

**U.S. Position on World Bank's Interim Strategy Note (2012-2014), IDA's National  
Community-Driven Development Project, and Proposed IFC Investment in ACLEDA  
(November 1, 2012)**

**Interim Strategy Note**

The United States welcomes this Interim Strategy Note and the positive changes underway that have set the stage for World Bank re-engagement in Burma. The international financial institutions have an important role in building capacity to support nascent reforms in Burma in the near term, and to support economic growth and poverty reduction in the longer term.

Over the past six months, the United States has taken a number of steps in recognition of the economic and political reforms underway, including relaxing bans on financial services, new investment, and imports of most products of Burma. The introduction by the Government of Burma of best practices of good governance and sound financial management, together with these steps, should help the economy begin to grow.

That said, it is very important to bear in mind that the United States retains the authority to sanction individuals and entities, including, among others, those facilitating public corruption, threatening the peace, security, or stability of Burma, or engaging in certain arms trade with North Korea. In addition, the United States is concerned that military-affiliated companies continue to have a strong presence in the economy, a problem not only for economic efficiency, but also for the civilian authorities' ability to oversee the full scope of military expenditure. Critically, as demonstrated by the U.S. Department of the Treasury's recent designation of the Directorate of Defense Industries (DDI) for importing arms or related materiel from North Korea into Burma, the United States remains concerned about military trade with North Korea. The United States is encouraged by the commitment of Burmese officials to ending the relationship; if this relationship is not addressed, it could drastically set back the direction of normalization and undermine regional stability.

Normalizing relations with international creditors, including the World Bank, is a cornerstone of the re-engagement process. The United States appreciates that the government has begun working with the World Bank, Asian Development Bank (ADB), and IMF on priority reforms to support sound macroeconomic development, and looks forward to successful completion of the arrears clearance exercise early next year. In advance of this step, the United States expects the Burmese government will begin making payments on its World Bank and ADB debts as they are due, which is generally a minimum expectation of countries in the arrears clearance process.

The United States believes it necessary to have continued World Bank coordination and collaboration with the ADB and bilateral creditors (including the Paris Club) on arrears clearance as part of a comprehensive multilateral effort. The United States welcomed the authorities' commitment, made in Tokyo, to work expeditiously with the IMF to articulate a framework to underpin macroeconomic stability. The United States would prefer to see this framework in place ahead of MDB arrears clearance. It behooves the Burmese government to demonstrate to creditors, donors, and investors that macroeconomic policies are coherent, achievable, and sustainable.

The Interim Strategy Note sets out an appropriately modest near-term plan for Bank engagement focused on diagnostic work, capacity building, and limited interventions in community-based development, financial sector strengthening, microfinance, and possibly ICT and emergency electricity rehabilitation. The United States welcomes the Bank playing a lead role in strengthening public financial management, including enhanced fiscal transparency, which is a centerpiece upon which many other reforms will depend. The United States also appreciates that the ISN highlights the need to support the three separate transitions taking place.

The United States commends the ISN's recognition of the Bank's currently limited knowledge base, the government's weak implementation capacity, and the importance of both engaging civil society organizations and supporting bottom-up approaches. In this context, working closely with, and learning from, development partners with on-the-ground experience will be important. The United States applauds the Bank's intention to make all of its diagnostic work publicly available to help inform debate on the country's development priorities.

While the outlook is positive and supportive, it is tempered by caution and realism in recognition of the decades of isolation and deep distortions that characterize the country's economy and economic governance. The international community has incomplete information about socio-economic and governance dynamics in this country, including the existing land rights regime. In designing and implementing projects, the Bank should go beyond its normal due diligence in supervision and financial monitoring. The Bank must actively promote sensitivity, greater transparency, and consultation at every stage to help address issues of human rights abuses and ethnic tensions in this splintered and impoverished society. In this regard, the United States supports efforts to promote the Extractive Industries Transparency Initiative and welcomes the ISN's focus on social inclusion, particularly with respect to ethnic groups and gender. The United States strongly supports a deep and comprehensive program of analysis and technical assistance, to which the United States and other bilateral partners will be contributing. Caution is necessary, however, before moving to investment, including co-financing with donors that are prepared to move quickly.

