Working Paper

Evaluation Lessons on Transition: Possible Implications for Myanmar

Independent Evaluation ADB

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NOTE

Note: In this report, “$” refers to US dollars.

Abbreviations

ADB	–	Asian Development Bank
CAPE	–	country assistance program evaluation
EBRD	–	European Bank for Reconstruction and Development
EITI	–	Extractive Industries Transparency Initiative
GDP	–	Gross domestic product
GMS	–	Greater Mekong Subregion
IED	–	Independent Evaluation Department
IEG	–	Independent Evaluation Group
IFC	–	International Finance Corporation
IFI	–	international financial institution
IMF	–	International Monetary Fund
Lao PDR	–	Lao People's Democratic Republic
PRC	–	People's Republic of China
SOE	–	state-owned enterprise
SWAP	–	sector-wide approach
TA	–	Technical assistance
UNEP	–	United Nations Environment Programme
WTO	–	World Trade Organization

Contents

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Executive Summary

Introduction

Myanmar has recently launched an ambitious transition program to make up for time lost in isolation. In this context, the experience of comparator countries may prove helpful. To assist in this process, the Independent Evaluation Department of the Asian Development Bank undertook a review of evaluation findings concerning external support for Asian comparator countries that have gone through transition over the past two decades.

Nine Asian comparator countries underpin the review: three Southeast Asian countries in transition from centrally planned to market economies (**Cambodia, Lao People's Democratic Republic [Lao PDR], and Viet Nam**); three countries whose transition began with the collapse of the former Soviet Union (**Kyrgyz Republic, Mongolia, and Uzbekistan**); and three countries in fragile, conflict-affected, or postconflict situations (**Afghanistan, Nepal, and Timor-Leste**). The comparator countries were selected based on (i) the relevance of their profile and/or experience to the challenges that Myanmar is likely to face; and (ii) the availability of evaluation material, particularly country assistance program evaluations.

Drawing on this experience, the review derives broad lessons of possible interest for Myanmar, aid agencies, and evaluators. In presenting these evaluation lessons, the paper's goal is to provide a spectrum of experience in meeting transition challenges, mindful that the lessons of any one individual country may not apply in their entirety to Myanmar.

Myanmar is starting its transition with a number of assets and liabilities. Its assets include a rich endowment of forests, natural gas, and minerals; a long coastline; pivotal location close to some of the world's most dynamic economies; a large population; and considerable agricultural and industrial potential. Its liabilities include a weak financial system, regulatory environment, and infrastructure; limited implementation capacity; vulnerability to natural disasters; ethnic tensions with minorities concentrated in poor areas; and weak social indicators.

Country-level Findings

All comparators achieved growth in per capita incomes during their respective transition periods, with three main factors at work:

(i) Macroeconomic policies were supportive in almost all comparators, as were exchange rate and trade policies. By contrast, financial sector policies and state-owned enterprise (SOE) reforms were less successful. This may have been due to the greater measurability and visibility of progress on macroeconomic policies, and the broad consensus about their being essential to effective transitions. In addition, such policies are being systematically monitored by a well-funded international agency and usually entail less challenging of vested interests than reforms of the financial sector and SOEs.

(ii) The biggest increases in per capita incomes were achieved through export-led strategies focused on the exploitation of natural resources or labor-intensive manufacturing. Measured by growth in per capita incomes, **Mongolia** and **Timor-Leste** have been the most successful, reflecting their large mineral wealth relative to their small populations. Both countries have to date avoided the "resource curse," in part by maintaining sovereign wealth and fiscal stabilization funds. **Viet Nam**, on the other end, succeeded through its strategy of export-led growth in garments and other labor-intensive manufacturing. In between, **Lao PDR** pursued a hybrid of the natural resources and export strategies.

(iii) Infrastructure was a key factor in all comparators. Without adequate infrastructure, trade and other policy reforms cannot achieve their intended results. Nor can inclusion be achieved without location-sensitive connectivity investments, nor relief provided expeditiously in the face of natural disasters. On the downside, roads often put environmental capital (especially forests and biodiversity) at risk.

Poverty declined in all comparators, but to different degrees. Viet Nam achieved more progress than others; **Kyrgyz Republic** experienced serious ups and downs in the face of recurring civil unrest; and **Timor-Leste** experienced lags, as the jump in its oil-sourced income has not yet been fully reflected in reduced poverty. Inequality increased in most countries, even as poverty declined. With rapid urban growth, higher income levels in urban areas, and poverty concentrated in rural areas, the scene is set for poverty reduction (from the urban growth's impact on the urban poor and the rural poor's migration to urban areas) but also for increasing inequality, as the poorest and least employable remain behind in rural areas. Even in **Viet Nam**, which made heavy investments in rural areas, inequality has begun to rise, with poverty increasingly localized in ethnic minority communities.

Environmental issues received inadequate attention, notwithstanding major risks. Negative externalities from the exploitation of natural resources were severe in **Kyrgyz Republic**, **Mongolia**, **Timor-Leste,** and **Uzbekistan,** while the loss of tropical forests and biodiversity was intense in **Cambodia, Lao PDR**, and **Nepal.** Even **Viet Nam**, which added significant forest cover over the period, lost closed-canopy forest and biodiversity. More policy attention to the environment is needed, especially with respect to potential irreversible damage.

Economic progress in several countries stalled in the face of conflict, political crises, and transition fatigue amid major concerns about corruption*.* **Afghanistan** is a clear example. **Nepal** also suffered from a major political crisis and civil conflict, as the benefits of growth accrued to urban areas, while rural households' access to health, education, and infrastructure remained limited. After several years of independence, **Timor-Leste** faced a rapid deterioration of security in 2006, with civil strife in Dili leading to major destruction and displacements, a severe economic contraction, and significant increases in poverty. Likewise, economic progress stalled in 2005 and again in 2010 in **Kyrgyz Republic** amid political and ethnic unrest.

Like Myanmar, all comparators suffered from weak institutional capacity. A common feature was a focus on the drafting of new laws and regulations (often with external support), while weak enforcement capacity limited their impact.

Aid Agency-level Findings

Development partners had a large but varied presence in transition comparators, with varying degrees of effectiveness. Three main findings seem relevant in the

Myanmar context:

(i) **Analytic work played an important role in diagnosing country problems and prescribing effective solutions.** Where available, it was also helpful in aligning development partner approaches. Regrettably, it was often lacking where it might have done the most good.

(ii) **The scale of external support for the environment and, to a lesser extent for agriculture and rural development, was not consistent with the pursuit of inclusive and sustainable growth.** The environment fell victim to country capacity limitations, with external support focused primarily on the enactment of safeguard regulations rather than the integration of environmental management into a country's development strategy. In agriculture and rural development, development partners lacked country-specific strategies detailing viable options for rural-urban transformation, and the implications for rural infrastructure and social services.

(iii) **Outside of macroeconomic management, technical assistance (TA) and institution building were generally less effective.** While much assistance was provided, there were few tangible results due to overly complex and ambitious interventions; too much focus on the drafting of laws at the expense of enforcement; and overreliance on international consultants without clear terms of reference, especially with respect to the training of national staff. Evaluations also found that development partner practices at times detracted from country capacity, for example in their use of project implementation units. Often, funding agency practices simply missed opportunities to develop capacity as part of project implementation modalities and requirements.

Country-level Lessons

The review points to four building blocks of an accelerated, inclusive, and sustainable growth strategy: (i) setting a clear vision or path towards sustainable growth; (ii) minimizing losses and leakages from policy distortions, corruption, environmental abuse, and conflict; (iii) protecting vulnerable groups; and (iv) nurturing capacity to do the above. The review also points to the importance of managing these blocks in a connected manner, as letting these elements get out of balance could have potentially adverse and destabilizing consequences for social, environmental, and/or financial sustainability.

Lesson #1. **Connecting the Dots:** Comparator experience highlights the importance of connecting the dots between growth and the environment, inclusiveness and conflict prevention, and policy distortions and corruption, with the importance of capacity as an overarching issue. While appropriate selectivity and sequencing of individual elements will be required, the key to lasting growth will be a judicious mix and balancing across macro, social, environmental, and governance priorities to forestall future (and possibly irreversible problems) that could be more cost-effectively addressed now.

Setting a Clear Vision towards Sustainable Growth

Formulating a clear vision for the economy, especially with respect to the role of agriculture, industry, and the exploitation of natural resources, is a critical transition step. In developing its vision, it will be useful for Myanmar to know whether its prospects are more like those of Lao PDR, Mongolia, and Timor-Leste, or more like Afghanistan, Cambodia, and Nepal, or somewhere in between, like the Kyrgyz Republic, Uzbekistan, and Viet Nam.

Lesson #2. **Managing Aggregate Supply and Demand**: Myanmar's likely supply-side prospects need to be taken into account when setting its demand-side macro policy. Indeed, the likely scale of Myanmar's mineral endowment will be a critical determinant of the economy's future structure and, in turn, of the pace of its rural-urban transformation, from the current situation where two-thirds of the population live in rural areas. If large, Myanmar can plan for a faster rural-urban transformation, but it also will be essential to put in place the foundations of a fiscal stabilization/wealth fund to smooth budgetary inflows, establish an endowment against future depletion, and protect resources against possible misuse.

Once the Myanmar economy's likely future structure is clearer, the policy road map for getting there needs to be set out and followed. Key elements include (i) sound macroeconomic policies, and (ii) an appropriate rural-urban mix of public spending on infrastructure and human development. In addition to being important for stabilization, macroeconomic policies are key drivers of the economy's structure through their effects on aggregate spending and absorption levels, and in turn, on the real exchange rate and the mix between traded and nontraded goods.

Minimizing Losses and Leakages

Lesson #3. **Reducing Policy Distortions that Breed Corruption**: Comparators' experiences point to major costs of policy distortions and corruption—the latter amounting to an estimated 20% of gross domestic product in Afghanistan for bribes alone. Myanmar currently ranks poorly on most global indicators of governance. Weak institutions in both the public and private sectors further constrain its development. Early investment in better governance could have high payoffs in terms of social stability, as the example of Kyrgyz Republic suggests, where disaffection with corruption was a key driver in civil unrest. Aid agency attention to corruption has increasingly focused on country public procurement and financial management. To be successful, such programs must tackle other fundamental governance issues in a holistic manner, such as poor public administration and weak capacity.

Comparators' experiences underline the large costs of ignoring policy distortions, corruption, environmental abuses, and conflict. The most common policy distortions relate to SOEs and problems in the financial sector, which have been major sources of corruption. These are interrelated, with many of the problems of the financial system related to bad loans to the SOE sector. These distortions provide fertile ground for corruption, reducing economic activity, and diverting resources from the public sector, often through abuse of public procurement and financial management processes.

Lesson #4. **Protecting the Environment**: Abuse of the environment (especially illegal logging and deforestation) has been a major source of distortion and corruption in comparator countries, resulting in large welfare losses, much of it irreversible damage associated with flooding, loss of biodiversity, and climate change. Despite its low level of industrialization and population density, Myanmar's rich natural capital endowment and environment are threatened by human activities and climate change. Environmentally and socially savvy management of road investments can go a long way toward reducing the costs and risks involved. So can greater attention to capacity for enforcing laws and regulations governing the environmental and social impacts of infrastructure investments. Given the limited domestic constituency in this area, there is a case for greater external support if progress is to be made.

Protecting the Vulnerable

Targeted provision of public services is an important vehicle for providing for both the chronically vulnerable and the episodically vulnerable. In strongly growing economies like **Mongolia** and **Viet Nam**, the rural economy will increasingly become a safety-net sector as its contribution to growth declines. In such circumstances, infrastructure and social services need to be provided so that the rural sector does not become a permanent locus of exclusion, potentially putting social stability at risk. Meanwhile, the increasing frequency of natural disasters and economic crises has heightened interest in social protection systems to help those episodically impacted. In all cases, the focus should be on prevention and preparation as far as possible, putting in place the necessary systems for targeting so that the needy can be helped as quickly as possible.

> Lesson #5. **Investing in Inclusive Growth:** The location of public expenditures is a major policy driver of the inclusiveness of growth. Strategically located public investments in infrastructure and human development are essential policy tools for promoting social inclusion, avoiding social conflict, and preparing for (and to the extent possible preventing) natural disasters. Such issues are particularly relevant for Myanmar, where almost 85% of the poor live in rural areas, and where ethnic minorities are geographically concentrated in areas with the highest poverty rates. Improving physical connectivity and access to markets and basic services is essential in this context.

Nurturing Capacity

The policies and programs discussed above will require sufficient capacity to design and execute. Weak enforcement and implementation capacity has been a major concern across most comparators. Diagnostic findings have focused on three interrelated issues: (i) individual competence, (ii) adequate remuneration of civil servants, and (iii) clear accountabilities. Aid agencies have an important role to play in this area, especially through their TA activities, but these need to be more results-focused.

> Lesson #6. **Developing Capacity**: A greater focus on results, coupled with a realistic monitoring framework and feasible performance targets, grounded in serious diagnostic work taking into account underlying political economy constraints, will go a long way to improve the effectiveness of capacity development activities. Aid agencies can and should assist the authorities with these processes, and make them requirements for their TA support.

Lessons for Development Partners and Evaluators

The review provides several new insights on aspects of ownership, partnership, and capacity development that may warrant strengthening.

> Lesson #7. **Coordinating External Support**: Aid coordination can be enhanced by investments in knowledge and analytic work and by a more visible hand of the authorities. Such knowledge also helps in building country ownership. Given the large number of development partners likely to be involved in Myanmar, this issue is highly relevant. In addition to supporting the authorities' leadership role in aid coordination, evaluators could take another look at possible instruments for evaluating country programs from the country perspective.

Country ownership has long been emphasized as a key feature of aid effectiveness. Good aid agency practice involves support for building ownership through the generation and dissemination of knowledge and related analytic work, while being sensitive to underlying political economy constraints. Coordination among development partners is essential both to minimize the burden of aid on the authorities and to maximize its effectiveness. This will require more substantive approaches to aid partnerships when individual agencies may not agree, highlighting the critical role that the authorities can play in this respect. While in-depth engagement by the authorities in all aid work would likely be unrealistic for Myanmar at the outset of its reengagement, development partners should push for high-level access when consensus cannot be reached on particular issues.

