elections, and humanitarian assistance as required
- promote inclusive economic growth and government management.

Australia's aid will work together with our foreign policy and trade interests to promote these outcomes and continue to strengthen our relationship. Australia is making a long-term investment in the prosperity and stability of Myanmar.

### Objective 1: Enhancing human development

Education will remain the flagship of Australia's aid program in Myanmar. Enhancing human development through education contributes directly to poverty reduction, economic growth, and stability. Investing in knowledge and skills through education improves men and women's earning potential and their ability to invest wisely in their future and that of their families.

Australian aid will support the development of Myanmar's education system to produce - on a sustainable, affordable and country-wide basis - learning outcomes that help build an educated and competitive workforce. Our investments will assist government and non-government education providers to develop systems and build capacity. We will maintain our support for government owned and implemented programs, such as the Decentralised Funding to Schools

program. This program promotes equitable access to schooling and quality education, including improved teacher management and classroom instruction.

We will support the development of an education system that is responsive to the needs of both girls and boys. Nationally, Myanmar has reached gender parity in education. However there are significant disparities in girls' access to education between states. Access also appears to be strongly influenced by poverty, ethnicity, and rural/urban locations. Australian aid will support the Myanmar Government to promote equality in education.

Australia will invest in low cost but strategic support for education services in hard-to-reach and conflict-affected areas. Complementing Australia's support for the peace process, this investment will strengthen education systems and support locally-agreed solutions to promote equitable education outcomes across all areas in Myanmar. It will also build resilience in vulnerable communities, a policy priority for Australia. This will require a long-term investment of time and resources, and a conflict-sensitive approach.

Australia will work to strengthen evidence-based planning and budgeting capacity within the Ministry of Education during this critical time of reform. Complementing our support to public financial management, this work will help the Ministry of Education collect and assess relevant information to inform policy and education service delivery.

Australia is advocating for more disability-inclusive education services through our investments in this sector, and is providing opportunities for people with disabilities through the Australia Awards program.

Responding to gaps in higher education, and the need for a skilled workforce, we will continue to build human capacity through scholarships, short term courses, and flexible technical assistance and research. This support will bolster competencies of men and women in both the private and public sectors. We will promote partnerships between Australian and Myanmar higher education institutions, particularly in areas where Australia has the knowledge and skills to support Myanmar's reform efforts.

## Objective 2: Promote peace and stability

Peace and stability are necessary conditions for inclusive growth in Myanmar. Economic stability and development will be far more difficult without peace, and economic progress is dependent on continued political reform.

Australia will promote peace and stability by supporting an enduring peace agreement and meaningful political dialogue between ethnic armed groups and the Government of Myanmar. This includes support for peace negotiations. We will also build confidence in the peace process by investing in development activities that provide new opportunities for people affected by conflict and instability. Australia's continued focus on the peace process builds on existing partnerships, and helps pave the way for political dialogue between the Myanmar Government and ethnic armed groups on the structure of the state.

Our support will promote the voice and interests of women and girls. We will apply the principles of the Women, Peace and Security Agenda. This includes protecting vulnerable women and supporting women to take an active role in peace negotiations and in preventing conflict.

Australia will continue to support political and democratic reform processes, and promote stability, with the aim of building accountable and transparent institutions for an effective state. We are supporting the Myanmar Government to deliver credible and inclusive elections in November 2015. Beyond this we will continue to support Myanmar's democratic reforms.

Complementing DFAT's efforts to promote responsive state systems, the South East Asia regional program will target efforts to reduce the impunity associated with human trafficking by strengthening the criminal justice response.

Protecting and promoting human rights will be fundamental to building inclusive state systems that value the country's ethnic and religious diversity and protect the rights of all people. If human rights are ignored, reforms and state systems will not be equitable, undermining longer term stability. We are supporting Myanmar to become a party to international human rights treaties and implement international human rights norms. Australia supports programs that help Myanmar meet its obligations under international agreement on the rights of children. We will continue to address human rights issues through aid investments in other sectors. For example, Australia is investing in activities that address the significant lack of civic documentation in many ethnic areas in Myanmar. When responding to humanitarian emergencies we work to reduce exploitation and violence against women.

