



The World Bank

Myanmar Financial Sector Development Project (P154389)

REPORT NO.: RES37749

RESTRUCTURING PAPER
ON A
PROPOSED PROJECT RESTRUCTURING
OF
MYANMAR FINANCIAL SECTOR DEVELOPMENT PROJECT
APPROVED ON DECEMBER 20, 2016
TO
MINISTRY OF PLANNING, FINANCE AND INDUSTRY

FINANCE, COMPETITIVENESS AND INNOVATION

EAST ASIA AND PACIFIC

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ABBREVIATIONS AND ACRONYMS

CBM	Central Bank of Myanmar
CPF	Central Provident Fund
EEP	Eligible Expenditure Program
FRD	Financial Regulatory Department
IPF	Investment Project Financing
MFSDP	Myanmar Financial Sector Development Project
MOPFI	Ministry of Planning, Finance and Industry
OAGM	Office of the Auditor General of the Union



BASIC DATA

Product Information

Project ID P154389	Financing Instrument Investment Project Financing
Original EA Category Not Required (C)	Current EA Category Not Required (C)
Approval Date 20-Dec-2016	Current Closing Date 30-Jun-2021

Organizations

Borrower Ministry of Planning, Finance and Industry	Responsible Agency The Republic of the Union of Myanmar, Central Bank of Myanmar
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Project Development Objective (PDO)

Original PDO

To expand access to finance in Myanmar and, in the event of an Eligible Crisis or Emergency, to provide immediate and effective response to such Eligible Crisis or Emergency.

Summary Status of Financing

Ln/Cr/Tf	Approval	Signing	Effectiveness	Closing	Net Commitment	Disbursed	Undisbursed
IDA-59300	20-Dec-2016	11-Apr-2017	27-Jun-2017	30-Jun-2021	100.00	16.38	83.81

Policy Waiver(s)

Does this restructuring trigger the need for any policy waiver(s)?

No



I. PROJECT STATUS AND RATIONALE FOR RESTRUCTURING

1. This Restructuring Paper seeks your approval for a level 2 restructuring to:
 - Expand the list of the Eligible Expenditures Program (EEPs);
 - Extend the project closing date by eighteen months, from June 30th, 2021 to December 31st, 2022; and
 - Change the Financial Management Arrangement to extend the deadline of audit report from six months to nine months.
2. The Myanmar Financial Sector Development Project (MFSDP) was approved on December 20th, 2016 and became effective on June 27th, 2017. The project has five main components: (i) Reform of State-Owned Banks; ii) Upgrading of the Financial Sector Legal, Regulatory and Supervisory Framework; iii) Modernization of CBM and Financial Infrastructure; iv) Project Coordination and Monitoring, and v) Contingent Emergency Response. The total amount of the IDA credit is US\$100 million, of which US\$60 million go towards disbursement-linked indicators and US\$40 million go to input-based financing.

Project Status

3. After a slow start, the Ministry of Planning, Finance and Industry (MOPFI) and the Central Bank of Myanmar (CBM) have made substantial progress in reforming the financial sector. Moreover, they are on-track with achieving the planned milestones under the Disbursement Linked Indicators (DLIs). Indeed, two years into the project effectiveness, the DLI milestones for the first year have been fully met and the second year's DLI milestones are close to being fulfilled. Specifically, the authorities have implemented important reforms by upgrading the financial sector legal and regulatory framework and moving towards the restructuring of the State-Owned Banks. In addition to the policy changes, CBM has also utilized FSDP funding to modernize financial infrastructure.
4. The project went through the mid-term review in November 2019, which revealed important progress towards the achievement of the PDO, and thus it has been reflected in the satisfactory rating on the PDO achievement in the most recent Implementation Status and Results Report (ISR). This revision reflects the important strides that have been made in the reform of the financial sector, especially as relates to the reform of state-owned banks and the modernization of the CBM operations, as reflected in the component ratings. Since the last update the MOPFI has adopted the State-Owned Banks Governance Policy and also substantially advanced discussions on the draft business plan for the retail bank. The CBM has successfully concluded a high-value procurement acquiring currency machines that will substantially modernize CBM operations. And it has also satisfactorily moved ahead on the procurement of a retail payments infrastructure to lower the transactions costs associated with small value payments.
5. However, there are issues with overall implementation of the project that were identified during the mid-term review. These challenges have been reflected in the lag in the disbursement ratio, and hence the overall implementation progress is still rated moderately satisfactory as per the most recent ISR. Specifically, the mismatch of the fiscal year endings and MOPF financial rules have made it a challenge for the MOPF to withdraw funds that have been deemed eligible under the DLIs in a timely manner. And this accounts for the lag in the disbursement ratio of the project even as the progress towards project objectives is satisfactory.