Enhanced country ownership and aid coordination are also essential for improving the effectiveness of externally supported TA. But even more important are better diagnostics and design. Evaluations of TA point to several adverse findings. Going forward, a back-to-basics approach is essential, starting with (i) diagnostic work on the key problems, their underlying causes, and the options for solving them; and (ii) a clearly articulated results monitoring system, as partners would use for other kinds of support.

The final conclusion of the review emerges from the process followed in carrying it out. With current evaluation instruments, it is impossible for the authorities to know if the total external effort adds up to more than the sum of its parts. This is because most evaluations are designed as tools of accountability and learning for aid agencies. However, such an approach falls short of informing the country about how well aid programs as a whole are meeting its needs. In the past, evaluators in aid agencies experimented with joint evaluations, but they were often deterred by costs. The increasing emphasis on country ownership and country systems suggests that the time may have come for the evaluation community to revisit possible instruments and modalities for evaluating country programs from a country perspective.

CHAPTER 1

Introduction

1. **This topical working paper distills evaluation lessons for the use of the Myanmar authorities and their development partners, including the Asian Development Bank (ADB).** It is a synthesis paper, drawing primarily on evaluations carried out by the Independent Evaluation Department (IED) and by evaluation units in other international financial institutions (IFIs) in nine Asian comparator countries of specific relevance to the economic, social, and sectoral challenges that Myanmar faces.[1]

2. **In presenting the evaluation lessons from ADB and other IFIs engaged with comparator countries, the paper's goal is to provide a spectrum of experience in meeting transition challenges, mindful that the lessons of any one individual country may not apply in their entirety to Myanmar.** The objective of the paper is to present a range of specific country experiences to provide a more nuanced picture, which will hopefully prove helpful to guide Myanmar's reengagement with ADB and other development partners.

3. **Three caveats warrant consideration at the outset:** First, the paper's coverage is selective in terms of country, sector, and thematic coverage, focusing on the nexus of issues likely to be most relevant to Myanmar and its development partners. Second, the paper's purpose is to share information and analysis—it is not an IED evaluation of Myanmar, ADB's strategy in Myanmar, or externally supported programs in Myanmar. Nor is it an evaluation of the evaluation sources it draws upon, whose findings and lessons learned constitute the raw material on which the paper builds.[2] Third, information about Myanmar included in the paper is taken from published sources and is included solely to provide a context for the review.

4. **The paper is organized as follows:** Chapter 2 briefly discusses the meaning of transition in the current literature, and Myanmar's assets and liabilities in approaching its transition challenge. Chapter 3 summarizes the country-level findings and lessons emerging from the nine comparator countries, while Chapter 4 focuses on sectoral and thematic findings. Chapter 5 synthesizes relevant findings and lessons with respect to aid agency practices (including those of ADB) in transition countries. Chapter 6 provides possible conclusions for the country, development partners, and evaluators.

[1] The review is based primarily on independent evaluations carried out by IED and the central evaluation units of the European Bank for Reconstruction and Development, the International Monetary Fund, and the World Bank Group. It also draws on analysis and self-evaluations from those agencies. It does not reflect findings and lessons learned by Management subsequent to the issuance of cited evaluation reports.

[2] As is normal practice with independent evaluations, there may have been disagreements with Management on evaluation findings and conclusions. Any such disagreements are not covered in this paper, which reports solely on the evaluation perspective.

CHAPTER 2

Challenge of Transition

5. **Transition encompasses a number of issues.** While the term once referred primarily to the liberalization challenges faced by formerly centrally planned economies, more recently its meaning has broadened (Box 1). Myanmar's challenge falls into this broader definition, encompassing the opening up to globalization and liberalization of an economy that until recently had been largely closed and tightly controlled, even if not strictly speaking centrally planned.

Box 1: What is "Transition"?

Historically, the term was used to describe centrally planned economies in the process of adopting market-based systems. Such a definition is explicitly enshrined in the mandate of the European Bank for Reconstruction and Development (EBRD), which was created to support the economies of the Former Soviet Union toward becoming market economies. Even today, EBRD assesses progress in transition through a set of transition indicators that have been used to track reform developments in all countries of operations since 1989. Progress is measured against the standards of industrialized market economies, while recognizing that there is neither a "pure" market economy nor a unique end-point for transition.[a]

More recently, the use of the term among development practitioners has broadened to cover a wider set of developmental shifts. For example, a recent IED country assistance program evaluation highlighted three interlinked facets of transitions: from a centrally planned to a market economy, from a subsistence-oriented and largely self-contained economy to a commercially-oriented and regionally integrated economy, and from an agrarian to a more urbanized society.[b] Under such a concept of transition, the evaluation issues extend far beyond those relevant primarily for liberalization in formerly centrally planned economies, and encompass a much broader development agenda.

[a] See www.EBRD.com.
[b] ADB, 2010.

6. **Building on an ongoing political transition, Myanmar is redefining the role of the state in its economy—from direct control to broader regulation—with the goal of catching up with neighbors' living standards as quickly as possible.** In doing so, it starts with a number of assets, including a rich endowment of forests, natural gas, and minerals; a long coastline; pivotal location close to some of the world's most dynamic economies; a large population; and considerable agricultural and industrial potential. Its liabilities include a weak financial system, regulatory environment, and infrastructure; limited implementation capacity in many areas where reforms are needed; vulnerability to natural disasters; ethnic tensions (with minorities concentrated in very poor areas and with a history of conflict related to feelings of disenfranchisement); and weak social indicators.

7. **Myanmar's transition challenge is large by any measure.** Yet, some believe that Myanmar could become "the next economic frontier in Asia if, with appropriate reforms," it can turn its assets to an advantage and not be weighed down by the liabilities.[3] To sustainably develop its rich endowment, Myanmar needs to set appropriate macroeconomic, environmental, and sectoral policies; invest in infrastructure and human

[3] IMF, 2012e.

development; and let the private sector respond with jobs and exports under the guidance of public institutions that regulate with an even-handed yet light touch (Box 2). In supporting this agenda, aid agencies (including ADB) need to work together using harmonized procedures that do not overwhelm Myanmar's scarce administrative capacity and avoid duplicating each others' programs so that together the various programs add up to more than the sum of their parts.

Box 2: Myanmar Transition Challenges

Myanmar is one of the larger countries in mainland Southeast Asia, with an estimated population of about 61 million. It is divided into seven states and seven regions. Ethnic and sectarian conflicts have been a significant feature of the country's modern history. Myanmar has rich natural resources, including arable land, forests, minerals, natural gas, and both freshwater and marine resources. The economy is dominated by agriculture and farm-related activities, which account for 36% of gross domestic product (GDP) and 60%–70% of employment. Two-thirds of the population live in rural areas.

Poverty and human development. Despite improvements in many dimensions of well-being between 2005 and 2010, Myanmar remains one of the poorest countries in the world, with a per capita GDP of $857, a Human Development Index rank of 149 out of 187 countries, and 26% of its population living in poverty in 2010. The poverty incidence in rural areas is significantly higher than in urban areas, with 85% of the poor living in rural areas. A large segment of the population is highly vulnerable to adverse weather and other shocks, and experiences transitory bouts of impoverishment.

Economic reforms. After 2 decades of double-digit increase, consumer price inflation has remained in single digits since 2009, mainly due to partial bond financing of the budget deficit and the decline in international commodity prices. The government has initiated reforms in areas such as monetary and exchange rate policies, central banking, financial sector development, and an enabling environment for businesses and trade. The overall fiscal deficit is estimated at 3.8% of GDP in FY2013. Myanmar's tax revenue collection is among the lowest in the region, which has resulted in suppressed public spending, particularly in the social sectors. Revenue management is challenged by a complicated tax structure, weak tax administration, generous tax incentives, and a lack of transparency. The government has taken the first steps toward simplifying tax structures, broadening the tax base, stabilizing tax revenues, and improving transparency. On the expenditure side, imbalances in the allocation of resources between and within sectors have undermined the efficiency and effectiveness of services.

Governance and institutional capacity. Myanmar ranks poorly on most global indicators of governance including corruption. Central to public sector governance and effective service delivery is the country's public financial management system. In ministries and agencies, budget planning, transparency, execution, reporting, and accounting all have weaknesses. While the country has abundant human resources, underdeveloped human capital and institutions in both the public and private sectors constrain Myanmar's development.

Connectivity and infrastructure. Domestic and international connectivity is severely constrained by an underdeveloped transport sector. The road network is insufficient, particularly in rural areas, restricting the access of much of the population to economic and social opportunities and services. Physical connectivity and access to markets and basic services are especially weak in the areas that are home to the country's ethnic minority groups.

Environment. Despite the low level of industrialization and low population density, Myanmar's rich natural capital endowment and environment are threatened by human activities and climate change. Key issues include a steady decline in forest quantity and quality, heightened pressures on biodiversity, intensifying utilization and deterioration of water resources, increasing land degradation, inadequate waste management, and emerging threats from mining sector growth.

Source: ADB. Interim Country Partnership Strategy 2012–2014. October 2012.

CHAPTER 3

Transition Experience of Comparator Countries

A. Comparator Profiles

8. **Nine Asian comparator countries underpin the chapter:** three Southeast Asian countries in transition from centrally planned to market economies (Cambodia, Lao People's Democratic Republic [Lao PDR], and Viet Nam); three countries whose transition began after the collapse of the Soviet Union (former Soviet republics Kyrgyz Republic and Uzbekistan, as well as Mongolia, which had been a major recipient of aid and concessional supplies from the Soviet Union); and three countries in fragile, conflict-affected, or postconflict situations (Afghanistan, Nepal, and Timor-Leste). Reflecting the timing of the historic events that precipitated their respective transitions, the transition experiences of countries in the first and second categories (Cambodia, Kyrgyz Republic, Lao PDR, Mongolia, Uzbekistan, and Viet Nam) have been under way for much longer than the countries in the third category.

9. **The comparator countries were selected based on (i) the relevance of their profile and/or experience to the challenges that Myanmar is likely to face; and (ii) the availability of evaluation material, particularly country assistance program evaluations.** Two caveats warrant consideration: First, a country's selection is not meant to imply that Myanmar is necessarily like it, simply that there is a relevant lesson that may warrant consideration by Myanmar and its development partners. Second, many of the cited evaluation examples refer to conditions that may no longer be present in those countries, though the lessons learned may remain relevant for Myanmar more broadly. Taken together, the nine comparators are believed to provide a useful platform for Myanmar.

10. **There is considerable variation across the nine comparators** (Table 1). In terms of per capita income, **Afghanistan** is at the low end and **Timor-Leste** is at the high end. Four countries (**Afghanistan**, **Cambodia**, **Kyrgyz Republic,** and **Nepal)** are still considered "low-income." The other five are considered "lower middle-income," all having graduated to that status within the last 5 years. Poverty rates range from 15% in Viet Nam to 36% in Afghanistan and 50% in Timor-Leste, with Myanmar's estimated by the UNDP at about 25%. The wide range of comparator country populations is also noteworthy—ranging from 1.1 and 2.8 million in **Timor-Leste** and **Mongolia,** respectively, to 87.8 million in **Viet Nam,** with **Myanmar**'s estimated at 60.6 million.

Table 1: Comparators by the Numbers:
Population, Per Capita Income, Poverty, Female Life Expectancy, and Corruption Control

Countries	Population (total midyear, million, 2011)	Per Capita Income, 2011 (Atlas methodology)	Poverty (national poverty line % rate)[a]	Female Lifespan at Birth (years, 2010)	Corruption Control (percentile rank)[b]
Afghanistan	26.5	$410	36	48	1.4
Cambodia	14.5	$830	30	64	12.8
Kyrgyz Republic	5.5	$920	34	73	10.4
Lao PDR	6.4	$1,130	28	69	13.7
Mongolia	2.8	$2,320	35	72	27.0
Nepal	26.6	$540	25	69	23.7
Timor-Leste	1.1	$2,730	50	63	14.7
Uzbekistan	27.8	$1,510	27	71	4.3
Viet Nam	87.8	$1,260	15	77	29.9
Myanmar	60.6	[___]	25	66	0.5

Sources: ADB, UNDP, and World Bank data. World Bank, 2010a. Kaufmann, Kraay, and Mastruzzi for corruption.
[a] Percentage of people below the poverty line; lower number is better. Latest available year.
[b] Percentage of countries internationally with worse corruption controls; higher number is better.

11. **Though Myanmar is a low-income country, the experiences of comparators currently classified as middle-income remain relevant,** as all of them had low-income status during much of the review period. In **Lao PDR**, **Mongolia**, and **Timor-Leste**, mining and energy activities have been the key drivers of recent income upgrades. Hence, these countries hold important lessons for Myanmar as it explores options for developing its mineral and energy potential. The transition experiences of **Uzbekistan** and **Viet Nam** also offer some interest for Myanmar. When **Viet Nam** first launched its transition some 25 years ago, Southeast Asia was not the success story it is today. This may have given **Viet Nam** a bit of breathing room vis-a-vis private investors, compared with Myanmar, which has seen major foreign investor interest from the outset of its transition efforts.[4] Hence, Myanmar will likely face challenges earlier in its transition process than did most of the comparators.

B. Comparator Challenges and Achievements

12. **Each of the comparators has faced unique challenges and met with successes.** Those are briefly summarized in Table 2.

[4] Wall Street Journal, 2012.

