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McNamara Papers

Contracts
Burma (1968-1981)

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A1993-012 Other #: 3

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Contacts with member countries: Burma - Correspondence 01

BURMA

1. 10/1/68 U Kyaw Nyein, Chairman, Union Bank of Burma
U Chit Moun, Secretary, Ministry of Finance and Revenue
2. Lt. Col. Myint Aung
2. 10/1/69 U Kyaw Nyein, Chairman, Union Bank of Burma
3. 10/2/72 U Lwin, Minister of Planning and Finance
U Kyaw Nyun, Chairman, Union Bank of Burma
U Maung Maung Hla, Chief Economist, Union Bank of Burma
4. 9/26/73 U Lwin, Minister of Planning and Finance
(Nairobi) U Kyaw Nyun, Chairman, Union of Burma Bank
U Hla Maung, Director-General, Planning Dept., Ministry of Planning and Fin.
U Aye Hlaing, Rector, Institute of Economics, University of Rangoon
5. 10/4/74 U Lwin, Deputy Prime Minister and Minister of Planning and Finance
U Chit Moun, Deputy Minister of Finance
U Kyaw Nyun, Chairman, Union of Burma Bank
U Soe Saing, Director, Foreign Economic Relations Dept., Ministry of Planning and Finance
U Maung Maung Hla, Executive Director, Union of Burma Bank
U Maung Shein, Adviser to the Executive Director (Fund)
6. 11/2- Prime Minister U Sein Win
11/4 1976 Deputy Prime Minister U Lwin
(Rangoon) ~~Minister of Mines~~ U Maung Maung Kha
11/2 Minister of Agriculture and Forests U Ye Goung
Minister of Transport and Communications Colonel Sein Lwin
Minister of Industry Colonel Maung Cho
- Leeinzu U Ba Myint, Chairman, Maubin Party Unit
(11/2) U Hla Tin, Assistant Engineer, Irrigation Department
U Ba Zan, Assistant Engineer, Irrigation Department
U Hla Myint Oo, Divisional Manager, Agricultural Corporation
U Tin Hlaing, Divisional Manager, Agricultural Corporation
U Saw Hla, Township Manager
- Shwelaung U Khin Maung Than, Chairman, Wakema Party Unit
(11/2) U Thein Han, Executive Engineer, Irrigation Department
U Mya Thaung, Township Manager, Agricultural Corporation
U Hla Than, Project Manager, Agricultural Corporation
- Rangoon President Ne Win
(11/2)
- Rangoon U Lay Maung, Managing Director, Gems and Jewellery Corporation
(11/3)
Dr. Maung Shein, Deputy Minister of Planning
Dr. Aye Hlaing, Chairman of the Union of Burma Bank
U Hla Maung, Director General, Planning Department

7. 11/1-3/76 RMcN Notes (*Filed in RMcN office*).
8. 9/28/77
(Annual Meeting)
H. E. Dr. Maung Shein, Deputy Minister for Planning & Finance
U Aye Hlaing, Chairman, Union of Burma Bank
U Hla Maung, Director General, Planning Department, Ministry of Planning and Finance
U Maung Maung Hla, Executive Director, Union of Burma Bank
U Thein Swe, Technical Assistant to ED IBRD
9. 5/23/78
U Ye Goung, Minister for Agriculture and Forests
U Tin Lat, Ambassador to the U. S.
U Khin Maung Latt, Director General, Planning and Statistics Dept., Ministry of Agriculture
10. 4/22/81
U Tun Tin, Deputy Prime Minister and Minister of Planning and Finance
Dr. Maung Shein, Deputy Minister of Planning and Finance
[No MemCon to be submitted - nothing of substance discussed, per Mr. Hopper, agreed w/RMcN].

BURMA



OFFICE MEMORANDUM

TO: Records *Record*

DATE: October 2, 1968

FROM: W. S. Humphrey *W. S. Humphrey*SUBJECT: BURMA - Delegation Meeting with Mr. McNamara

The Burmese Delegation to the Annual Meeting led by U Kyaw Nyein made a courtesy call on Mr. McNamara on October 1, 1968. The atmosphere at the meeting was very friendly.