Australia's aid activities will continue to provide humanitarian assistance to address acute needs created by resurgent conflicts and natural disasters. Inside Myanmar, our assistance will focus on Rakhine, Kachin and northern Shan states while remaining responsive to emerging needs elsewhere in Myanmar. We will provide effective and appropriate support that addresses the differing needs of vulnerable groups, including women and children. Our support will help protect people's safety, dignity and rights.

In areas experiencing protracted displacement and chronic vulnerability, particularly Rakhine State, we will seek to address the root causes of protracted crises in Myanmar, including issues of statelessness, violence, exploitation and economic deprivation. We will shift from shorter-term to longer-term programs that encourage self-reliance and resilience. This will contribute to a stable and secure environment, human development and will create opportunities for conflict-affected people to earn steady incomes and build their ability to deal with shocks. On the Thai-Myanmar border, Australia will continue to provide humanitarian support for refugees and, when appropriate, assist them to make a safe and dignified voluntary return to Myanmar.

### Objective 3: Promoting inclusive economic growth and government management

Myanmar's economy has been stunted by decades of authoritarianism, isolation and civil war. Per capita GDP (PPP) is the second lowest in South East Asia. Although Myanmar has a young population and a high labour force participation rate, the rate of underemployment is high at 38 per cent and three quarters of the country's jobs are in the informal economy. An estimated 37.5 per cent of the population lives in poverty and the median income is only 25 per cent above the poverty line, leaving many more at risk of falling back into poverty.

Growth is expected to remain at around 8 per cent for the next few years (IMF, 2015), but the right policy settings could further accelerate and ensure inclusive and sustainable growth. Encouraging faster growth, commensurate with the experience of countries in the region, will depend on the capacity of key stakeholders to develop and oversee effective legislation and policy, and engagement between the government, private sector and civil society.

Inclusive economic growth is closely linked to progress on peace. Myanmar's conflict-affected border areas are adjacent to some of the fastest-growing economies in the region, and contain most of the country's natural resources. They are also home to many of Myanmar's poorest and most isolated people. Peace and stability are essential for Myanmar to achieve inclusive growth and gain the full benefit of its resources. Without stable borders, Myanmar's ability to connect

economically with its neighbours will be limited and its potential will remain unrealised. Australia is supporting targeted assistance to improve economic opportunities in these areas through our livelihoods investments.

Inclusive growth will be underpinned by greater gender equality. Female participation in Myanmar's labour force is significantly below that of men, at 63 per cent compared to 85 per cent. Despite legal provisions for equal pay, the gap between female and male earnings is estimated at 39 per cent. Women are concentrated in the lower ranks of paid employment.

Australia will promote economic growth by supporting a policy environment that provides incentives for inclusive foreign direct investment, trade and economic reform. This will form the centrepiece of Australia's transition to an economic partnership with Myanmar. We will increase investments in aid for trade, support legal and regulatory reform and broker engagement and trust between government and business, to promote private sector-led growth, entrepreneurship and responsible business. These efforts will attract much needed foreign investment to promote domestic growth and supplement domestic resources.

Australia will expand a partnership with the International Finance Corporation (IFC) to improve the investment climate and trade facilitation and promote innovative private sector partnerships. This partnership will also provide targeted support for improved management of natural resources. Better systems of trade and an improved business climate will assist Myanmar's engagement in the ASEAN Economic Community, an Australian priority in the region.