Table 2: Comparator Issues and Challenges

Country	Issues
Afghanistan	Volatile situation with periodic outbreaks of armed conflict. Economy dominated by the informal sector in agriculture, mining, manufacturing, construction, and infrastructure. The degree to which these activities are dependent upon the currently large presence of the foreign aid community will influence their sustainability.
Cambodia	Rapid private sector-led growth driven by garment exports, tourism, and construction—all benefitting from public infrastructure investments. Poverty has been falling, but inequality is increasing, reflecting a large urban-rural divide. Major investments in hydropower are under way.
Kyrgyz Republic	Market-based reforms under way. Slow growth coupled with weak governance and domestic/global crises have led to increased poverty. Internal political crisis over concerns about corruption and transparency as well as ethnic tensions have put the sustainability of transition at risk.
Lao PDR	Rapid growth led by resource boom (from copper, gold, and hydropower), coupled with poverty reduction but increasing inequality (especially between rural and urban areas) and mixed results on other millennium development goals. The nonresource sector is in decline because of a "Dutch disease"-induced lack of competitiveness (Box 4). Environmental risks endanger the sustainability of natural resources management.
Mongolia	Positive, but difficult transition initially. Takeoff led by the mining sector, resulting in rapid growth and positive growth prospects, with new mines expected to come on stream over the next few years. Major "Dutch disease" considerations. Poverty is declining, though not evenly. Rapid rural-to-urban migration during the transition period with implications for public services and infrastructure demand.
Nepal	Political transition and attainment of peace have required high-level attention to managing ethnic aspirations and maintaining political stability, overshadowing economic issues. Meanwhile, external migration has created large incoming remittances, which have helped to reduce poverty, particularly in urban areas.
Timor-Leste	Petroleum wealth is spread across a small population and is protected in the Petroleum Fund for future investment. Limited capacity to plan and implement projects and policies.
Uzbekistan	Gradualist state-led reforms; good macro foundation underpinned by sovereign wealth fund and favorable terms of trade; concerns about nontransparency, corruption, and state capitalism.
Viet Nam	Major progress sustained over 25 years, backed by country ownership, internal discipline, and external support. Constraints increasingly felt due to reliance on inefficient public investments channeled through weak state enterprises and financed by massive credit expansion and indebtedness.

Source: IED.

13. **All comparators achieved growth in per capita income during their transition periods,** with the biggest increases achieved through export-led strategies focused on the exploitation of natural resources or labor-intensive manufacturing. **Mongolia** and **Timor-Leste** have been the most successful, reflecting their large mineral wealth relative to their small populations. Both countries have to date managed their windfalls reasonably well, in part by maintaining sovereign wealth and fiscal stabilization funds that are consistent with international standards of the Extractive Industries Transparency Initiative (EITI). **Uzbekistan** also benefitted from favorable terms of trade for its mineral exports and cotton. At the other end, **Viet Nam** succeeded through export-led growth in garments and other labor-intensive sectors. **Cambodia** also followed this strategy, but with less success, as the sector's linkages to the rest of the economy remained minimal, since most nonlabor inputs

were imported and profits had to be remitted abroad. In between, **Lao PDR** pursued a hybrid of the natural resources and export strategies, including liberalization of the private sector and expansion of electrification, the road network, and trade.

14. **Economic progress in several countries stalled in the face of conflict, political crises, and transition fatigue, amid concerns about corruption. Afghanistan** is the clearest example. **Nepal** also suffered from a major political crisis and civil conflict, caused by poverty and social exclusion, as most of the benefits of growth accrued to urban areas, while rural households' access to health, education, and infrastructure services remained limited. After several years of independence, **Timor-Leste** faced a rapid deterioration of security in 2006, with civil strife around Dili leading to major destruction and displacements, a severe economic downturn, and significant increases in poverty. Economic progress likewise stalled in 2005 and in 2010 in the **Kyrgyz Republic** amid political and ethnic unrest.

15. **Environmental issues generally received limited attention, notwithstanding major risks.** Negative externalities from the exploitation of natural resources were prominent in **Kyrgyz Republic**, **Mongolia**, **Timor-Leste,** and **Uzbekistan.** On the other end, the loss of tropical forests and habitat-dependent biodiversity was an issue in **Cambodia, Lao PDR**, and **Nepal. Viet Nam** is a notable exception, adding significant forest cover over the transition period.[5]

16. **Poverty declined in all comparators, but to different degrees. Viet Nam** achieved more progress than others. **Kyrgyz Republic** experienced ups and downs, while the recent jump in incomes in **Timor-Leste** has yet to translate into poverty reduction. Inequality increased in all countries, even as poverty declined, since growth in urban centers far exceeded growth in rural areas, where poverty is concentrated.[6] While most comparators articulated their development strategies in terms of poverty reduction, their actual policies focused on growth, while protecting public spending in the social sectors. Even in **Viet Nam**, which made significant investments in rural areas, inequality is beginning to rise, and the pace of poverty reduction has slowed, with poverty increasingly concentrated in ethnic minority communities. Meanwhile, the non-oil economy has grown rapidly in **Timor-Leste,** fueled by government spending, and is just starting to be reflected in poverty reduction and improved social outcomes.[7]

17. **All comparators suffered from weak institutional and implementation capacity.** This was especially true at the start of the transition but remains the case today, albeit to different degrees across countries, depending in part on how far back they launched their transitions and how successfully these were implemented. It also depends on country-specific factors, such as in **Viet Nam**, where decentralization of decision-making has taken place without the supporting investment in capacity development at the local level. Weak capacity has been the main feature of transition, and certainly one that Myanmar shares.

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[5] http://data.worldbank.org/indicator/AG.LND.FRST.ZS?page=2 and other pages.

[6] An exception was the Kyrgyz Republic, where the Gini coefficient declined moderately from 0.45 to 0.37 between 2000 and 2010. ADB, 2012d, page 6.

[7] http://www.worldbank.org/en/country/timor-leste/overview.

CHAPTER 4

Sectoral and Thematic Issues and Lessons

18. **Comparator countries did better on economic management policies than on structural areas.** The chapter highlights three main lessons, whose implications for external support are taken up in the next chapter:

(i) **Superior performance on economic management relative to structural issues reflects several factors.** First, progress on macroeconomic policies is easier to measure and more visible compared with financial sector policies, and there is broad consensus about it being essential for effective transition. Second, progress on economic management usually entails less challenge to vested interests than reforms of the financial sector and state-owned enterprises (SOEs).

(ii) **The environment saw the weakest performance, reflecting a more limited domestic constituency for reform than in other areas.** Greater policy attention is needed in this area, especially given the potential for irreversible damage in tropical forests, where biodiversity and related habitats, once destroyed, are unlikely to recover.

(iii) **There is no escaping the underlying arithmetic that links growth, poverty reduction, and inequality.** With more rapid urban growth and poverty concentrated in rural areas, the scene is set for poverty reduction (both from urban growth's impact on the urban poor and from the rural poor's migration to urban areas), but also for increasing inequality as the poorest and least employable remain behind in rural areas.

A. Relevant Sectors and Themes

19. **Table 3 gives a snapshot of the main sectoral and thematic issues faced by the comparators.**

Table 3: Sectoral/Thematic Issues for Transition by Comparators

Sector/Theme	Issue
Economic Management	
Macro Stabilization	Macroeconomic stabilization as measured by the rate of inflation (around 10% with upward flexibility in responding to major shocks), based on prudent fiscal and monetary drivers.
Exchange Rate and Trade Policy	For exchange rate, the agenda includes (i) switch from administrative rate setting to indirect management through central bank interventions, (ii) elimination of parallel markets by bringing all transactions into the main market, and (iii) central rate management in line with overall macroeconomic management. On trade, the priorities include the World Trade Organization

	agenda plus investments in trade infrastructure, customs reform, and regional integration.
Financial Sector and Private Sector Development	
Financial Sector	Four stages of transition: (i) portfolio cleanup of bad bank assets; (ii) regulatory framework for capital adequacy and banking crisis resolution; (iii) new bank management, ownership, and deposit insurance mechanisms; and (iv) financial market development (leasing, insurance, mortgage markets, capital markets, etc.)
Private Sector Development	Three stages of transition: (i) privatization and/or commercialization of SOEs, (ii) SOE reform, and (iii) transparent and nondiscriminatory investment climate to avoid regulatory capture and monopolies.
Environment	
Environment and Forestry	Challenges include (i) cleanup of toxic pollution, (ii) environmental and social safeguard framework for public enterprises and expenditures, (iii) regulatory and enforcement framework for private investment, (iv) regional and global impacts, and (v) tropical forestry. For the latter, two important issues emerge: (i) foregone government revenues from illegal logging, and (ii) lost habitats for biodiversity and lost forestry resources for local populations. Both require better capacity for enforcing policies.
Supply-Side Sectors (Large and Small)	
Extractive Industries and Hydropower	The agenda involves adequate controls for ensuring capture of profits by public revenues; conformity with environmental and social safeguards; and sound management of a sovereign wealth stabilization fund to avoid wasteful squandering and real exchange rate movements ("Dutch disease").
Agriculture	Key sector for counterbalancing rapid urban growth with increased income in rural areas, where poverty rates are the highest. Points to spatial issues for public spending on infrastructure, health, and education.
Public Expenditure Management	
Infrastructure and Connectivity	Major implications for growth, especially in responding to exchange rate and trade policy changes, and more favorable investment climate. Also important for poverty reduction in terms of (i) increased incomes for poor urban households from mainstream investments, and (ii) increased incomes for households in rural and excluded areas from investments in those areas.
Human Development	Health and education are major sectors for poverty reduction and inclusiveness, especially programs in isolated areas and/or targeting socially marginalized groups. Also important for medium-term growth, in terms of enhanced labor productivity.
Public Administration	
Quality	Key issues are institutional capacity and corruption.

Source: Independent Evaluation Department.

B. Economic Management

20. **Macroeconomic stabilization policy issues loomed large in all comparators and still do today. However, the focus has changed from transition-specific issues to maintenance and management in the face of external and internal shocks.** Most comparators performed prudently on stabilization as measured by the rate of inflation, which stayed broadly in the 10% zone while increasing during major shocks, such as the East Asian Crisis and the more recent global financial and food and fuel crises. There were, however, periodic bouts of instability, some quite severe, with **Kyrgyz Republic** and **Uzbekistan** experiencing hyperinflation in the early days of their transitions, with annual inflation rates exceeding 1,000%.[8]

[8] IMF, 2012c.

21. **One issue worth highlighting is the management of windfall public revenues from mineral exports (Box 3).** Lessons from both developing and developed economies suggest the prudence of managing such windfall gains separately from other fiscal revenues, and treating them as a wealth or stabilization fund subject to clear audit and withdrawal rules to avoid the infamous "resource curse".[9] This includes (i) transparently protecting resources against theft and embezzlement, (ii) insulating the domestic economy from volatility in global mineral markets and eventual mineral depletion, and (iii) preserving capital and ensuring its translation into high-yielding investments at home or abroad.[10] In terms of short-term macroeconomic stabilization, the second issue is critical to avoid unnecessary price swings and adjustments, which could have implications for the entire economy.

Box 3: Stabilization Funds—A Fiscal Antidote for the Resource Curse in Timor-Leste and Mongolia

Timor-Leste and Mongolia have active stabilization funds that are used as countercyclical fiscal policy tools. Timor-Leste's stabilization fund was established in 2005. Mongolia's was established more recently, after its export revenues collapsed in the wake of the global financial and economic crisis of 2008–2009. The two funds differ in important respects, but share the underlying goal of smoothing spending and consumption in the face of variations in revenues due to fluctuations in commodity prices over the short term, or preventing physical depletion over the medium to long term. Both funds are currently rated "compliant" by the Extractive Industries Transparency Initiative.

Petroleum revenues account for over 70% of Timor-Leste's gross domestic product. Resources on such a scale can clearly help to raise living standards. But experience suggests that such inflows can be volatile and can have large negative side effects if not managed well. Since Timor-Leste is a fully dollarized economy, fiscal policy is the only instrument available for macroeconomic management. The Petroleum Fund is a key element of the country's fiscal framework. It invests financial assets abroad and finances domestic capital expenditures included in the state budget. For the latter, the current focus is on infrastructure, particularly electricity and roads, given their importance for the growth of the non-oil economy.

In Mongolia, the main source of revenue is mining. To date the scale of generated revenues is smaller than in Timor-Leste, but that will likely change as new mines are expected to come on stream. Building on the approach pioneered by Chile during the 1980s, Mongolia's stabilization fund aims to redress its previously pro-cyclical fiscal policy, with saving and spending rules tied to moving averages of copper and coal prices. With rapidly expanding revenues, the fund is expected to build wealth for the use of future generations, after the country's mineral reserves are depleted. In terms of lessons for other low-income countries with large revenue potential from nonrenewable resources, the fund's use of a combined "price-based rule and expenditure growth limit is attractive in terms of public communications because of its focus on highly visible mineral prices, while also delinking public expenditure from revenue volatility due to other factors…"

Source: Macroeconomic Policy Frameworks for Resource-Rich Developing Countries—Background Paper 1—Supplement 1. IMF. August 2012.

22. **With respect to exchange rate and trade policies, most comparators moved from administratively controlled exchange rate systems to market-based ones, managed by the central bank.** This typically involved a shift from worrying about parallel market premia to concerns about the impact of nominal exchange rate changes on prices. In **Kyrgyz Republic**, for example, the policy debate during the food and fuel crisis focused on whether the authorities should let the nominal exchange rate appreciate with

[9] Stiglitz, 2011.
[10] van den Bremer and van der Ploeg, 2012.

remittances to mitigate inflationary pressures.[11] Even in **Nepal**, where the currency is tied to the Indian rupee, the central bank maintains the rate by interventions in the foreign exchange market.[12] Exceptions to the above include **Timor-Leste**, which is fully dollarized without a separate currency and monetary policy, and **Uzbekistan**, which maintains a dual exchange rate system and substantial foreign exchange controls.[13] In all cases, regardless of how the nominal rate is managed, economies are still potentially subject to the "Dutch disease" (Box 4).

23. **On trade policies, almost all comparators made significant progress. Cambodia**, **Kyrgyz Republic**, **Mongolia**, **Nepal**, and **Viet Nam** are members of the World Trade Organization (WTO). **Lao PDR**'s application to become a member was accepted in late 2012. **Afghanistan** has observer status, which typically involves a commitment to apply for membership within 5 years.[14] The exceptions are **Timor-Leste**, which is still in the early stages of establishing its trade policy, and **Uzbekistan**, whose restrictive trade and foreign exchange regime continues to be a major constraint to foreign investment and private sector development.[15] However, Uzbekistan did sign the Commonwealth of Independent States free trade agreement in early 2012, eliminating customs duties for its products, including those going to Russia. While it is likely that Uzbekistan will remain outside of the customs union, the elimination of such duties will increase the competitiveness of its products in Commonwealth of Independent States' markets.

Box 4: What is the "*Dutch Disease*"?