In response to an inquiry by Mr. McNamara, U Kyaw Nyein said that the Burmese economy was still in the doldrums. Agricultural production has been unsatisfactory partly because of inappropriate pricing policies. However new rice varieties, particularly IR8, are being introduced. He felt that there would be no projects for Bank or IDA financing until some progress had been made in dealing with Burma's difficult economic problems. Mr. McNamara replied that he respected this position and repeated Mr. Cargill's earlier offer to send an economic mission, not linked to any project proposal, at any time that the Government felt that this would be helpful. U Kyaw Nyein said that the initiative for this would have to come from the Burmese Government.

cc: Mr. McNamara
Mr. Knapp
Mr. Cargill
Mr. Street
Mr. Gibbs

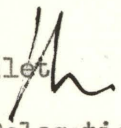
President has seen

WSHumphrey:hj
IBRD

OFFICE MEMORANDUM

TO: Files

DATE: October 2, 1969

FROM: J.-D. Roulet SUBJECT: BURMA - Delegation meeting with Mr. McNamara

1. The Burmese delegation to the Annual Meeting, led by U Kyaw Nyein, Chairman, Union Bank of Burma, paid a courtesy call on Mr. McNamara on October 1, 1969. Messrs. Cargill, Votaw, and Roulet were present.
2. Mr. Nyein said that, as he had told Mr. Cargill at an earlier meeting, his Government would welcome assistance from the Bank in the form of visits from staff members to look into certain projects which the Government felt could be submitted for Bank Group financing. The Government had in mind primarily the exploitation of mineral deposits (particularly copper) and infrastructure development. Mr. Cargill had expressed the feeling that this could be considered and that, in the first instance, he could arrange to visit Burma early next year for general discussions with Government representatives to determine what the further steps could be in the light of Burma's priorities. Mr. McNamara thought that it would be difficult for the Bank to consider financing specific projects before the Bank had first undertaken a general review of the Burmese economy, and agreed with the suggestion of a visit by Mr. Cargill.
3. Mr. McNamara recalled that last year the delegation had stated that no projects would be forthcoming for Bank Group financing until some progress had been made in dealing with Burma's difficult economic problems. Mr. Nyein replied that since then progress had been achieved in overcoming the main difficulties and that the Government's intentions were now to maintain the momentum.
4. In reply to a question by Mr. McNamara on the internal political situation, Mr. Nyein stated that the Government had now succeeded in overcoming most of the dissident movements, particularly in the delta and central regions. In his view these movements were essentially of an internal nature and while there might have been some outside influence, there were no foreign armed forces involved.

cc: Messrs. McNamara, Knapp, Cargill, Votaw, Melmoth, King, Roulet

JDR:cm

OFFICE MEMORANDUM

TO: For the Record

DATE: October 3, 1972

FROM: A.H. Shibusawa *AHS*SUBJECT: BURMA - Meeting of the Burmese Delegation with Mr. McNamara
(Annual Meeting)

1. On October 2, 1972, Mr. McNamara met with the Burmese delegation to the Bank/Fund Annual Meeting. The Burmese delegation comprised: U Lwin, Minister of Planning and Finance; U Kyaw Nyun, Chairman, Union Bank of Burma; and U Maung Maung Hla, Chief Economist, Union Bank of Burma. Those representing the Bank were Messrs. McNamara, Knapp, Cargill, Diamond, Baneth and Shibusawa.
2. Minister Lwin stated that the current investment program of Burma amounted to \$200 million equivalent, of which only 60% could be financed from domestic savings and the rest (40%) were dependent upon financing from external sources. So far, Burma has been able to obtain \$40 million equivalent (or 20% of the investment requirements) from Japan, China and the Federal Republic of Germany. IDA funds were needed to help fill the remaining gap.
- 10/5
3. Mr. McNamara said that he was pleased that the Bank Group was able to resume operations in Burma after 11 years of interruption. He also expressed his gratitude for an excellent cooperation received from the Government by the recent Bank missions. Mr. McNamara, however, cautioned the Burmese delegation that our credit processing procedure for prospective projects might appear to be somewhat protracted. He hoped that the Burmese Government will be patient since the procedure was, in fact, drawn up for the benefit of the borrowing country to ascertain that IDA funds were utilized in the best possible way by the recipient country. In fact, many borrowing countries placed a great deal of value to advice of Bank staff which is extended during project preparation. Mr. Knapp echoed the above statement of Mr. McNamara.
4. Mr. McNamara expressed his surprise to the fact that there had been a decline in exports of Burma (the dollar value of exports is lower today than in 1938 and their volume is a mere fraction of pre-war levels). Minister Lwin stated that the Government was endeavoring to reverse this trend by increasing rice yield and diversifying exports. Mr. McNamara added that, given the natural resources of Burma, there was a good potential for substantially increasing exports and the Bank should collaborate with Burma in achieving this objective.
5. Mr. McNamara then asked whether or not Burma was self-sufficient in foodgrains. Minister Lwin replied affirmatively, adding that there was, however, a small import of wheat of about 15,000 - 20,000 tons annually. In response to Mr. McNamara's question, Minister Lwin stated that Burma had introduced new improved rice varieties. However, production of rice from these new varieties had not increased as much as expected. In this connection, Mr. Cargill stated that the new seed varieties had not yet been adapted to the local conditions.