Transparent, effective and accountable governance will be needed to sustain inclusive economic growth in Myanmar. Australia will continue to help Myanmar build effective systems, institutions, procedures and processes of government. We will work with the government to strengthen budgeting, revenue and planning to deliver effective and more equitable services, including in conflict-affected areas. Australia's support for improved public financial management and the implementation of the Extractive Industries Transparency Initiative in Myanmar will support revenue transparency and reputable international investment. By improving the management of public funds we will promote the channelling of public resources towards education, our flagship sector, strengthening the impact of our assistance. Investments in public financial management will also increase Australia's ability to partner directly with the Myanmar Government on shared priorities using government systems.

Australia's bilateral efforts will be complemented by regional investments including the Asian Development Bank-led Mekong Business Initiative and the UN Capital Development Fund (UNCDF) initiative. UNCDF promotes private sector development and legal reform to reduce barriers to regional trade, and expanded formal financial inclusion and domestic savings. Australia will continue to support Myanmar's participation in regional trade and investment architecture to encourage integration into the region's economy. We will also promote inclusive economic growth through rural development, including in partnership with the Australian Centre for International Agricultural Research.

# Implementation approaches

## Managing aid in a dynamic environment - responding to Myanmar's needs

Since the installation of civilian government in 2011, foreign aid has increased dramatically in Myanmar, including from Australia. During these four years, Australia's aid program has prioritised flexibility in order to respond effectively to the rapidly changing environment. We have worked closely with other donors to ensure our development assistance has been coordinated to best meet the needs of the Myanmar people. Our aid program has progressively shifted to align with the priorities of the Myanmar Government. Where there have been appropriate opportunities, we have started to work within Myanmar Government systems, transitioning our aid delivery from a program delivered predominantly through UN agencies and international NGOs to include a more diverse range of delivery partners.

Over the course of this Aid Investment Plan (2015-2020), Myanmar's political environment will continue to change rapidly, particularly in the early years of the plan, where a new government will form and the signing of a Nationwide Ceasefire Agreement is in prospect. As such, Australia's aid program will need to continue to remain nimble to react effectively to the changing political environment. Our investments will be responsive to progress on reform, and will be guided by ongoing economic, political and social analysis. This will enable Australia to target the evolving development opportunities and challenges that Myanmar faces.

## Building our development partnership

While we will maintain flexibility, over the course of this Aid Investment Plan we will also begin transitioning our program into a more traditional development partnership with Myanmar. This includes continuing to align our assistance to the Myanmar Government's own reform priorities and using Myanmar Government systems where appropriate. This is particularly the case in education, where we will increasingly work within national education systems.

Alignment with Myanmar Government systems will be selective and will adopt a phased approach, informed by rigorous assessment of fiduciary and other risks. If there is continued momentum on public financial management reforms under the new government, and improved governance systems, we will consider the option of direct sector budget support.

We will consolidate our investments in sectors where Australia adds the most value and where we have a good track record of results. We will work to consolidate the number of existing small-scale investments under each of the three objectives to achieve greater efficiencies, whilst strategically responding to new opportunities as they arise.

We will continue working closely with the Ministry of National Planning and Economic Development, our main counterpart for the aid program. We will also maintain strong partnerships with the Ministries of Foreign Affairs, Education, Finance and increasingly the

Ministry of Commerce to support the expansion of Australian support for private sector development, as well as other institutions that have a leading role in Myanmar's reform agenda.

We will remain the lead on dialogue in education with the Myanmar Government. Australia is co-chair of the Government's Joint Education Sector Working Group and a trusted partner. Our investments and reputation have helped us influence reform decisions in the education sector.

## Transitioning from humanitarian assistance to building resilience

DFAT's principles of programming in conflict-affected environments will inform our aid decisions. We will develop longer-term programs to help address the underlying causes of vulnerability by rebuilding basic services and promoting economic and employment opportunities. This is a long-term endeavour. It entails shifting our perspective from short-term humanitarian interventions to addressing long-term development challenges within crisis-like conditions.