As always, the IFC should employ high corporate governance standards and prudent judgment, including careful screening of local sponsors and avoiding engagement with compromised individuals, even where such individuals may appear to have high capacity. Achieving broad-based economic growth will require the World Bank Group to avoid working only with those who are already in command of many of the country's assets.

### **National Community-Driven Development Project**

The United States supports the proposed pre-arrears clearance grant for the National Community-Driven Development project, recognizing the special circumstances that warrant Board consideration of a project that is still far from disbursement, with most critical design aspects still to be determined through the consultation process. As the first MDB project in this country in decades, the project faces enormous challenges in implementation, but this project must be successful to demonstrate tangible benefits to the citizens of Burma of MDB assistance and gain their support. The United States urges management, the authorities, and civil society

groups to work with due care in forging the partnerships and building the capacity at the local level that will be essential to the success of the project. All parties involved are impatient to demonstrate results on the ground, thereby confirming the authorities' decision to normalize relations with its creditors. However, while the Bank has much experience in how to design CDD projects, there are still many unanswered questions about the needs and capacity at the local level to successfully manage a CDD project. Bank management should avoid pressures to speed disbursements for disbursement's sake.

The United States recently heard concerns from some local NGOs that were not included in initial consultations and notes that the Bank will need to take care to build trust with local groups from the outset. The United States understands that many elements of project design are still being developed and will be detailed in an Operations Manual that will benefit from further consultations with donors and NGOs. As part of these next steps, consultations should be broad-ranging, including independent NGOs and community representatives, and not only those who have been associated with government. Consultation materials should be translated into the relevant local languages.

Several areas are highlighted below that will require special attention during implementation, noting the atypical circumstances of government implementation of donor-financed assistance at the local level, and with civil society engagement in this country.

- The project will work largely through village tract-level committees for decision-making and oversight. Ordinarily, the Bank should promote working through existing local structures, to the extent possible, to avoid over-burdening localities with parallel structures. In this case, however, the United States cautions that existing structures may require significant reforms to improve transparency and accountability.
- Securing sufficient operations and maintenance (O&M) financing is necessary for the sustainability of project-financed community infrastructure. The United States encourages the Bank to monitor the effectiveness of the envisioned voluntary village funds for O&M and make adjustments in approach, if necessary, so that project benefits can be sustained.
- Quality control and general technical oversight, including for environmental and social safeguards, will rest on the NGOs/firms to be selected to support each of the townships. It will be essential that the NGOs/firms selected have the breadth and depth of technical expertise required to provide strong support across each of the townships. At the same time, local groups that have not previously been affiliated with the government may be well positioned to work with the project.

Finally the United States urges close monitoring. Implementing a CDD project in this fragile environment where the Bank does not have the benefit of prior engagement amplifies the risk. While the specific risk mitigating aspects of the project are laudable – such as the social auditing, capacity building, and the grievance mechanisms – the Bank will need to strengthen its M&E activities above and beyond what it conducts in typical operations.

## **Proposed Investment in ACLEDA**

The United States also supports the IFC's proposed investment in ACLEDA, and the Bank's separate but related work in strengthening microfinance supervision highlighted in the ISN. The World Bank Group has the experience and the instruments to facilitate the welcome economic and political changes now underway in Burma, and that microfinance will be an effective tool for raising standards of living in this country which suffers from extremely low financial penetration, especially in rural areas.

As the IFC's first foray into Burma, however, it is important that this investment be accepted broadly across government, parliament and civil society. Noting that microfinance has encountered a number of problems in the region, and that a major regulatory reform of the sector underway now has engendered some controversy, the U.S. holds outstanding concerns as to what assurances can management provide regarding the support for this investment by the government, leading figures in parliament, and civil society, including existing players in the sector. Also, the United States remains interested in how this investment will deliver new services to previously under-served populations, and/or compete with existing providers and other new foreign entrants.