cc: Messrs. McNamara (2)
Knapp
Cargill
Diamond
Banethcc: Messrs. Weiner
Picciotto
Melmoth
Division 2C - Asia Region
AHS/lgr

OFFICE MEMORANDUM

TO: FILES

DATE: September 26, 1973

FROM: WILLIAM DIAMOND *W*SUBJECT: Annual Meeting 1973Burma Meeting at 2 p.m., Wednesday, September 26, 1973

1. Mr. McNamara opened the meeting by expressing his pleasure that Burma was once again borrowing from the Bank Group after so long an interval. The Minister said that the first purpose of his visit was to express his appreciation to Mr. McNamara and to the Bank staff for the very satisfactory development of our relationship with Burma. He hoped that the relationship would continue and that more loans would in due course be forthcoming.

2. He then said that he wanted to say something about the condition of the country. He referred specifically to the recent measures of encouragement of private sector manufacturing which would be allowed and even encouraged, in support of state industries. He referred to the efforts to maintain the level of exports, by making up through the export of timber and other commodities, for the shortfall in agricultural food surpluses. Mr. McNamara asked about the food outlook for this year. The Minister said that he expected Burma to have an export surplus of about 600,000 tons of rice this year and next. The Minister said that in the low-lying sections of the country were already "saturated" with rice production (?) and that additional production would have to come through efforts to grow rice in the highlands; but this in turn would require the development of water supplies.

3. Mr. McNamara referred to the need for project preparation and said the Bank would be glad to help in the development of a project pipeline. We referred to the two projects which were already on stream for this year but noted that a great deal more work remained to be done to develop the pipeline for future years. The Minister referred to the Government's effort to split the Mu River Project into several segments so that they can be more readily financed. There was some discussion about timber potential and the measures needed to be taken to develop it. Mr. Knapp expressed particular interest in the forestry project due this year.

4. After meeting with Mr. McNamara, the Minister visited Mr. Knapp at the latter's invitation to discuss Mr. Knapp's forthcoming trip. Mr. Knapp asked if 2 to 3 days in the week of November 19 would be convenient. The Minister replied that it would be fine both from the point of view of the weather and from the point of view of the burden of work on the Government, which would be bogged down both in October and in December. He told Mr. Knapp that Rangoon was not the whole of Burma and suggested Mr. Knapp spend a day in Pagan (which had 600,000 pagodas) an hour or so by air north of Rangoon, in which there were the remains of the old Burmese culture dating back to the eleventh century. Mr. Knapp said he would like that very much.

President has seen

.... /2

With regard to visit in Rangoon he said he would have it to the Minister, as his main purpose was to become a little more familiar with the Minister and his associates in the Government and to see at first hand something of the Bank's projects in Burma. It was left that Mr. Knapp would, as soon as he could, confirm to the Minister the dates of his visit.