## Inclusive economic growth and private sector engagement

The program will have a greater focus on delivering inclusive economic growth, particularly through greater private sector engagement and improved management of natural resources. This reflects the Myanmar Government's own priority of facilitating growth through responsible investment and increased trade. We will partner with the private sector and promote engagement between the private sector, civil society and the government, particularly on complex issues such as business regulation, the investment environment, and economic reforms (including promoting greater economic participation of women).

## Advocating for change

Australia's aid program will complement and reinforce Australia's diplomatic advocacy and support of Myanmar's reform agenda. Australia will continue to advocate for change and pursue policy priorities in areas that further the aim of a stable and prosperous Myanmar. We will be a supportive partner of the peace process. We will continue our constructive engagement on the challenges in Rakhine State, where our development assistance and human rights advocacy are linked.

# Performance management

## Performance benchmarks

	2015-16	2016-17	2017-18	2018-19
<b>Aid objective: Enhancing human development</b>				
Performance benchmark: Expand and strengthen government school grants program	School grants provided to 80% of schools in 100 townships, in accordance with the School Grant Guidelines	School grants provided to 80% of schools in 150 townships, in accordance with the School Grant Guidelines	School grants provided to 80% of schools in 200 townships, in accordance with the School Grant Guidelines	School grants provided to 80% of schools within all 330 townships, in accordance with the School Grant Guidelines
Performance benchmark: Reduced drop-outs and repetition of poor students	10,000 students receiving payment in the stipends program (50 per cent girls)	18,000 students receiving payment in the stipends program (50 per cent girls)	40,000 students receiving payment in the stipends program (50 per cent girls)	100,000 students receiving payment in the stipends program (50 per cent girls)
<b>Aid objective: Promoting peace and stability</b>				
Performance benchmark: Government and non-state actors including women are effectively engaged in negotiations and dialogue	Establishment of Joint Peace Fund  Women who have completed Australian-funded training are engaged in the peace process	Tri-partite governance mechanism for Joint Peace Fund begins operation  Women who have completed Australian-funded training are engaged in the peace process	Parties actively involved in Joint Peace Fund governance structures  Women who have completed Australian-funded training are engaged in the peace process	Parties actively involved in Joint Peace Fund governance structures  Women who have completed Australian-funded training are engaged in the peace process
Performance benchmark: People in need receive effective and appropriate humanitarian assistance	More than 200,000 women and men receive Australian humanitarian assistance	More than 200,000 women and men receive Australian humanitarian assistance	More than 200,000 women and men receive Australian humanitarian assistance	More than 200,000 women and men receive Australian humanitarian assistance

**Aid objective: Promoting inclusive growth**

Performance benchmark: The establishment of an effective and responsible investment environment	Draft investment law finalised for submission to parliament Investment procedures clarified, including through consultation with business and civil society	A more certain and predictable investment environment	A more certain and predictable investment environment	On track to meet an increase in investment to a total value of US\$500 million by 2020-21
Performance benchmark: Strengthened public financial management systems and improved fiscal transparency	Improved transparency of financial planning and budget processes	Improved quality and transparency of financial planning and budget processes	Increased tax to GDP ratio from 6.2% in 2012-13	Increased tax to GDP ratio of over 10% and a 20% increase in large tax payers from 2012-13 baseline

## Mutual obligations

Myanmar is increasingly taking ownership of its own development agenda, which will be articulated in the planned five year 'Strategic Development Priorities' and 'National Comprehensive Development Plan'. It has established a Poverty Reduction Committee under the Ministry of National Planning and Economic Development, and an Economic Advisory Group charged with looking at poverty, its causes and policy responses.

The Myanmar Government has also developed a 'Framework for Economic and Social Reform' and sector specific strategies. The Myanmar Government is taking growing responsibility for the delivery of quality basic education, including through a costed National Education Sector Plan (near finalisation) and significantly increased resources to the sector. Australia commits to supporting Myanmar's priorities under the plan and government-led programs to improve access to and quality of schooling. We already work towards shared objectives in public financial management reform and the provision of school grants and stipends, and plan to increasingly work towards shared objectives in other areas.