"'Dutch disease' [is] a term first coined by *The Economist* to refer to the experience of the Netherlands after the discovery of oil and gas in the North Sea in 1959. During a commodity boom, rising demand for nontradables (such as services and construction) pushes up their prices, causing the real effective exchange rate to appreciate (either through nominal appreciation or due to consistently high inflation). This results in an increase in labor costs across all industries, as wages in the tradables and nontradables sectors equalize. Thus resource booms can negatively affect the competitiveness of the tradables sectors (nonresource manufacturing and agriculture) and change the composition of output by raising the share of nontradables in both output and employment. Changes in skills mix and underinvestment in technologies may make it difficult for the economy to regain competitiveness in these sectors, when prices or the volumes of natural resource exports decline and the real effective exchange rate depreciates."

Source: A. Isakova, A. Plekhanov, and J. Zettelemeyer, Managing Mongolia's Resource Boom. EBRD. 2010.

24. **Comparators also made some progress on regional integration and customs administration.** Initiatives include the Association of Southeast Asian Nations, the Central Asia Regional Economic Cooperation Program, and the Greater Mekong Subregion (GMS) program. Evaluation findings suggest positive growth impulses from these efforts, but also in some cases concerns about adverse environmental implications.[16] Progress on institutional development in the customs and trade facilitation areas has varied, with customs reform facing major challenges in some countries, like **Lao PDR**.

C. Financial Sector and Private Sector Development

25. **The twin issues of developing the financial and private sectors were at the**

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[11] IMF, 2011.
[12] IMF, 2012a.
[13] IMF, 2012d; and EBRD, 2012.
[14] See www.wto.org.
[15] See http://www.ebrd.com/pages/research/publications/flagships/transition/uzbekistan.shtml.
[16] ADB, 2010.

heart of the transition agenda in the formerly centrally planned economies of Central and Eastern Europe. Countries like Ukraine suffered from weak prudential requirements and nontransparencies in the financial sector, in part the result of corruption and asset stripping within SOEs and privatized (but minority shareholder) enterprises, leaving the country vulnerable to the same forces that caused the global financial crisis.[17] In most centrally planned economies, the financial system served as an economy-wide accounting framework, tracking the flows of financial resources, with the government footing the bill for any losses, By contrast, in market economies, the financial system allocates financial resources from owners to users in exchange for compensation for the use of the capital plus risks.[18] Such processes determine the efficiency of private investments and are key drivers of growth and poverty reduction.

26. **Financial sector reform has proved more difficult in almost all comparators.** At the progressive end of the spectrum, **Cambodia** and **Mongolia** have made considerable progress. For them, the remaining challenges lie in financial system deepening while safeguarding financial stability, through greater attention to deposit insurance and guarantees and strengthened supervision. Evaluation findings from Cambodia suggest that a sound banking system in itself is not sufficient to promote financial intermediation and growth. Attention is also needed to overcome the impediments to financial market development, including development of an adequate legal framework.[19] In addition, financial intermediation remains limited, particularly in rural areas, where the absence of credit was considered a key constraint in raising farm output and incomes.

27. **Progress has been more limited in other comparators, reflecting varying capacity and political economy issues.** In **Afghanistan**, the formal financial sector was virtually nonoperational in 2001.[20] With little public confidence in the system, the principal sources of credit were shopkeepers, traders, landlords, family, and friends, along with nongovernment organization (NGO) microfinance providers. With the introduction of new banking laws, there has been rapid growth of the formal banking system, albeit without commensurate increase in the central bank supervisory capacity, exposing the economy to significant financial sector risks.

28. In **Kyrgyz Republic,** financial sector reform proceeded more slowly from the outset and was stalled by a political upheaval that exposed underlying weaknesses, including meddling from law enforcement agencies and the courts (footnote 11). In **Lao PDR,** shallow financial markets cannot efficiently support the rapid growth in economic activity, and IED concluded that the vulnerable financial sector is one of the key constraints the country must overcome to sustain its growth path (footnote 16). In **Nepal**, the financial system has long been structurally weak. Its rapid expansion since 2007 has strained the capacity of the central bank, which suffers from limited operational independence (footnote 12). State-owned banks have negative net worth and high levels of nonperforming loans, while the large number of institutions stretches the system's regulatory capacity and contributes to excessive risk-taking by banks.

29. In **Uzbekistan**, political interference in banking decisions continues, with directed lending at preferential rates. The banking system has remained stable due to continued capital injections by the government. However, the regulatory framework remains weak,

[17] EBRD, 2010; IMF. 2005c; and IMF 2010.
[18] IMF, 2012b.
[19] IMF, 2004b.
[20] World Bank, 2013.

and the state still owns 70% of the banking sector.[21] Similarly in **Viet Nam**, state-owned commercial banks account for about half of the banking system and have long been perceived as a source of vulnerability in the economy, given their dominance and uncertain asset quality. Inefficient public investments and a high level of indebtedness in the state sector have increased banking and financial sector risks, leading to episodes of macroeconomic instability.[22] Viet Nam has so far averted a banking crisis, but the sector is weak after years of ineffective lending to the state sector and the growth of bad loans, particularly to the property sector.[23]

30. **Progress on private sector development has proceeded at roughly the same pace across countries.** In **Cambodia**, privatization of SOEs, begun in the late 1980s, was largely completed by 1996.[24] Private sector-led growth and investment have been robust, but mainly limited to the export-oriented textile sector, reflecting Cambodia's privileged access to industrial countries' markets in this area. In **Mongolia**, the local private sector is flourishing, and good progress has been made on privatization of large SOEs, with those remaining being either financially unviable or kept under state control for strategic reasons. On the other hand, progress in corporate restructuring and governance lags behind.[25]

31. In **Kyrgyz Republic**, good progress was made in the 1990s, but weak capacity combined with strong opposition from vested interests led to major gaps, particularly with respect to corporate governance and SOE restructuring. Reforms in the business environment, utility tariffs, and privatization were starting to get under way before the political crises, but they subsequently slowed or went into reverse due to pervasive and deep-rooted corruption. More recently, the authorities have embarked on an ambitious reform program, including major cuts in the number of required business licenses and inspections.[26]

32. In **Lao PDR**, most manufacturing production is in private hands, with SOEs accounting for only 1% of employment. Nearly 97% of manufacturing units are small and privately owned.[27] Of the medium and large units, 85% are privately owned (either by Lao citizens alone or in joint ventures with foreigners), with the remaining units being state owned. In terms of the investment climate, important laws and decrees on the promotion of domestic and foreign investment have been passed, but erratic implementation, excessive discretion, and limited recourse to dispute resolution translate into policy and procedural uncertainty for potential investors.

33. In **Uzbekistan,** state ownership and interference in the economy remain dominant (footnote 21). The authorities have recently renewed a privatization program that includes a list of almost 500 enterprises, with minority or majority stakes possibly being offered to private and foreign investors. While this is a positive signal, the prospects are still uncertain, given past performance. In **Viet Nam**, SOE reform remains a major issue (footnote 22). The sector remains large and has become a growing source of inefficiency and weak competitiveness, constraining private enterprise development. With rapid credit growth, the sector has become highly leveraged, and an increasing source of risk to the banking sector. The special privileges extended to SOEs make it more difficult for the private sector

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[21] EBRD, 2012.
[22] World Bank. 2011i.
[23] http://www.ft.com/intl/cms/s/3/2eb9530a-5e6e-11e2-b3cb-0144feab49a.html#axzz2HsstiHl5.
[24] IMF, 2004b.
[25] EBRD, 2009.
[26] EBRD.com.
[27] IMF, 2007a.

to participate in certain areas of the economy, thus inhibiting competition and associated productivity and efficiency gains. Weak corporate governance, limited transparency, and a passive oversight framework further compound those risks.

D. Environment

34. Environmental challenges have been a central feature of comparators' transitions. On toxic waste and pollution, **Kyrgyz Republic** and **Uzbekistan** continue to face major challenges, including salt-related fish kills, chemical dust storms, and other environmental repercussions of Soviet irrigation and fertilization policies affecting the Aral Sea and surrounding regions.

35. Rapid urbanization has created health-related environmental problems related to air and water quality and waste management in all comparators. These include inadequate wastewater treatment and disposal in **Cambodia**, where only 73% of the urban population have access to improved toilets.[28] Urban access to improved toilets is even less in **Mongolia**, following heavy migration from the countryside into urban slums with severe water and air pollution in Ulaanbaatar, the latter linked primarily to reliance on coal-burning stoves and rapidly rising motor vehicle ownership with substandard emissions controls.[29]

36. On environmental and social impacts of investments, **Lao PDR** has perhaps faced the greatest challenges, given its rich endowments of forest and biodiversity resources and its rapidly developing energy, mining, and transport sectors. The most recent country assistance program evaluation (CAPE) concluded that the potential for environmental degradation called into question the sustainability of the country's natural resource management plan, and the institutional and regulatory framework for managing biodiversity and protected areas needed a stronger and more coordinated approach.[30]

37. On erosion and encroachment, **Viet Nam** has shown strong commitment to environmental concerns at the international and policy level through afforestation. But concerns have been expressed that the authorities did not always manage environmental impacts properly, especially with respect to population growth, industrialization, urbanization, and major changes in patterns of rural development, which have contributed to deteriorating air and water quality and loss of biodiversity, with serious economic consequences (footnote 22).

38. On potential regional and global impacts, 70% of **Mongolia's** pastures have become degraded by desertification and deforestation, leaving former grazing areas incapable of sustaining agricultural activities. As a result of deforestation and overgrazing, dust storms are now common.[31] These problems have a global dimension, with Mongolia's grasslands constituting the largest remaining contiguous area of common grazing in the world.

39. Tropical forests are an important resource in **Cambodia**, **Lao PDR**, **Timor-Leste**, and **Viet Nam**, where the authorities have handled them differently—and, with the exception of Viet Nam, not always effectively. As for other aspects of the environment, the concerns are less about what the governing laws and regulations say and more about whether and how they are enforced, reflecting weak capacity and corruption in many

[28] ADB, 2009a, page 5.
[29] ADB, 2008b for text and World Bank DEC data for numbers.
[30] ADB, 2006; and ADB, 2010.
[31] ADB, 2008b; and World Bank, 2004.

cases, especially where hardwood logging is involved.

40. In **Cambodia**, forests cover almost 60% of the total land area but these have been in retreat for some years due to illegal logging and land clearing for agricultural purposes.[32] The government has taken a number of initiatives to try to reverse the loss of environmental resources (including a law for protected areas with protection of rights for ethnic minorities, a national biodiversity action plan, and a program of action on climate change adaptation). But weak enforcement capacity and weak incentives translate into business as usual on the logging side.

41. **Lao PDR** also has relatively rich forest resources. However, they are on a declining trend, due to mounting pressures from population growth, expanding agricultural frontiers, illegal hunting and logging, overharvesting, concession allocations to hydropower and mining projects, and monocrop plantations of rubber and eucalyptus. The loss of forest is a particular concern, given that most households are highly dependent on agricultural land, rivers, and forests for income and food, with those suffering from malnutrition being the most dependent on food from forests (footnote 16). In **Timor-Leste**, slash-and-burn agriculture and heavy reliance on wood for fuel have been the main causes of deforestation.[33] By contrast, forest coverage increased dramatically in **Viet Nam**—from 27% in 1990 to 44% in 2010, including both natural forests and plantations—the result of major programs of afforestation.[34]

E. Supply-side Sectors (Large and Small)

1. Large: Hydro, Oil, and Mining

42. **With respect to extractive industries and hydropower, the experience of Lao PDR, Mongolia, and Timor-Leste appears particularly relevant.** Evaluation lessons show that three prior actions are essential for success: (i) preventing adverse environment and social impacts, (ii) ensuring appropriate governance and channeling of funds to public coffers, and (iii) sound macroeconomic management through the use of stabilization funds.

43. **Lao PDR** has experienced strong growth in recent years, with major contributions from mining and, to a lesser extent, hydropower. Mining prospects are estimated to be firm through 2035 (footnote 16), but there is vulnerability arising from potential price variability. For example, lower-than-expected prices in 2009 pushed revenues below forecast and sharply increased the budget deficit. While hydropower prospects are strong, World Bank analysis cautions that the resource boom exposed environmental and governance risks that threaten to undermine the country's success if not well managed. It also notes that Lao PDR's resource wealth may not result in sustainable development due to a lack of robust institutions.[35] IED also calls into question the sustainability of the country's natural resource management plan, due to the potential for environmental degradation (footnote 30).

44. **Mongolia** has also experienced rapid growth in recent years, linked to the exploitation of major copper, gold, and coal deposits. Until 2008, the economy performed strongly, due to booming international prices for copper and gold. However, the situation deteriorated sharply during the latter half of 2008 with the global economic downturn and

[32] FAO, 2010.
[33] World Bank, 2007b, page 23.
[34] Center for International Forestry Research, 2006.
[35] World Bank, 2012b.

plummeting global copper prices. This highlights the cyclicality of Mongolia's inflows and the importance of the stabilization fund (Box 3). The economy has since rebounded strongly, with higher growth expected from the opening of Oyu Tolgoi, estimated to be the fifth largest copper and gold mine in the world. Major environmental risks remain, however, with respect to water resources management linked to growing competition for rapidly declining water supplies for mining, livestock, conservation flows, and human consumption.[36]

45. **Timor-Leste** has made considerable progress in dealing with its petroleum wealth, through a negotiated treaty with Australia, a set of rules governing taxes and royalties, and the establishment of the Petroleum Fund (Box 3).[37] Revenues from the hydrocarbon sector have changed the fiscal position of the country, with petroleum revenues providing almost 80% of gross national income by 2009.[38] As in **Lao PDR** and **Mongolia**, resource revenues are subject to volatility (they declined by 25% in 2009, after a sharp decline in crude oil prices, but subsequently recovered), thus further validating the creation of the Petroleum Fund.