5. The Minister was told that Mr. Shibusawa would accompany Mr. Knapp.

cc: Messrs. McNamara, Knapp, Shibusawa

WDiamond:nn

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
DATE: September 25, 1973

FROM: William Diamond *WD*

SUBJECT: Burma Meeting at 2 p.m., Wednesday, September 26, 1973

The Burmese have re-affirmed that theirs will be a courtesy call. You can expect them to express satisfaction with the development of relations with the Bank over the past two years and with the resumption of lending in FY73 (2 loans totalling \$33 million). You will wish to express our satisfaction, as well.

The following interesting items emerged from our meeting with the delegation Saturday:

1. The Government has introduced some measures encouraging the development of private enterprises, particularly in the small-scale industry and the mining sectors. There has also been an increase in the procurement price for paddy. These suggest an increasing flexibility on the part of the Government. Our chief economist, who was in Burma last week, reports that it is the Finance Minister himself who is responsible for this new atmosphere of flexibility, which is the more important because of the growing economic strains on the economy.

2. Although we have had indications in the past 10 months that the Burmese wanted us to assist them in setting up a consultative group, the Minister said that on further reflection he no longer thought this was necessary in the early future. He felt that the external resources needed in the next several years could be obtained from IDA, the ADB and two or three bilateral donors. His withdrawal of the proposal for a consultative group may also have been the result of our messages that we thought the time was not yet ripe, but we said at the meeting that the time will probably come when such a financing mechanism might be useful.

cc: Mr. Knapp
Mr. Shibusawa

WDiamond:ad

President has seen

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
FROM: William Diamond *WD*
DATE: September 25, 1973
SUBJECT: Burma Meeting at 2 p.m., Wednesday, September 26, 1973

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2. Although we have had indications in the past 10 months that the Burmese wanted us to assist them in setting up a consultative group, the Minister said that on further reflection he no longer thought this was necessary in the early future. He felt that the external resources needed in the next several years could be obtained from IDA, the ADB and two or three bilateral donors. His withdrawal of the proposal for a consultative group may also have been the result of our messages that we thought the time was not yet ripe, but we said at the meeting that the time will probably come when such a financing mechanism might be useful.

cc: Mr. Knapp
Mr. Shibusawa

WDiamond:ad

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 4, 1974

FROM: A. H. Shibusawa *AAS*SUBJECT: BURMA: Meeting of the Burmese Delegation with Mr. McNamara

1. Members of the Burmese delegation to the Annual Meeting met with Mr. McNamara at the Sheraton-Park Hotel on Friday, October 4. Those present from Burma were: U Lwin, Deputy Prime Minister/Minister of Finance; U Chit Moun, Deputy Minister of Finance; U Kyaw Nyun, Chairman, Union of Burma Bank; U Soe Saing, Director, Foreign Economic Relations Department, Ministry of Planning and Finance; U Maung Maung Hla, Executive Director, Union of Burma Bank; U Maung Shein, Adviser to the Executive Director (Fund). The Bank was represented by Messrs. McNamara, Knapp, Weiner, **Diamond**, Baneth and Shibusawa.
2. Mr. McNamara initiated the discussion by asking the Deputy Prime Minister what program of action the Government was proposing to take to deal with Burma's economic problems and to foster its economic development. The Deputy Prime Minister said that the Government was planning to devalue its currency by 25%. The Government was also trying to improve the performance of State enterprises, particularly in reducing their operating ratio. The agriculture sector would receive top priority in investments while forestry, mining (including off-shore mining) would also be assigned very high priority. The Government was also interested in expanding its industrial production and in this connection would like to explore the possibility of program assistance from the Bank, particularly in financing imports of spare parts and raw materials. The Government would also like to receive assistance in financing the proposed Mu River irrigation project subsequent to our proposed financing for the Nyaunggyat irrigation project.
3. Mr. McNamara inquired what sort of plan did the Government have for increasing rice production. The Deputy Prime Minister replied by saying that the Government was procuring 10,000 water pumps (financed under the IDA credit). The Government was also undertaking minor irrigation works. Mr. McNamara inquired what was the percentage of increase the Government expected in rice production. The Deputy Prime Minister replied that the increase would be very modest and would be about 3%. The major reason for this is that the paddy land is practically saturated and there is very little scope of expanding the area of paddy production, and therefore the only practical way of increasing rice production would be through intensive cultivation. For this, fertilizer (phosphate) was needed and Burma was having difficulty in importing this type of fertilizer. Mr. McNamara then inquired about the price of rice. The Deputy Prime Minister said that the procurement price of paddy will be increased from 600 to 900 kyats (per 100 baskets) effective October 15. Mr. McNamara

October 4, 1974

inquired what was the relationship between this new procurement price and the existing world price of rice. The Deputy Minister of Finance said that it represented about 35-40% of the world price (based on \$500 per ton).