Rationale for Proposed Restructuring



6. The proposed extension would be the MFSDP's first extension. While the project made some good progress on several fronts, the discussions during the recent mid-term review focused on the project's disbursement lag and the proposed solutions to the issue, namely to expand the EEP and to extend the project's closing date by eighteen months.
7. In addition, MFSDP as well as other projects in the Myanmar project portfolio have a recent history of late submission of audit reports. Challenges with respect to the compliance with the six-month requirement for submission of audit reports arise in Myanmar largely on account of the need to align with country systems, delays due to low capacity and/or complexity of implementation arrangements. There are also other challenges apart from financial statement preparation which are impacting on compliance with the six-month requirement for submission of audit reports:
 - (a) The current practice of the OAGM is not to commence any audit work on the project financial statements until after the project implementing agency has submitted them for audit and then they complete detailed transaction testing of up to 100 per cent;
 - (b) The current OAGM practice of only producing audit reports in the Myanmar language. The financing agreement requires that the audit reports be in English. This has meant that the implementing agencies have needed to get their audit reports translated and then have the translated English version certified by the OAGM which has resulted in further delays¹; and
 - (c) The OAGM capacity is becoming increasingly stretched. This is because of a combination of a broadening of the OAGM's mandate to include performance audit, increasing demands from other development partners to audit their projects financial statements and recruitment difficulties due to competition from the private sector.
8. From the past record, the project implementing agency has been able to submit the audited financial statements within a 2 to 3-month period after the current six-month deadline. Therefore, the proposed extension of the deadline to nine months after the end of the financial year should ensure the project financing agreements covenant for submission of audit reports will be fully complied with.

II. DESCRIPTION OF PROPOSED CHANGES

9. **Expansion of the Eligible Expenditures Program (EEPs):** The mismatch of the fiscal year endings and MOPFI financial rules have made it a challenge for the MOPFI to withdraw funds that have been deemed eligible under the DLIs in a timely manner. And this accounts for the lag in the disbursement ratio of the project even as the progress towards project objectives is satisfactory. As a solution it was proposed that the EEPs be expanded to include the MOPFI's annual contribution to pensions. This item was in the list of EEPs during project preparation but was dropped later.
10. The Government of Myanmar has recently decided to set up the Central Provident Fund (CPF), to which it will contribute annually, and is an important step forward from the current unfunded model, with important implications for civil service reform and the fiscal transparency. The previous model of paying pensions from the state budget to all government employees, including teachers, was unsustainable as the number of retirees increases. Currently, the government plans a number of reforms to enhance the financial sustainability of system, including setting up the CPF. Therefore, expanding the EEPs to include the Government's contribution to the CPF is essential to ensure the CPF becomes functional and truly effective as soon as possible.

¹ This has not impacted on the audit report delays as Financial Management has reviewed and updated PRIMA on the date the Myanmar language version has been received. However, the formal acknowledgement letter has only been sent to the implementing agencies on receipt of the OAGM certified English version of the audit report.



11. **Extension of closing date:** to make up for the lag in the initial months of project implementation and to ensure that the current momentum is sustained to be able to conclude all planned activities the MOPFI/CBM have requested an extension of the closing date by 18 months, from June 30th, 2021 to December 31st, 2022.
12. **Extending the audit report deadline from six months to nine months:** In the light of the prevailing country practices/conditions and with the objective of maintaining full alignment with the country systems, the extension of the timeline of the submission of the audit reports for the Myanmar project portfolio to nine months starting with audit reports due for FY2020 is required. Reference is also made to the meeting between the Recipient's Deputy Minister, Ministry of Planning, Finance & Industry and representatives of the World Bank on February 5, 2020, where the Recipient requested that the World Bank extend the due date of the audited financial statements for various investment lending projects including MFSDP from six (6) months to nine (9) months after the end of the Recipient's fiscal year.

III. SUMMARY OF CHANGES

	Changed	Not Changed
Loan Closing Date(s)	✓	
Disbursement Estimates	✓	
Financial Management	✓	
Implementation Schedule	✓	
Other Change(s)	✓	
Implementing Agency		✓
DDO Status		✓
Project's Development Objectives		✓
Results Framework		✓
Components and Cost		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Overall Risk Rating		✓
Safeguard Policies Triggered		✓
EA category		✓
Legal Covenants		✓
Institutional Arrangements		✓



Procurement		✓
Economic and Financial Analysis		✓
Technical Analysis		✓
Social Analysis		✓
Environmental Analysis		✓

IV. DETAILED CHANGE(S)**LOAN CLOSING DATE(S)**

Ln/Cr/Tf	Status	Original Closing	Revised Closing(s)	Proposed Closing	Proposed Deadline for Withdrawal Applications
IDA-59300	Effective	30-Jun-2021		31-Dec-2022	30-Apr-2023

DISBURSEMENT ESTIMATES

Change in Disbursement Estimates

Yes

Year	Current	Proposed
2017	0.00	0.00
2018	2,789,032.00	2,789,032.00
2019	17,000,000.00	17,000,000.00
2020	32,000,000.00	25,000,000.00
2021	20,000,000.00	25,710,968.00
2022	28,000,000.00	29,500,000.00