2. Smallholder Agriculture

46. **Agriculture is a key sector for all comparators.** As a share of gross domestic product (GDP), its contribution ranges from 14% in **Mongolia** to 34% in **Nepal** and 37% in **Cambodia**, which is similar to Myanmar's (around 30%).[39] In almost all comparators, 60%–80% of the population live in rural areas and derive their incomes from agriculture, with the respective shares even larger for poor people. Available data suggest that the agricultural share of employment is larger than its GDP share, reflecting the much lower productivity of the sector compared with industry and services. In most comparators, the primary agricultural activity is subsistence, along with food crops for urban markets. In some countries, major cash crops are exported, including opium in **Afghanistan** and cotton and wheat in **Uzbekistan.** In others, agriculture provides the basis for industry, such as woodworking in **Cambodia** and agroprocessing in **Kyrgyz Republic** and **Uzbekistan**.

47. **Against this diverse background, comparators have taken different approaches.** In **Cambodia** and **Viet Nam**, public policy was quite supportive. In **Cambodia**, the agriculture sector continues to be seen as critical to poverty reduction, attracting an important share of public expenditures for infrastructure, primarily through the devolution of funds through local governments. In **Viet Nam**, agriculture was aggressively supported by the government, an approach that is widely credited to contributing to the country's impressive poverty-reduction performance.

48. In **Lao PDR, Nepal,** and **Timor-Leste**, the sector has received less support. In **Lao PDR,** agriculture has seen limited investment, as public investment focused on supporting regional corridors and large foreign investments (footnote 35). Going forward, this trend is likely to intensify, as the authorities aim to restructure the economy from agriculture to industry and services. **Nepal,** a predominantly agrarian economy characterized by low productivity and inefficient irrigation systems, has also seen limited investment (both public and private) due to limited resources. In **Timor-Leste**, the sector faced almost total destruction during the war of independence and has not yet totally recovered. Efforts to

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[36] World Bank, 2012d.
[37] World Bank, 2011f; and www.eiti.org/countries.
[38] ADB, 2011c.
[39] http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS. (No data for Timor-Leste; though in 2001 26.5% of non-oil GDP was from agriculture, according to IMF and World Bank, 2005.)

address the country's infrastructure deficits have shown limited progress, reflecting funding constraints, weak administrative capacity, and lack of technical skills in both the government and the private sector.[40]

49. In **Afghanistan**, approaches varied greatly across provinces, largely reflecting different approaches and levels of support by bilateral agencies. The country lacks a unifying strategy for the sector and its development vis-à-vis urban areas. In **Mongolia**, the sector basically collapsed in the wake of environmental failure, triggering a major exodus out of rural areas, where the authorities tried to ameliorate conditions through investments in infrastructure and social services for the populations left behind.

50. **These differences in endowments and policies translated into different impacts** (Table 4). The weak policy support in **Lao PDR**, **Nepal**, and **Timor-Leste,** where agriculture accounts for more than 30% of GDP, suggests missed opportunities that may have resulted in lower growth, higher poverty, and higher inequality. By contrast, in **Viet Nam**, the considerable policy support for the sector helped mitigate inequality from the rapidly expanding industry and service sectors. In other countries, the outcomes were mixed. In **Mongolia**, where agriculture was already making a reduced contribution to GDP, the authorities' efforts largely involved social and infrastructure interventions to improve rural living conditions and to slow the exodus to Ulaanbaatar, which may have helped to mitigate the sector's decline. In **Afghanistan**, where agriculture still plays a large role, the poor policy record likely slowed the sector's growth trajectory.

Table 4: Comparators' Agriculture Sectors and Policies: Size and Quality

Sector Size Policy Quality	Small (less than 20% of GDP)	Medium (20%-30% of GDP)	Large (more than 30% of GDP)
Good	--	Viet Nam	Cambodia
OK/Mixed	Mongolia	Kyrgyz Republic, Uzbekistan	Afghanistan
Negligible	--	--	Lao PDR, Nepal, Timor-Leste

GDP= gross domestic product
Source: Independent Evaluation Department.

F. Public Expenditure Management

1. Infrastructure and Connectivity

51. **Without adequate infrastructure, trade and other policy reforms cannot achieve their intended results.** Neither can inclusion be achieved without location-sensitive connectivity investments; nor can disaster relief be provided expeditiously in the face of floods and earthquakes. On the downside, roads often put environmental capital at risk, particularly in sensitive areas, where they need to be prudently planned, constructed, and maintained, including the enforcement of laws on logging and wildlife protection.

52. **There is ample evaluative evidence among comparators illustrating how roads can contribute to economic growth and/or rural-urban transformations.** In **Kyrgyz Republic**, early investment in trade policy liberalization produced few results until roads were upgraded and weaknesses in customs administration and border-crossing procedures corrected.[41] In **Timor-Leste**, poor infrastructure severely hindered private sector

[40] World Bank 2011f; and World Bank 2009b.
[41] ADB, 2012d.

development and growth, even though urban areas were favored over rural areas, as part of the government development strategy.[42] In **Cambodia**, improvements in agriculture were at the forefront of the government's development and poverty reduction strategy, including the rehabilitation and construction of rural roads, partly through devolution of funds to local governments. In **Lao PDR**, national roads along the GMS corridors were central to the country' growth strategy, which favored the booming resource and urban sectors over the rural economy (footnote 35).

53. **In terms of inclusiveness and environmental sustainability, the impact of greater connectivity was mixed.** In **Afghanistan**, roads played a positive role in supporting inclusiveness by facilitating women's access to health and education in remote communities (footnote 20). In **Mongolia**, the ongoing rural-to-urban migration was complemented by public investment in infrastructure and other public services in rural areas designed to play a safety net function and improve living conditions for those left behind. **Nepal's** road deficit was found to be a key impediment to economic growth, poverty reduction, and social inclusion. The opening of access routes in remote areas and the upgrading of already highly trafficked roads helped bring excluded regions and communities into the economic mainstream.[43] However, road investments in **Lao PDR** under the GMS program facilitated increased illegal logging and deforestation, while a significant proportion of the poor remained without roads, isolated from the drivers of growth and the delivery of public services.[44] IED concluded that Lao PDR lacked adequately trained personnel to plan, implement, and monitor environmental and social aspects of transport projects and therefore highlighted the continued need for external monitoring and preparation of environmental and social assessments, resettlement plans, and ethnic minority development plans by international experts (footnote 16).

54. **Finally, in terms of disaster management, roads had both positive and negative effects.** On the positive side, roads played an essential role for transporting relief and supplies to affected people. Hence, having the capacity to get them repaired as quickly as possible after a disaster is critical. But roads also need to be built in ways that are robust in the face of disaster risks**. Kyrgyz Republic** experiences about 10 earthquakes, 10–100 landslides, 100 floods, and 60 glacier outbursts every year. **Viet Nam** is highly susceptible to monsoon-related flooding and other natural hazards, which produce annual losses estimated at 1%-1.5% of GDP. Other comparators also face natural disaster risks, though on a smaller scale (floods and drought in **Cambodia** and **Lao PDR**, harsh winter and drought in **Mongolia)**. Until recently, comparator countries treated natural disasters as one-off tragedies, with emergency responses needed ex-post, rather than as recurring events requiring ex-ante disaster management. This is beginning to change, with countries starting to take into account the need for preventive measures.

2. Human Development (Health and Education)

55. **Health and education programs are at the core of inclusive and sustainable growth strategies.** Across comparators, social indicators are broadly aligned with per capita income levels. The exceptions are **Kyrgyz Republic**, which has higher indicators than what its current per capita income would suggest due to its legacy from the former Soviet Union, and **Timor-Leste,** whose social indicators and poverty levels have not yet caught up with its petroleum-driven rise in per capita income.

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[42] World Bank, 2011f.
[43] ADB, 2009b.
[44] ADB, 2008a.

56. **Evaluations provide examples of the health and education challenges that comparators faced in their pursuit of growth.** By most measures, **Mongolia** has done well in both health and education, notwithstanding large rural-urban differences. Going forward, it will need to further improve education services to train the labor force for its rapidly expanding mining and service sectors. Despite many opportunities, it is unlikely that there will be a seamless shift of workers from the low-skilled agriculture sector, which accounts for nearly 40% of employment, into the mining and expanding private nontradable sectors. Concerns are already growing about rising premiums on skilled labor, and the associated growth in inequality (footnote 36). In **Lao PDR,** with 38% of the population below 15 years of age, pressures on public expenditures for health and education are growing (footnote 16). Service quality has been an issue, especially in rural areas, in part the result of limited funding for recurrent expenditures. Organizational issues have also been a factor, as decentralization of responsibilities and resources impedes the development and execution of consistent nationwide policies and practices.

57. **Evaluations highlight the important interface between human development strategies and inclusiveness. Afghanistan** and **Viet Nam** illustrate different facets of the challenges of inclusion in the health and education sectors. In **Afghanistan**, a key parameter is gender—with the female literacy rate at only 22% compared with 51% for males, and the girls enrollment rate at 31% compared with 43% for boys. In **Viet Nam**, the main challenge involves reaching ethnic minorities, often living in isolated rural areas, where public health and education services are lagging, and perpetuating major disparities in health status across subpopulations.

58. **Social protection programs play a critical role in helping vulnerable households manage the challenges of daily living, whether chronically poor (due to health, age, gender, or ethnic exclusion) or episodically poor (due to the adverse effects of natural disasters, economic crises, or other shocks).** Comparators offer a spectrum of social protection programs, ranging from relatively high coverage in **Kyrgyz Republic**, **Mongolia**, and **Uzbekistan**, to relatively shallow ones in **Afghanistan**, **Cambodia**, and **Lao PDR**.[45] Nevertheless, the vast majority of people living in those countries do not benefit from formal social protection systems and rely instead on informal support from family and community networks, especially in the face of shocks. **Cambodia**, **Mongolia**, and **Viet Nam** were the most adversely affected by the recent global economic crisis, as their export markets suffered, while the poor in **Nepal** were hurt by the global food crisis. Nepal had a patchwork of safety net programs for pensioners, marginalized groups, and veterans, but not one that could be expanded rapidly to help the most adversely affected deal by the jump in food prices. Instead, it relied on the expansion of existing public works programs to assist those in need. **Viet Nam** also has a number of targeted poverty reduction and infrastructure programs, some of which have been in place for many years. However, the global crisis exposed Viet Nam's vulnerability to external shocks and, in the aftermath, increased attention has been given to strengthening social safety nets through the possible introduction of a cash transfer program.

G. Public Administration

59. **Evaluations in this area have focused primarily on institutional capacity and corruption.** Common diagnostic themes include (i) low skills and competencies in government agencies, along with highly compartmentalized institutional capacities that are impeding the formulation of common positions on crosscutting issues; and (ii) insufficient

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[45] ADB, 2011b; and ADB, 2012b.

civil service salaries and benefits, causing staff to seek additional employment or support from externally funded projects and creating strong incentives for rent seeking (footnote 16). In **Kyrgyz Republic**, IED noted the weakness of the government's financial management capacities, which, combined with corruption, frequent changes within the civil service, insufficient financing, and human resource constraints, impeded effective public service delivery (footnote 41). In **Cambodia**, the public financial management system was found to be too weak to allow for adequate accountability in public expenditures. Government pay levels are extremely low, and perception surveys suggest that corruption is pervasive, impeding investment.[46]

[46] ADB. 2009a.

CHAPTER 5

Aid Agency Practices in Transition Comparators

60. **Development partners had a large but varied presence in transition comparators, with varying degrees of effectiveness.** Three main lessons are summarized below:

(i) **Analytic work played an important role in diagnosing country problems and prescribing effective solutions.** It is also a central building block of country ownership and a key ingredient in coordinating external support. Regrettably, it was often lacking where it might have done the most good, for example in agriculture in **Afghanistan** and **Nepal**.

(ii) **The scale of external support for the environment, and to a lesser extent for agriculture, was not consistent with the pursuit of inclusive and sustainable growth.** Compared with macroeconomic management, these two areas received few resources, especially for country-level analytic work.

(iii) **Technical Assistance and institution-building efforts were generally less effective outside of macroeconomic management, which benefitted from a narrow focus, tried-and-true templates, and a well-funded lead agency.** While much assistance was provided in other areas, little tangible progress was made. This was partly attributed to overly complex and ambitious designs, especially in fragile situations; too much focus on the drafting of laws at the expense of enforcement; and overreliance on international consultants without clear terms of reference, especially with respect to training of national staff. Evaluations also found that aid agency practices at times detracted from country capacity, for example in their use of project implementation units. Often, development partners simply missed opportunities to develop capacity as part of their project implementation modalities and requirements.

A. Agency Presence and Practices in Transition Comparators

61. **Aid agencies maintained a varied presence in the nine comparators.** For 2007–2011, average net per capita official development assistance ranged from $8 in **Uzbekistan** to $255 in **Timor-Leste**.[47] In terms of numbers of official development partners, there also was a wide variance, ranging from 20 in **Uzbekistan** to about 40 in **Timor-Leste**. Aid agencies were typically present in every sectoral/thematic area discussed in Chapter 4.

1. Partnership

62. **Numbers on this scale clearly place a premium on coordination and partnership, which aid agencies embraced enthusiastically under the aid effectiveness**

[47] DAC data, provided at www.WorldBank.org.

agenda, though more in word than in deed.[48] Partnership initiatives and activities abounded, ranging from joint projects to joint analytic work to joint country strategies and joint portfolio performance reviews. In some cases, these activities were effective in reducing transaction costs, notably through the use of multidonor trust funds in **Timor-Leste** and sector-wide approaches (SWAPs) in **Kyrgyz Republic,** where funding agencies pooled their contributions under common processing arrangements, sometimes utilizing the comparators' own financial management systems. In other cases, partnership initiatives became bureaucratic exercises focused more on the drafting of documents than on actual actions. Some partners have moved away from such joint products.[49] The Paris Declaration evaluation for **Nepal** found little evidence of increased aid collaboration at the operational level outside of the SWAP sectors and in some peace-related activities. It also found some joint policy and technical work (e.g., joint country strategy analytic studies done by ADB, the World Bank, and the Department for International Development [DFID]), which subsequently went their own way.[50]

63. **Nevertheless, there are examples of effective aid coordination, most of which evolved out of necessity and hard work.** In **Cambodia**, aid coordination mechanisms in the health sector proved helpful and were a legacy of the large external commitments after the Paris Peace Agreements in 1992.[51] The **Kyrgyz Republic** health sector SWAP was also very successful, reflecting the thorough preparation that went into it. In **Afghanistan**, coordination worked well in some sectors, such as infrastructure, where ADB was the lead agency. It worked less well in other sectors, such as agriculture, urban development, and private sector development. Likewise in public administration, the lack of an effective human resources strategy led to disjointed efforts in higher education, skills development, and civil service capacity development (footnote 20).