4. Mr. McNamara then referred to the proposed Mu River irrigation project and stated that his preoccupation was that even if the Bank should succeed in arranging co-financing to cover the foreign exchange requirement of \$100 million, that would still leave the need for the Government to raise \$100 million equivalent in local currency, and he was afraid that this may be beyond the capacity of the Government. The Deputy Minister of Finance said that the Government would be able to cope with this with the measures to be taken shortly to raise additional revenues. The Deputy Prime Minister and Deputy Minister of Finance added that the Government would like to undertake the entire Mu River project as soon as possible, but would also be prepared to do it in phases if this were preferable. Mr. Weiner said that the Bank will review again the possibility of the Mu River irrigation project in light of the new measures just announced to us in confidence. Mr. Weiner added that this matter would be discussed further with the Deputy Minister of Finance during the coming week.

5. Mr. McNamara then inquired if the Government had any thought regarding the possibility of forming an aid group for Burma. The Deputy Prime Minister replied that Burma was indeed very interested in having such a group formed particularly for the purpose of raising money for large projects such as Mu. Mr. McNamara commented that the Bank will be prepared to explore the possibility of organizing an aid group provided there is enough interest on the part of potential donors. In this connection, the Deputy Prime Minister stated that Japan, Germany and France had given aid to Burma in recent years. The U.K. Government has just agreed to provide £3 million and a team from England will be visiting Burma in early November to work out details. In response to a question, the Deputy Prime Minister stated that ADB was providing aid (in terms of commitments) in the order of \$20-25 million a year, and Germany about DM 35 million.

6. Finally, the Deputy Prime Minister extended a cordial invitation to Mr. McNamara to come to Burma. Mr. McNamara said that he would be pleased to visit Burma at the earliest possible opportunity.

cc: Messrs. McNamara, Knapp, Weiner, Diamond, Baneth, van der Meer, Pilvin.
cc: Division C

AHShibusawa:dp/mcc

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: November 18, 1976

FROM: A. H. Shibusawa, Chief, ASADC *ahs*SUBJECT: BURMA: Mr. McNamara's Visit of November 1-3, 1976A. INTRODUCTIONBackground

1. Mr. and Mrs. McNamara visited Burma from November 1-3, 1976. They went at the invitation of His Excellency, U Lwin, Deputy Prime Minister and Minister of Planning and Finance, whom Mr. McNamara met during the 1974 Annual Meeting in Washington. This was Mr. McNamara's first trip to Burma, and he was accompanied by Messrs. Ernest Stern (Regional Vice-President for South Asia), William Clark (Vice-President for External Relations), A. H. Shibusawa (Division Chief for Burma) and Sven Burmester (Personal Assistant to Mr. McNamara). Mr. and Mrs. McNamara, along with the other members of his party, stayed at the Government Guest House.

Timing and Objectives

2. The visit took place at an opportune moment in terms of the Bank's relationship with Burma. With the resumption of Bank Group lending in 1973, IDA credits have steadily increased and now total \$132.5 million for seven projects. Over the last few years, IDA has been carrying on a continuous dialogue with the Burmese on the necessity to reform economic policies in order to reverse the poor economic performance of the past decade. Improvement in such policies, particularly in the area of resource mobilization, was a condition for increased Bank Group lending and the Bank Group's support in forming a Burma Aid Group. Since the Burmese have adequately met these preconditions, the inaugural Burma Aid Group meeting is now scheduled for November 30 in Tokyo. Moreover, the proposed annual lending program for FY78-82 is likely to average almost twice as much as the \$50 million budgeted for FY77. Mr. McNamara's trip was in a sense, symbolic of our efforts over the last three years to reform economic policies, to develop an appropriate and significant lending program and to form an aid group.