The Myanmar Government also remains positively engaged on national ceasefire negotiations, and in March 2015 the Government and ethnic armed groups agreed a draft full text for a Nationwide Ceasefire Agreement. Australia will continue to support the Myanmar Government and ethnic groups to engage effectively in the peace process.

Australia's aid program to Myanmar is designed to factor in the changing political and economic context and to respond flexibly to Myanmar's priorities as it takes more ownership of its development agenda. We will agree a series of priority investments with Myanmar's new government following the 2015 elections.

Australia and Myanmar commit to regular high level consultations on aid, as agreed through our Memorandum of Understanding on Development Cooperation, signed in January 2013. The second high level consultations were held on 30 April 2015.

## Monitoring, review and evaluation

In a dynamic environment, credible information is essential to guide program management and decision making. Staff will actively monitor programs, and communicate performance management standards to contractors and partners. Managers will take responsibility for synthesis and use of credible information in decision making – this will be built on tailored evaluations of our programs.

We have developed a Performance Assessment Framework (PAF) and will adjust this as the program evolves. We will develop a simple and robust set of specific, measurable performance indicators that will mature in line with our program. This will help determine whether we are having the desired impact and whether our implementation approaches remain appropriate. These indicators will be subject to rigorous monitoring and evaluation processes, including regular staff visits to program sites. We will disaggregate results by sex and monitor and evaluate all programs for progress toward gender equality.

Independent reviews of larger investments will complement our own assessments. Poorly performing investments will be subject to remedial action and cancelled if they do not improve within one year.

The PAF will track our performance against the Aid Investment Plan objectives and agreed performance benchmarks. Noting that the context is evolving rapidly we may need to reassess our performance benchmarks following the 2015 election.

The annual Aid Program Performance Report (APPR) process will synthesise this information and inform future programming decisions. APPRs will include recommended actions and responses for the program management team based on progress and identified challenges.

# Program management

## Governance and resource management

Australia's aid to Myanmar will be managed by the Department of Foreign Affairs and Trade (DFAT) in Canberra and Yangon. Overall responsibility for the aid budget and strategy will lie with the First Assistant Secretary of DFAT's South East Asia Mainland and Regional Division.

Australia's Ambassador to Myanmar will have responsibility for in-country leadership and delivery of the bilateral aid program. Staff at Post will have primary responsibility for program analysis, design, management, and monitoring and evaluation. This will include regular field visits to inform program management, and verify partner reporting. DFAT in Canberra is responsible for policy development and guidance, drawing on the expertise of the Myanmar Section and thematic specialists.

Developing, implementing and evaluating Australia's aid investments will continue to rely on highly-skilled staff, both in DFAT and our implementing partners. We will procure specialist expertise to help design our changing program and draw on regional advisors who have in-depth knowledge of Myanmar's unique context. Advisers will be embedded within our programs, maintaining our access to necessary expertise throughout the program cycle.

Other agencies, including the Australian Centre for International Agricultural Research, Austrade, the Australian Federal Police and the Department of Education and Training, will continue to add value through specialised expertise and relationships.

## Risk management

Our aid program to Myanmar will continue to face political and performance-related risks. At a time of rapid and far-reaching political, social and economic reform, events and future scenarios remain very difficult to predict. Yet providing aid at this critical juncture in Myanmar's history will help Australia to build influence and lay the basis for deeper engagement in the long-term.

The key strategic risks identified are recorded in a Program Risk Register. We will regularly assess, monitor and manage these risks in accordance with the following table.

### Risk monitoring and communication

Process	Frequency
Update of program-level risk register	Quarterly
Update of sector-level risk registers	Quarterly
Senior management team discussion on progress of risk treatments, escalation of sector risks and any new risks	Monthly