64. **Two factors proved important in promoting effective coordination on the ground:** Analytic work was helpful in setting out a common diagnostic framework and strategic options for discussion. The Independent Evaluation Group (IEG) traced the success of the **Kyrgyz Republic** health SWAP to several pieces of analytic work that underpinned its design. It also identified a burden-of-disease analysis in **Nepal** that eventually helped to improve the government's pro-poor allocation of public health expenditures.[52] However, this did not happen enough. In **Afghanistan** and **Nepal,** a unifying framework in the agriculture sector could have provided a useful template for aid coordination.

65. **Evaluation findings also highlight the need for a more visible hand of the government in leading aid coordination efforts.** In several cases, funding agencies were unable to resolve disagreements among themselves, even in the presence of a lead agency (footnote 38). Even in SWAPs, with their elaborate mechanisms for coordination, IEG found differences of interpretation and prioritization among partners that were difficult to resolve in the face of insufficient data and unclear guidelines, further highlighting the importance of a strong foundation in technical and analytical work.[53]

2. Ownership

66. **Evaluation findings also emphasized the importance of country ownership.**

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[48] OECD, 2005a; OECD 2005b; and OECD, 2008.
[49] World Bank, 2009a.
[50] OECD, 2010.
[51] World Bank. 2012a.
[52] World Bank, 2009a.
[53] World Bank, 2009b.

Hardly a new finding, this is embodied in the Aid Effectiveness agenda, which stresses that aid is most effective when it supports a country-owned approach to development, and least effective when aid policies are externally driven. Going beyond that, the review suggests a number of lessons on how to build ownership, focusing on respectful dialogue with the government and other stakeholders, grounded in relevant country knowledge on issues of importance that a political economy analysis suggests may have some chance of success (Box 5).

Box 5: Country Ownership of Externally Supported Programs: How to build it?

(i) Provide knowledge and analysis—not dogma—about underlying issues: Aid agencies have major programs of analytic work, providing options for public debate and decision making, in many cases drawing on cross-country experience.[a] Reports with high technical quality, relevance to current policy issues, and sustained follow-up can be influential. In **Viet Nam**, public expenditure reviews have been used regularly by the government for policy making and public expenditure management. Poverty and social impact analyses focused on specific issues, such as distributional impacts of possible policy changes on the poor or how remedial measures might be incorporated in policy design, have also proved helpful, as for example in **Nepal** on petroleum pricing and in **Cambodia** on land reform.[b]

(ii) Disseminate the knowledge and analyses so developed: In many countries, the driver of ownership is public support. IFI analytic work can help raise stakeholders' awareness and build coalitions for change. However, evaluation results also highlight the importance of carefully considering the limitations and sensitivities involved in dissemination, which vary across countries, topics, and aid agencies. IEG reported that in a few countries, stakeholders strongly believed that their government was too influenced by the World Bank, such that broad dissemination could be counterproductive.[c] Independent Evaluation Office evaluations have reported similar findings concerning the International Monetary Fund, where outreach on some topics was perceived by the authorities as helpful, but in other cases as politically risky, and unwelcome.[d]

(iii) Respect the political economy risks of transition programs: Lack of ownership of externally imposed conditionalities may reflect the authorities' concern about the political unacceptability of particular policies (and/or their timing). In a transition context, the result of acquiescing to externally imposed conditionalities may reduce the authorities' political capital and in turn their support for the entire transition program. Hence, while aid agencies can help the authorities by analyzing policy issues with full and transparent costing of distortions and leakages, it is prudent for them to be aware of the underlying political economy context before investing in the fine-tuning of knowledge, dissemination, and engagement strategies and pushing too hard in areas where the authorities may not be able to go.

(iv) Engage with key decision makers: This did not happen in **Cambodia** during the preparation of the Poverty Reduction Strategy, with unfortunate results.[e] While there had been strong ownership of the PRS among a small group of staff in the Ministry of Planning, senior officials were not sufficiently engaged. Nor was the Ministry of Economy and Finance. As a consequence, the PRS was not perceived as having ownership within the government, and was more broadly seen as a World Bank imposition. A similar situation was handled differently in **Viet Nam**. The economic report "Attacking Poverty" drew on the most recent household survey and in–depth participatory analysis by local non-government organizations, and involved officials at all concerned ministries, while keeping key decision makers in the loop.[f] Reflecting the widespread sense of ownership of the results, a working group was established under the Ministry of Labor, Invalids, and Social Affairs to develop a poverty reduction strategy.[f]

[a] World Bank, 2008b.
[b] World Bank, 2010a.
[c] World Bank, 2008b, page 58 and Box 4.3 discussion of Bangladesh.
[d] IMF, 2009a.
[e] IMF and World Bank, 2006.
[f] World Bank, 2001.

3. Economic Management

67. **ADB, the International Monetary Fund (IMF), and the World Bank provided policy advice and financial support for economic management.** Bilateral donors partnered with the IFIs in this work, especially in a budget-support context. In some cases, they provided technical assistance (TA) to monetary and fiscal authorities, typically in joint arrangements with their own monetary and fiscal authorities. On macroeconomic stabilization, the IMF was the lead agency advising countries on the overall stance of monetary and fiscal policy. It was also in the lead on the specifics of monetary policy, while sharing the lead with ADB and the World Bank on specific aspects of fiscal policy, such as tax administration and public expenditure management.

68. **The IMF was also the lead agency on exchange rate policy.** For the most part, this entailed a shift from administered exchange rate systems to market-based systems, while setting up currency intervention mechanisms for maintaining the rate or managing the float. Though evaluations have highlighted concerns about IMF exchange rate policy advice from large emerging economies, this has typically not been the case for the comparators, for whom the range of policy changes and technical challenges were more familiar to IMF economists.[54]

69. **Trade policy has been an area of shared responsibility between the IMF and the World Bank.** Historically, there were tensions with the authorities and criticism by civil society of the IMF's and World Bank's approach, which relied on unilateral country actions linked to loan conditionality. In **Viet Nam**, the IMF pushed for unilateral trade reforms that the authorities saw at variance with their multilateral commitments under the WTO, and that was partly why program negotiations broke down in the late 1990s.[55] The IMF subsequently moved away from structural conditionality on trade, as part of its "streamlining initiative." (footnote 27) Since then, the IMF has done little on trade policy, though it has provided TA on customs administration. The World Bank, on the other hand, has continued to advise on trade, as in its ongoing support for customs and trade facilitation efforts in **Lao PDR**. Like the IMF, the World Bank no longer utilizes conditionalities in respect to trade policy reform, relying instead on research, participation in global policy discussions, capacity development, and advocacy as tools to achieve these objectives.[56]

70. **ADB, the World Bank, and other agencies provided support for trade-related activities such as customs modernization, regional integration, and trade infrastructure, with varying degrees of success.** In **Kyrgyz Republic**, ADB supported improved trade logistics, including upgrading priority customs posts and implementing a unified automated information system. Though successful, these efforts solved only part of the problems, which included substantial delays and costs to move goods across the country's poorly maintained infrastructure and insecure borders (footnote 41). In **Lao PDR**, ADB supported regional integration, which had positive results in terms of trade and growth, but which posed challenges with respect to safeguarding the interests of local people and ensuring the environmentally sound use of natural resources (footnote 16). The World Bank supported **Viet Nam** on customs administration, but the authorities canceled

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[54] IMF, 2007b and 2009a.
[55] IMF, 2009b.
[56] World Bank, 2006a.

the project when procurement of foreign consultants proved too time consuming and complicated. Meanwhile, at the regional level, IED found that ADB support to the GMS program contributed to the growth of intraregional trade and improved cross-country connectivity.

4. Financial Sector and Private Sector Development

71. **Dialogue on financial sector reform and private sector development was more difficult**. In **Cambodia**, development partners supported successful reforms to strengthen the banking sector, subjecting banks to a comprehensive regulatory and supervisory regime (footnote 19). In **Mongolia,** the World Bank programs helped restore confidence in the banking system, but did not fully address underlying vulnerabilities, making the financial system prone to future crisis.[57] Both countries (**Cambodia** and **Mongolia**) participated in the IMF/World Bank Financial Sector Assessment Program, a voluntary diagnostic program established in the wake of the East Asia Crisis. The other participant was **Kyrgyz Republic**, where ADB helped through governance reforms, the introduction of deposit insurance, and support to capital markets. The International Finance Corporation (IFC) was also active in the country, via advisory work aimed at developing the leasing and microfinance sectors and improving the mortgage market. In **Uzbekistan**, IFC supported the development of small and medium enterprises and leasing, while ADB limited its policy support and largely avoided credit lines, in light of poor past performance. Evaluation findings suggest that ADB's advisory TA for financial policy produced relevant analysis and advice, but did not consistently achieve its intended outcomes.[58] In both **Uzbekistan** and **Viet Nam**, the World Bank supported improvements in payments systems, when more fundamental reform (including the privatization of state-owned banks) was not on the agenda.[59]

72. **With respect to private sector development, a stalled dialogue with development partners on SOE reforms coexisted with a more developmental agenda on the investment climate.** In **Uzbekistan**, where continued state ownership and interference in the economy remain dominant, ADB, the European Bank for Reconstruction and Development (EBRD), and the World Bank had broadly similar diagnoses, and, in effect, agreed to disagree with the authorities on what to do. In practice, the World Bank set out a "two-track approach" with full or limited engagement, depending on the extent of agreement with the authorities on the direction of reforms.[60] However, IED recently called for ADB to resume lending for private sector activities, pointing to the contribution that such lending could make to ADB's Strategy 2020 goal in this area (footnote 58). In **Viet Nam**, the dialogue with partners focused on the SOE sector, while the private sector remains relatively undeveloped. TA and advice on corporate governance are at a very early stage. IFC investments facilitated the construction and operation of a cold storage warehouse in support of seafood exports, which have been steadily increasing in recent years.

73. In **Kyrgyz Republic**, IFC Advisory Service projects provided TA to the government and the private sector, with a 2009 investment climate project identifying critical regulatory barriers to business entry and operations. Meanwhile, tax administration reform helped the State Tax Service reduce the number of enterprise audits and concentrate its resources on companies with higher tax-evasion risk profiles. IED concluded that ADB's program in

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[57] World Bank, 2006a and 2006c.
[58] ADB, 2011d.
[59] World Bank, 2006c.
[60] World Bank, 2011g.

support of private sector development was likely sustainable, as it helped establish the basic policy, legal, and institutional framework, and governance arrangements required to support a market economy, and there is strong political support for a market-oriented economy (footnote 41).

5. Environment

74. **External support for environmental management evolved in four main stages.** At its simplest and earliest, it involved the inclusion of "do-no-harm" covenants in externally supported projects, in line with institutional safeguard policies on environmental assessment, resettlement, and indigenous peoples. Over time, funding agencies increasingly began to support the articulation and adoption by countries of similar "do-no-harm" policies (and their enactment and enforcement as laws) via lending, policy advice, and analytic work. In a third stage, aid agencies supported the development of strategies for preservation (and possibly restoration) of environmentally sensitive areas. This work was supported by ADB and the World Bank, with smaller projects supported by EBRD, IFC, the United Nations Environment Programme (UNEP) and other UN agencies, and several bilateral donors. The fourth issue is the treatment of tropical forests. Overall, the environment suffered in comparison with macroeconomic management, for example, from the absence of a well-funded, dedicated parent agency for systematically monitoring and reporting on relevant policies and actions. While UNEP's mission covers such work, its limited resources preclude it from doing as much as needed.

75. **Specific evaluations provide country-level illustrations of the evolution of external support:**

(i) In **Afghanistan**, the concept of safeguard policies and requirements for land acquisition and resettlement plans as part of infrastructure projects was new to the authorities. With very limited government capacity, there were numerous problems in accommodating ADB's safeguard requirements, and progress across government agencies was uneven.[61]

(ii) In **Kyrgyz Republic**, ADB's environmental and social safeguards were properly enforced, including implementation of adequate mitigation measures. A shift from a narrow project focus to a broader country-level approach was evident, aimed at ensuring environmentally sustainable economic development through integration of sustainable land management into economic development planning; adoption of sustainable land and water management practices; sustainable tourism development; reduction in vulnerability to natural disasters; reduction of greenhouse gas emissions; and better national capacity in environmental and natural resources management (footnote 41).

(iii) In **Nepal**, ADB supported the development of government policies, going beyond individual projects. These included the National Resettlement Policy Framework, which was drafted under ADB TA and addressed issues of land acquisition, compensation, and resettlement related to project implementation, as well as broader programs to manage the environment and climate change.

(iv) In **Cambodia**, early progress was made (with IMF support from a revenue-

[61] ADB, 2012c.

increasing perspective) to reform the management of tropical forestry. However, illegal logging continued, with the sector's contribution to the budget remaining well below its notional fiscal incidence.[62] Governance weaknesses in the sector remain a major concern (footnote 46). IED also found that ADB had devoted limited attention to environmental protection and management, with the exception of the Tonle Sap Basin Strategy, which aimed to ensure the ecological survival of the Tonle Sap Lake while promoting income generation and environmental protection in one of the poorest and environmentally most sensitive regions of the country.

(v) In **Lao PDR**, ADB and other development partners need to help the government address the environmental and social risks associated with natural resource exploitation such as foreign investment in mining, hydropower, and agriculture, as well as climate change risks, which may compound other risks linked to natural resource management through effects on water resources (footnote 16).

B. Supply-side Sectors (Large and Small)

1. Extractive Industries and Hydropower

76. **IFIs supported the development of major natural resource projects, focusing on environmental, fiscal-management, and fiduciary aspects.** In some cases, bilateral donors also joined to support underlying policy reforms. In **Lao PDR**, the country's major hydropower development (Nam Theun 2) was supported by both ADB and the World Bank. External support for the project brought the management of environmental and social impacts to the forefront. It also helped to substantially increase the government's awareness of environmental and social impacts and mitigation approaches and provided learning experiences to the project's developers and financiers. However, the effectiveness of the program for channeling government revenues into poverty reduction programs remained to be seen, as it had just started (footnote 16).