3. The visit could also have political implications. A decade of economic stagnation, coupled with insurgency in the border areas, has created a general feeling of dissatisfaction and restlessness. The latest manifestation of this discontent was the abortive plot by junior military officers to overthrow the Government and assassinate the President. Mr. McNamara's visit and the upcoming aid group meeting will be viewed as a sign of IDA's support for the Government's policies to improve economic conditions. Should such an improvement not occur, there is the possibility that the stability of the Government would be impaired.

4. The program was designed to permit Mr. McNamara to evaluate recent economic reforms and the appropriateness of past and future Bank Group lending to Burma. To achieve these objectives, an all day boat/helicopter trip was arranged, which included inspection of the Lower Irrawaddy paddy areas (the site of an important IDA project) and informal discussions in the field with key senior officials of the economic ministries. For the following day, a formal meeting with the Deputy Prime Minister and the Minister of Agriculture was scheduled to review the general economic situation as well as prospects in the agricultural sector which has and will absorb the largest portion of IDA lending.

Arrangements

5. Mr. McNamara's visit had been carefully planned by the Government in close consultation with the Division. He was generally impressed with the care with which preparatory work was undertaken by the Government and the degree of attention he received from top officials. Courtesy calls were arranged with President Ne Win and Prime Minister Sein Win. Details on Mr. McNamara's visit are included in the "Itinerary" which is attached to this memorandum. Mrs. McNamara's program was also carefully planned by the Government. She accompanied the party for a portion of the field trip and in lieu of the formal meetings, visited historical and cultural sights in Rangoon.

B. SUBSTANCE OF DISCUSSIONS AND FIELD TRIPS

Economic Position and Policies

6. Mr. McNamara's visit came after a decade (1965-75) of economic stagnation, marked by marginal increases in per capita income, a running down of the capital stock, a decline in the volume of exports and imports, and a deteriorating fiscal situation. During this period, the Government devoted much of its energies and limited resources to unifying the country and creating a socialist welfare state. Although the authorities have made some progress in the attainment of these political and social objectives, there was at the same time, a general neglect and mismanagement of the economy. The primary reasons for this overall poor performance were: (a) poorly conceived and rigid price policies, which reduced producer incentives, led to the development of a pervasive black market, and reduced government revenues; (b) mismanagement of State Economic Enterprises which failed to generate the necessary surplus for the public sector; and (c) an inappropriate investment strategy which largely ignored the leading primary producing sectors in favor of industry.

7. The Government, in recognition of these problems, introduced a series of reforms beginning in late 1973. Procurement prices of major agricultural commodities were increased substantially, management and organizational reforms of the State Economic Enterprises were introduced, and there was a shift in investment priorities toward agriculture, livestock, forestry, and mining. In April 1976, a Commodity and Services Tax was enacted which is projected to increase revenues by nearly 40% in 1976/77 over the previous budget estimates.

8. Partially as a result of these reforms, coupled with favorable weather conditions, the economic situation improved in 1975/76. Real GDP growth was 6% and investment was 20 to 25% higher in real terms than in the previous year. Although the improved economic performance, coupled with the recent reforms are encouraging, Burma remains beset with serious economic problems. IDA's position, therefore, has been that further efforts on the part of the Burmese will be essential if they are to rebuild the productive structure of the economy and to lay the basis for more rapid growth.

9. As expected, the substantive discussions took place mainly during the meeting with the Deputy Prime Minister, who was joined by the Minister of Agriculture. The Deputy Prime Minister began by explaining that the State Council had recently reaffirmed Burma's policy to seek external assistance with the intention of becoming self-sufficient in the future. With respect to future actions and prospects, he indicated that the target growth rates of production and exports of major commodities such as rice, teak, and minerals have been set at significantly higher levels than those actually achieved during the past several years. In addition, Burma is trying to promote non-traditional exports, in particular, pulses and beans which have a good market in Japan. If these targets are achieved overall export earnings could increase by 10% a year.

10. In order to attain these target levels, the Government has taken a number of measures and is planning to take further measures. With respect to paddy, the Deputy Prime Minister and Minister of Agriculture cited the higher procurement prices, the intention to import more fertilizer, the efforts to supply a greater quantity of high-yielding seeds, and the IDA irrigation and paddy development projects. The Deputy Prime Minister explained the implications of the new guidelines for commercialization of State Economic Enterprises, which hopefully would improve their performance. He also mentioned that the Government is currently revising the land tax and also formulating a law to define the role of the private sector in order to reduce the uncertainty that currently exists. To provide adequate incentives for exports, an Export Equalisation Fund will be utilized not only to cover full operating costs but to assure modest profits.

11. Mr. McNamara responded by stating that the Bank Group fully supports the objectives and measures already undertaken as well as the additional measures under consideration. He added that IDA's lending program is consistent with the Burmese development strategy and that IDA is ready to assist in any way it can to complement the efforts of the Government. With respect to paddy production, he emphasized the importance of importing adequate amounts of fertilizer until the country becomes self-sufficient in production. Since world market prices for rice are relatively favorable compared with the price of fertilizer, fertilizer use should be encouraged even if some subsidies are necessary. Mr. McNamara concluded by stating that Burma is blessed with vast resources and has good potential for development with proper management.

The Field Trip

12. Mr. McNamara was accompanied by the Minister of Agriculture during the entire field trip to the Irrawaddy Delta. He also had an opportunity to meet with the Deputy Prime Minister and other senior officials (including Ministers and Deputy Ministers) of the economic ministries during the boat ride. The field trip included visits to selected project villages, Leeinzu in the Irrigation I (Lift Pump) Project area and Shwelaung in the Lower Burma Paddy Land Development Project area.

13. In both villages, Mr. McNamara had an opportunity to meet local officials and farmers. The ensuing question and answer sessions illustrated the considerable potential for increasing paddy production. In response to Mr. McNamara's inquiry as to what are the major problems in paddy farming, the farmers indicated that proper water control is of primary importance and that inadequate supplies of inputs such as fertilizer and lack of credit are also handicapping their efforts. Under ideal conditions, with proper water control, adequate inputs and high-yielding varieties, yields could be double their current levels. These discussions brought out the importance and relevance of the IDA projects, but they also indicated that although the potential is considerable, many problems still exist. The field trip ended with a helicopter tour of the Lower Delta paddy areas where future IDA lending is likely to be extensive.

14. The discussions and observations resulted in the general impression that the IDA strategy to emphasize agriculture, transport, and mining with the intention of rehabilitating Burma's economy and increasing exports is consistent with Burma's needs. In the transport sector, the lending program (Ports II, Railways IV, and Inland Waterways II) is designed to reverse the general deterioration in equipment and facilities and to finance imports of spare parts. These projects aim at eliminating existing bottlenecks that have hindered production and exports. In the industrial sector, IDA is investigating assistance in financing a urea fertilizer plant to make use of Burma's natural gas as feed stocks. The mining sector has a very high potential since Burma has considerable reserves of copper, tin/tungsten, lead and zinc. However, its complexity requires preparation of a consistent and viable sector development program, as well as improvement in the efficiency of existing institutions. The Bank intends to assist the Government in drawing up and implementing such a development strategy, in part through financing of individual projects, and also by facilitating the entry to the sector of other interested international donors.

C. CONCLUDING REMARKS

15. The visit served its basic purpose in providing Mr. McNamara with the opportunity to learn more about the Burmese economy--performance and policies--and the appropriateness of IDA's lending program. The meetings with the Deputy Prime Minister and other officials were a convenient forum to review current

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policies and to express our feelings that although the Burmese have implemented a number of significant reforms, there was still much to be done. Mr. McNamara's field trip and discussions with project related officials brought out very clearly the need to rehabilitate the productive structure of the economy and to emphasize the key sectors of agriculture, forestry, mining, and transport. In this context, IDA's present and future lending program as to size and composition was deemed appropriate.

Attachment

Cleared with and cc: Mr. Stern

cc: Mr. McNamara's Office (2)

Messrs. Knapp

Baum

Chenery

Clark

Blobel

Picciotto

Waide

Cash

Dewey

Vasudevan

Jansen

Pilvin

Division Chiefs, South Asia Projects

AHShibusawa/YHuang:sns

BURMA

ITINERARY

DAY 1

Monday, November 1

18:40

Arrival from Bangkok via chartered Thai Government plane. (Accompanied by Mrs. McNamara, Messrs. Stern and Burmester.)