77. In **Mongolia**, the global economic and financial crisis provided the opportunity for funding agencies to support major policy reforms, for example through the IMF-led stabilization package, with budget support provided by ADB, the World Bank, Australia, India, Japan and the United States, for which the 2010 Fiscal Stability Law was the centerpiece. Support included the drafting of legislation and outreach programs for building consensus around the proposed law. Partners also supported the development of the mining sector, taking into account social and environmental considerations, and the strengthening of the country's public revenues and expenditure management (footnote 36).

78. **In Timor-Leste, development partners supported the setting up of the tax system and the creation of the Petroleum Fund** (footnote 42). The new system of hydrocarbon taxes and revenues was at the center of the World Bank's program, supported by quick-disbursing operations, analytic work, and capacity development projects for the Ministry of Finance and the Petroleum Fund. According to IEG, the World Bank Group's objective was to bring transparency and probity in managing petroleum revenues, to ensure that oil and gas revenues were effectively managed to benefit both present and

[62] During 1995–1998, government revenues from forestry averaged less than 0.5% of GDP, compared with estimated revenue losses of about 4% of GDP due to inadequate resource pricing. Source: IMF, 2004b.

future generations. An internationally competitive petroleum regime was established in 2005. In many respects, the regime set new standards for developing countries in regard to transparency and accountability. It is currently rated as "compliant," the top grade under EITI.

2. Smallholder Agriculture

79. **Smallholder agriculture and rural development attracted support from a large number of agencies.** It was subject to wide swings, dipping on the success of the Green Revolution in the 1990s, and recovering more recently with the international food crisis of 2007–2008. The sector yielded mixed results, in part reflecting differences in country capacities to manage externally supported programs. IEG's recent agriculture evaluation concluded that it is particularly difficult to achieve satisfactory results in poor countries. Good analytic work often contributed to better results.[63]

80. **External support was most successful where the authorities provided strong leadership.** In **Cambodia**, ADB was the lead agency, focusing on broad-based agricultural growth, water resource management, and wetlands management. IED found that support to agriculture and rural infrastructure, despite implementation difficulties in individual projects, paid off in the form of higher yields and extended markets, which in turn were based on a correct analysis of the sector needs, an overall sectoral approach, and proper sequencing at an early stage of the program. In **Viet Nam**, with support from ADB and others, the major increase in inequality that many comparators experienced during their transitions was largely avoided in part through a holistic approach to improving forest, watershed, water, and coastal resources management. The establishment of irrigation facilities indirectly contributed to better water management and flood control, and less soil erosion, aside from increasing crop production. In addition, projects targeted the disadvantaged in terms of remote location, poverty level, and farm size. Concomitant investments in rural roads made it easier for farmers to benefit from improved water resources and access to credit to secure improved inputs and planting material.[64]

81. **External support was less successful when country leadership was lacking.** In **Afghanistan**, the World Bank and other development partners contributed to an improved understanding of Afghanistan's water resources, mainly through the multisector study of the Kabul River Basin. But aid agencies missed the opportunity to lay out a strategic road map that might have enabled a more coherent approach for external support. Judgment about client ownership and capacity led to avoidance of this sector for many years, even though a more recent change in leadership had opened new opportunities. In **Nepal**, IED found little to show for ADB's continued support for agriculture over four decades, though it did commend the focus on excluded regions with the highest incidence of poverty.[65] IEG, meanwhile, found that the World Bank had done little analytic work on the sector, which limited the possibility of positive impact on policy dialogue and lending. The deteriorating political environment and the weakening commitment to reforms had limited aid agencies' ability to provide effective support, despite the sector's importance for poverty reduction. In **Timor-Leste**, IEG rated World Bank support as unsatisfactory. It concluded that agriculture had not received the external support it deserved, given its importance in the economy and the preponderance of poverty in rural areas.

82. **In Kyrgyz Republic and Uzbekistan, the focus was primarily on water**

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[63] World Bank, 2011a.
[64] ADB, 2009c.
[65] ADB, 2009b.

resources management, and the external contribution was mixed. In **Kyrgyz Republic**, aid agencies focused on irrigation, with ADB and the World Bank partnering on the rehabilitation of on-farm irrigation, pasture management, and strengthening of water user associations. ADB had initially focused on land privatization, market liberalization, extension service development, and irrigation modernization. But it subsequently switched to commercialization, diversification of agricultural production, environmental sustainability, and export promotion and then abruptly withdrew in 2009. Policy reform and area development programs were fairly successful in meeting their objectives, while efforts to reform the Ministry of Agriculture were not. Nor were efforts to foster agricultural commercialization. While the government showed consistent commitment to the restructuring of inefficient large farms and the establishment of water user associations, a number of enterprises that had been privatized with ADB support subsequently collapsed. In **Uzbekistan**, several development partners (including ADB) focused on irrigation and drainage, and provided institutional, policy, and sector analyses for the promotion of water user associations. The World Bank focused on diversification out of cotton into higher-value crops such as fruits and vegetables and livestock, and on improving yields.

83. **Some partners assisted agriculture indirectly through rural finance and microcredit interventions, though opportunities for synergies were often missed.** The agriculture sector gained when beneficiaries used the provided resources for rehabilitation of rural roads, irrigation channels, purchase of livestock, and similar activities (footnote 63). IEG stressed the importance of coordination between such financial sector interventions and agriculture lending, juxtaposing the obvious potential synergies between them against the weak internal coordination across World Bank units. Microcredit operations were found to have a wide range of objectives (e.g., reducing vulnerability and securing sustainable livelihoods for targeted populations in **Afghanistan**, increasing access to income generation projects or infrastructure for certain groups in **Nepal)** but a repeated failure to connect the dots with other sectors. The **Viet Nam** Rural Finance Project paid little attention to the capacity of agricultural support services and its implications for the quality of portfolio or project outcomes. Nor, at the strategic level, did the World Bank's Viet Nam agricultural strategy pay much attention to the role of rural finance.

3. Public Spending on Infrastructure and Human Development

84. **Evaluations of external support for infrastructure highlight growth and inclusiveness benefits, as well as environmental costs and risks to indigenous people.** In **Kyrgyz Republic**, ADB's road corridor projects contributed to improvements in domestic connectivity and a reduction in international isolation, which were identified as major accomplishments and key sector objectives (footnote 41). The Bishkek-Osh road reduced the isolation of the south, where many ethnic minorities live. Rapid growth and income generated from transit trade or reexport of goods from the People's Republic of China (PRC) to neighboring countries would not have been possible without the ADB-supported transport corridors. However, sustainable maintenance of the road network was not given sufficient attention, especially given the frequency of natural disasters.

85. In **Lao PDR**, ADB's transport assistance focused on growth more than inclusiveness, and was characterized by substantial environmental risks as well as risks to indigenous peoples. According to IED's evaluation of the GMS program, ADB focused on the improvement of national roads and highways connecting international borders, rather than on provincial and rural projects that would improve access to remote areas within the country. The upgrading of roads facilitated illegal logging, with the associated deforestation linked to demand from PRC, Thailand, and Viet Nam for hardwood logs and

lumber (footnote 44). In the Lao CAPE, IED concluded that continued attention to social safeguards is critical for the success of infrastructure projects. In particular, more attention needs to be paid to monitoring impacts on indigenous people and planning mitigation. Road projects have the potential to worsen inequality among ethnic groups, as benefits may not accrue equally. While the impact of ADB's transport sector assistance was assessed as satisfactory, more time is needed for project benefits to be captured by rural residents. Complementary interventions are essential for economic benefits to be captured, as the country is very susceptible to adverse impacts on the environment and indigenous people.

86. In **Timor-Leste**, ADB focused on the transport sector for growth, connectivity to isolated rural areas, and capacity development, though not all objectives were achieved, especially on the TA front. IEG, meanwhile, criticized the World Bank for not doing more in the sector, arguing that the World Bank's strategy was too heavily weighted towards new policies and laws that were not fully implemented—at the expense of investments in infrastructure, which was deterring private sector development (footnote 42).

87. In **Viet Nam**, adequate environmental mitigation measures were incorporated in ADB projects (footnote 64). However, active monitoring of contractors' compliance should be given more emphasis during project implementation, as poor compliance with environmental safeguards was an issue. With respect to resettlement issues, subsequent measures were undertaken to ensure that project-affected persons were provided with appropriate resettlement facilities and compensation. Proper attention was also accorded to the welfare of indigenous peoples through the formulation of action plans to ensure that they would not be adversely affected by the projects. Social concerns were also incorporated in the design of road projects through the inclusion of mitigation measures (foonote 64).

88. In **health** and **education,** aid agencies focused on supporting programs to expand access (according to gender, physical remoteness, and/or exclusiveness) and improve quality (learning in education and improved morbidity and mortality in health). More so than in infrastructure, SWAPs (in **Cambodia**, **Kyrgyz Republic** and **Nepal**) provided a basis for partners to jointly support government programs, and end the proliferation of agency-specific project implementation units and procurement and financial management rules (Box 6). Partners worked with civil society organizations (in **Afghanistan**, **Cambodia**, and **Nepal**) on program execution, especially in remote areas and during periods of insurgency when civil society organizations were better able to maintain direct contact with local communities.

Box 6: Kyrgyz Republic's Health SWAp: Good Practice Lessons from Evaluation

A recent IEG study of SWAPs in the health sector reviewed evaluation evidence from six countries (Bangladesh, Ghana, Kyrgyz Republic, Malawi, Nepal, and Tanzania.) It provided a number of lessons and identified good-practice approaches, most of which were found in the Kyrgyz Republic SWAp. More specifically, the review identified good pre-conditions and solid preparation as essential for success. First, the Kyrgyz Republic developed—*prior* to the SWAP—strong M&E capacity and results focus, which promoted a good balance between implementation and results. Second, the financial management systems set up under the SWAP were marked improvements over existing public finance and disbursement systems and ultimately influenced public finance reform. These systems, however, took considerable time to develop and become functional, in most cases causing important implementation delays.

Source: World Bank. Working Paper 2009/4:Do Health Sector-Wide Approaches Achieve Results? Emerging Evidence and Lessons from Six Countries. Denise Vaillancourt.

89. **External support for social protection systems is fairly recent.** Historically, development partners provided emergency relief in the wake of natural disasters. However, the increasing frequency of natural disasters and economic crises in the last two decades has shifted attention upstream, from recovery to prevention. Partners have accordingly been giving greater emphasis to reducing vulnerabilities and risks. In **Kyrgyz Republic**, ADB initiated innovative disaster risk reduction support through a Japan Fund for Poverty Reduction grant to help the poor prepare for natural disasters. This was a first step aimed at building the institutional capacity of the government and local communities to minimize the risks of natural disasters. Civil society and other development partners were extensively engaged (footnote 41). In **Viet Nam**, ADB supported the provision of security against "sudden or chronic risks," by which the poor and marginalized were the most affected, covering food security and vulnerability to natural disasters, especially flooding (footnote 64).

90. **The recent global food, fuel, and financial crises further heightened comparator and partner interest in social protection systems.** As with the management of disaster risks, the focus is increasingly on putting in place the necessary systems for targeting the vulnerable to assist them quickly, in time of crisis. **Mongolia** provides a good example of productive cooperation between ADB and the World Bank to support the government's passage of a Social Welfare Reform Law and through joint budget support during the global economic and financial crisis.[66] These activities built on the support that ADB had earlier provided in 2001, incorporating targeting mechanisms for providing employment and essential social security services to the elderly, disabled, unemployed, and underemployed.

C. Public Administration

91. **Evaluations have focused on two key aspects—capacity development and anti-corruption.** Successes have been rare, due to overreliance on international consultants, too much focus on the drafting rather than enforcement of laws, overly ambitious and complex interventions, and too little focus on results.

92. **TA achieved little of the capacity development it aimed for, partly because the underlying goals were too ambitious and complex for the conditions on the ground.** In **Afghanistan**, ADB support was not embedded in a country-led vision for capacity development, nor a clear strategic plan and, as a result, took much longer than planned. The TA focus was on training, using international consultants (often with unclear terms of reference, language requirements, and accountabilities) and project implementation units, rather than strengthening local training institutions (footnote 61). Results were also disappointing for World Bank TA. Though IEG credited the World Bank for the injection of highly skilled Afghan consultants, on-the-job mentoring of local staff, and training courses through the Afghanistan Civil Service Institute, it also found that the institution had not been able to address key capacity constraints in line ministries and subnational authorities. With respect to corruption, the lack of parliamentary approval for external audit independent of the executive, coupled with the lack of prosecutorial support from the attorney general, left serious weaknesses in the accountability framework that worsened corruption (footnote 20).

93. In **Timor-Leste**, there were both positive and negative examples. On the positive side, narrowly focused TA by the IMF was found to contribute to the establishment of a

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[66] ADB, 2012b.

working fiscal system prior to Independence. However, the pace of reform slowed afterward, reflecting the limited capacity of local staff and the waning availability of suitably qualified international experts.[67] On the negative side, examples from both ADB and the World Bank showed a lack of appreciation of conditions on the ground. ADB's extensive TA for infrastructure established milestones that were far too ambitious for the country's limited capacity (footnote 38). IEG, meanwhile, faulted the World Bank for its concentration on the drafting of laws compared with enforcement, reflecting the absence of a results focus in the World Bank's program, which had been designed without a needs assessment or monitorable strategy. IEG also noted a *de facto* neglect for training, as consultants focused primarily on line management and/or high-level advisory functions, with the training of staff was treated as a low priority (footnote 42).

94. In **Nepal**, ADB tried to help reform governance and strengthen anticorruption measures with TA supporting the drafting of legislation on anticorruption, procurement, and public financial management. However, the weakness was in the effective implementation of these laws due to large capacity gaps, including in the judiciary. Political instability created further difficulty in addressing weak governance and corruption (footnote 43).

95. **Evaluation findings point to different dimensions of country ownership in effectively translating TA into capacity.** In **Cambodia**, the IMF provided TA to two closely related sectors, by teams with similar levels of competence, but with very different results[68] (Box 7).

Box 7: Technical Assistance in Cambodia: A Tale of Two Sectors

Technical assistance (TA) provided to the banking sector and for economic statistics was found to be successful, whereas the assistance provided to the fiscal sector was more problematic. The Independent Evaluation Office examined the factors that influenced these different outcomes, and drew the following lessons:

- Political will is a necessary condition for successful TA. Without it, any effort will most likely fail. It is therefore necessary to closely monitor the authorities' will and to be clear and transparent when it is lacking.
- Without a minimum degree of stability and competitive salaries in the civil service, the impact of TA will constantly be undermined by high turnover and a slow transfer of knowledge.
- Greater aid coordination is necessary to avoid contradictory advice, excessive administrative burdens, and excuses for lack of results.
- To enhance ownership, local officials, particularly those in charge of implementation, should be informed *ex ante* about the rationale of proposed recommendations. This is especially challenging and important where communication within ministries is inadequate.
- Cambodia's experience suggests that long-term experts should ideally have both managerial skills and bureaucratic experience.
- Close coordination with development partners should aim for a fully funded package where TA recommendations are paired with externally provided resources for implementation.
- It is desirable to create a system to monitor the progress of TA in a continuous and consistent manner. Cambodia's experience shows that close monitoring was associated with better implementation and more productive local officials.

Source: Independent Evaluation Office of the International Monetary Fund.

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[67] IMF, 2004a.
[68] IMF, 2005a.

96. In **Kyrgyz Republic**, ADB's lack of sufficient attention to institutional capacity or its development in the rural water and sanitation sector resulted in overambitious and poorly sequenced sectoral reforms and project designs (footnote 41). In **Mongolia,** the importance of "sizing" institutional reforms to local conditions was highlighted. Where complexity cannot be avoided, it is best to pursue a learning-by-doing approach designed to build ownership and understanding.[69] ADB supported the adoption of an overly ambitious public sector management reform that was neither owned by the country nor adequately prepared by ADB. The advanced nature of the reforms and the lack of capacity to implement them led to mixed progress. In **Uzbekistan,** ADB TA was effective in producing planned outputs (i.e., reports, training, etc.), but much less effective in translating them into intended outcomes (in terms of actual policy changes). IED concluded that, going forward, ADB should restrict TA to areas that are clearly demand-driven and should maintain a close relationship with the government, avoiding pushing for reforms in areas where the government's interest and commitment are lacking (footnote 58).

97. **Attention to corruption has increasingly focused on country public financial management (PFM) and procurement.** Initially, development partners addressed corruption concerns primarily through the "ring-fencing" of projects, ensuring that their own projects met the highest standards of probity while paying relatively less attention to the quality of country systems. This changed as partners began to see corruption as a broader development issue. This change in thinking was also behind the introduction of the SWAP, which relies primarily on common country systems rather than individual (and often differing) partner reporting systems. In **Viet Nam**, the World Bank currently plans to mitigate project implementation risks through capacity development for PFM and procurement (footnote 22). Similarly in **Cambodia**, ADB's revised approach to governance focuses on PFM, procurement, and combating corruption using program-based approaches to coordinate with the government and other development partners as much as possible (footnote 46).

98. But all is not well. In the **Kyrgyz Republic**, ADB sought to strengthen the government's capabilities in procurement, financial management, and disbursement. Manuals produced under these activities are still in use, and the current Procurement Law draws substantially from these materials. However, actual procurement practices continue to suffer from limited checks and balances (footnote 41). In **Lao PDR**, ADB tried to address governance issues at the sector level, improving project-related procurement and financial management. In addition, a series of TAs were provided to develop capacity in fiscal management and audit. But, without addressing and tackling other fundamental governance issues (e.g., poor public administration and weak capacity at the subnational level), a gap remained between recognizing a challenge and actually delivering effective strategies to deal with it (footnote 16).

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[69] ADB, 2008b.

CHAPTER 6

Conclusions

A. Country-level

99. **The review points to four building blocks of an accelerated, inclusive, and sustainable growth strategy:** (i) setting a clear vision or path towards sustainable growth; (ii) minimizing losses and leakages from policy distortions, corruption, environmental abuse, and conflict; (iii) protecting vulnerable groups; and (iv) nurturing capacity to do the above. The review also highlights the importance of connecting the dots between growth and the environment, inclusiveness and conflict prevention, and policy distortions and corruption, with the importance of capacity as an overarching issue.

1. Setting a Clear Vision or Path towards Sustainable Growth

100. **Comparators' experiences suggest that formulating a clear vision for the economy, especially with respect to the roles of agriculture, industry, and the exploitation of natural resources, is a critical transition step.** The policy path towards this vision should include sound economic policies, including the locational and functional allocation of public spending for infrastructure and human development, and sound public administration.

101. **The scale of Myanmar's mineral endowment will play a critical role in determining the economy's future structure and the pace of its agricultural-urban transformation.** In this context, it will be useful for Myanmar to know whether its prospects are more like those of Lao PDR, Mongolia, and Timor-Leste, or more like Afghanistan, Cambodia, and Nepal or somewhere in between. In resource-rich comparators like **Lao PDR, Mongolia**, and **Timor-Leste**, higher income levels are likely for many years, with few direct employment opportunities in those sectors. Job creation will come mostly from the investment of natural resource proceeds in industry and services. Hence, the transformation path will involve accelerated investments in the industry and service sectors and accelerated migration out of agriculture. **Mongolia** has already seen an accelerated move to the industry and service sectors, driven by the mass exodus from the rural sector in the face of environmental collapse. In **Timor-Leste**, given the absence of industrial development, the transition process will be slower, as the building blocks for its transformation are put into place.

102. In low-income and natural resource-poor comparators like **Afghanistan**, **Cambodia**, and **Nepal** with large agriculture sectors, the pace of transformation will likely be much slower, as there will be less wealth available for recycling from agriculture into other sectors. Agriculture's greater ability to absorb labor means that outmigration will have to be carefully managed to prevent the building up of disaffected unemployed in urban areas. In turn, this means relatively greater investments in rural infrastructure and safety nets. Finally, in comparators with medium-sized natural resource endowments and moderate-sized agriculture sectors that have already experienced considerable out-migrations, like **Kyrgyz Republic**, **Uzbekistan**, and **Viet Nam**, the pace of the transformation can be faster, with the agriculture sector playing an increasing safety-net function.

103. **Once the Myanmar economy's likely future structure is clearer, the policy road map for getting there needs to be set out and followed.** Key elements include (i) macroeconomic policies, and (ii) the rural-urban mix of public spending on infrastructure and human development. In addition to being important for stabilization, macroeconomic policies are key drivers of the economy's structure through their effects on aggregate spending and absorption levels, and in turn on the real exchange rate and the mix between traded and nontraded goods. Such a perspective, based on an analysis of future natural resource prospects, underpins **Lao PDR's** Seventh National Socio-Economic Development Plan. A second lesson for mineral producers is the importance of insulation from volatile commodity price movements, as **Mongolia's** experience with the global financial and economic crisis and its subsequent creation of a stabilization fund illustrate. Finally, policies and laws are important, but without supporting infrastructure, won't get very far as demonstrated in **Timor-Leste**, where the World Bank concentrated on the formulation of policies and the drafting of new legislation, while the private sector response was stalling in the face of critical infrastructure deficits in power and transportation.

2. Minimizing Losses and Leakages

104. **Comparators' experiences underline the large costs of policy distortions, corruption, environmental abuse, and conflict.** The most common policy distortions relate to SOEs and problems in the financial sector, which have been major sources of corruption. These are interrelated, with many of the problems of the financial system related to bad loans to the SOE sector in **Uzbekistan** and **Viet Nam**. These distortions provide a fertile ground for corruption, which has been an issue in all comparators, reducing economic activity and diverting resources from the public sector, often through abuse of public procurement and financial management processes.

105. **More progress was achieved on the drafting of laws than their enforcement. This was the case not only for procurement and financial management, but also for the environment.** Abuse of the environment (especially illegal logging and wildlife trafficking) is a major source of distortion and corruption, resulting in large welfare losses, much of it irreversible damage associated with flooding, loss of biodiversity, and climate change. **Uzbekistan** (along with its neighbors) still suffers from the irrigation and fertilization policies of the Soviet era. **Cambodia** and **Lao PDR** are losing forest cover at an alarming rate, mortgaging future revenues, often at the expense of the poorest, who depend on forest resources for their food and firewood. **Viet Nam**, in contrast, has seen sharp increases in forest cover from investments in both plantations and natural forests, as the authorities have sought to repair the damage to the nation's forests from the conflict with the United States.

106. **Civil conflict and violence tend to be lose-lose propositions. Often arising out of economic, political, and social disaffection, they point to the desirability of inclusive growth strategies as investments in social stability.** While the **Afghanistan** situation is extreme, the key elsewhere is not to let potentially volatile situations unravel, including social disaffection of minorities and excluded groups and abuses of public probity and accountability. In **Nepal**, the lack of opportunity for advancement in rural areas contributed to endemic poverty, leading to conflict (footnote 43). In **Timor-Leste**, rapidly expanding youth cohorts with high unemployment and little education were seen as a rising threat to peace and stability and were a factor in the eruption of violence and civil strife in 2006. Continuing high unemployment rates, especially among the youth, remains a threat to social stability (footnote 42).

3. Protecting and Providing for Vulnerable Groups

107. **There are two main target groups for protecting the vulnerable: (i) the chronically vulnerable, and (ii) the episodically vulnerable.** Targeted provision of public services is an important vehicle for providing for the chronically vulnerable. Comparators' experiences suggest that accelerated growth will reduce poverty but increase inequality, as urban incomes race ahead of rural incomes, while the poorest, typically living in rural areas, will fall increasingly behind. The decline in poverty (coupled with rising inequality) has been stronger in comparators with better natural resource endowments and stronger industrial prospects. In such countries, agriculture and the rural economy will increasingly play a safety net role, where infrastructure and social services are directed at those left behind, as in **Mongolia** and **Viet Nam**.

108. **Meanwhile, the increasing frequency of natural disasters and economic shocks has heightened interest in social protection to help those episodically impacted.** The focus should be increasingly on prevention and preparation, putting in place necessary systems for targeting the needy, so that they can be helped as quickly as possible. The experience of comparators in dealing with crises has varied, in part reflecting the different kinds of risks. In terms of natural disasters, **Kyrgyz Republic** is the most prone, followed by **Viet Nam** and **Uzbekistan**. While they have taken a number of steps, more needs to be done. On the economic side, **Cambodia**, **Mongolia**, and **Viet Nam** were hit the hardest by the global economic crisis through their export markets, while **Nepal** suffered from the food crisis. Many countries, especially those with higher income levels, have some form of targeted safety net program for responding to crises. Interest in such programs has been spreading to low-income countries. However, development of cost-effective externally supported safety-net interventions is still in the early days, especially in fragile states and low-income countries with limited capacity.

4. Nurturing Capacity

109. **The policies and programs discussed above require capacity to design and execute. Developing such capacity requires a clear results focus, underpinned by hands-on management and high-level attention.** Recurring evaluation findings show that enforcement and implementation capacity is the Achilles heel of effective transition in most comparators, whether for the environment in **Lao PDR**, or private sector development in **Timor-Leste**, or procurement and financial management systems in **Kyrgyz Republic**. Diagnostic findings have in turn focused on the interrelated issues of (i) individual competence, (ii) adequate remuneration of civil servants, and (iii) clear accountabilities.

B. Aid Agencies

110. **For development agencies, none of the evaluation findings reviewed for this paper are new.** But there are several new insights on ownership, partnership, and capacity development. Country ownership has long been emphasized as a key feature of aid effectiveness. The evaluations reviewed suggest that good funding agency practice involves support for the building of such ownership through the generation and dissemination of customized knowledge and related analytical work, while being mindful of underlying political economy constraints.

111. **Aid coordination can be served by such investments in knowledge and analytical work along with a more visible hand of the authorities.** In so doing it is essential to minimize the burden of aid on the authorities and to maximize its effectiveness, given the numbers of agencies likely to be involved in Myanmar. This will require more

substantive approaches to aid partnerships allowing for the resolution of differences (and decision-making about the way forward) when individual agencies may not agree. This points to two critical ingredients: (i) analytical work to develop sectoral/thematic road maps that all external agencies (and the authorities) can work from, and (ii) the "visible hand" of the authorities to make decisions when external agencies cannot agree among themselves. The ideal scenario would be in-depth engagement by the authorities in all aid work for which coordination is needed. But that may be unrealistic for Myanmar at the outset of its reengagement. In such circumstances, funding agencies should push for high-level access for decisions as needed, when they cannot reach consensus among themselves on particular issues.

112. **Enhanced country ownership and aid coordination are also essential for improving TA effectiveness. But even more important are better diagnostics and design.** Evaluations of TA and other capacity development programs point to several weaknesses, including overly ambitious goals and milestones, excessive reliance on international consultants, unclear accountabilities, and too much attention to the drafting of legislation and regulations and not enough to enforcement capacity and incentives. TA effectiveness was often weakest in the most fragile comparators, linked to a lack of ownership, lack of aid coordination, lack of consistency across sectors, lack of a clear strategy for capacity development coupled with a clear results orientation, lack of top-level commitment, and lack of follow-though. Going forward, a back-to-basics approach is needed starting with (i) diagnostic work on the key problems, their underlying causes, and the options for solving them; and (ii) a clearly articulated results monitoring system such as external agencies would use for other kinds of support.

113. **The final conclusion of the review emerges from the process followed in carrying it out, which involved an examination of different aid agencies' evaluations, mostly at the country level.** A by-product of the process is a greater appreciation of the many evaluation gaps that exist between different agencies' evaluations, all of which focus on what a particular agency did rather than what it did not do. This is fine from an aid agency perspective, as most evaluations are designed as tools of accountability and learning for external agencies. But such an approach falls short for informing the authorities on how well the totality of external programs in the country is meeting country needs. Indeed with current evaluation instruments, it is impossible for the authorities (or anyone) to know if the whole of the aid effort adds up to more than the sum of its parts. In the past, evaluators in funding agencies experimented with joint evaluations, which to some extent served this purpose. But they did not pursue them enthusiastically for reasons of cost. The increasing emphasis on country ownership and country systems suggests that the time may have come for the evaluation community to relook at possible instruments and modalities for evaluating country programs from a country perspective.

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