DAY 2

Tuesday, November 2

10:00

Leave by boat for tour of Irrawaddy Delta, accompanied by Deputy Prime Minister and senior Burmese officials, Mrs. McNamara, Messrs. Stern, Clark, Burmester, and Shibusawa. Lunch aboard.

13:00

Arrive at Leeinzu (near Maubin) to inspect Irrigation I Project (Lift Pump Irrigation).

13:45

Depart Leeinzu by helicopter for Shwelaung accompanied by Minister of Agriculture and other officials. 1/

14:15

Arrive Shwelaung. Inspection of the Delta Paddy Project area and discussions with village leaders and project farmers. Tour of village. Refueling.

15:00

Depart Shwelaung for air tour of the Lower Delta Paddy Project areas.

16:00

Arrive Rangoon Airport.

16:30

Arrive Government Guest House.

18:30

Meeting with His Excellency President Ne Win.

19:30

Official Dinner to be hosted by Deputy Prime Minister.

1/ Mrs. McNamara will return to Rangoon by boat.

DAY 3

Wednesday, November 3

09:30 - 10:30

Visit to Gems Corporation

11:00 - 11:45

Meeting with Deputy Prime Minister and Minister of Planning and Finance, His Excellency U Lwin together with the Minister of Agriculture, His Excellency U Ye Goung.

11:45 - 12:00

Meeting with Prime Minister His Excellency U Sein Win.

12:00 - 13:30

Official Luncheon to be hosted by the Prime Minister.

15:30

Departure for Dacca via a chartered Thai Government plane.

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OFFICE MEMORANDUM

TO: Files

FROM: A. H. Shibusawa, Chief, ASADC

SUBJECT: BURMA - Meeting of Burmese Delegation with Mr. McNamara

DATE: October 4, 1977

1. The Burmese Delegation called on Mr. McNamara on September 28 at 9:00 a.m. The following were present:

BANK

Mr. McNamara
Mr. Stern
Mr. Blobel
Mr. Shibusawa
Mr. Koch-Weser

BURMESE DELEGATION

10/21
H.E. Dr. Maung Shein, Deputy Minister for Planning and Finance
U Aye Hlaing, Chairman, Union of Burma Bank
U Hla Maung, Director General, Planning Department, Ministry of Planning and Finance
U Maung Maung Hla, Executive Director, Union of Burma Bank
U Thein Swe, Advisor to the Bank's Executive Director for Burma

2. Dr. Maung Shein began the discussion by saying that his Government experienced no difficulties in working along with the Bank, although there were delays in implementation of the IDA-financed projects. Mr. McNamara hoped that greater efforts would be made by the Government to eliminate these delays, in particular, through decentralizing the decision-making process. Mr. McNamara said that he had just been reminded by Mr. Stern that the Burma Aid Group meeting will be held in Paris on December 14. He observed that the meeting provided an opportunity for Burma to obtain additional external support if it were able to demonstrate that it had the capacity to make effective use of more aid.
3. Dr. Maung Shein responded by assuring Mr. McNamara that measures to decentralize the decision-making process were already underway. Within the Ministry of Planning and Finance itself, greater responsibility for decision-making had already been delegated to officials below the Minister and his Deputies in a number of areas. Dr. Maung Shein added that the new Prime Minister, U Maung Maung Kha, was intent on strengthening the Government machinery for monitoring performance at the project level and for dealing with implementation problems as and when they arose.
4. Mr. McNamara then inquired as to what efforts were being made in key sectors of the economy to accelerate the pace of development. In reply, Dr. Maung Shein said that in agriculture the Government had decided to undertake an all-out effort to increase paddy production. A coordinated approach was being implemented in three townships initially, to stimulate intensive cultivation by expanding the access of farmers to improved agricultural seeds, fertilizer, pesticides, and extension services. The Government intended

gradually to expand this approach to other townships. Partly through this effort, the Government planned to increase rice exports from 600,000 tons in 1977 to 1.2 million tons at the end of the Third Four-Year Plan, 1981-82. Mr. Stern added that, while an intensified approach had much merit, the provision of adequate incentives to farmers to adopt improved technology was an important condition for the success of such a plan.

5. Dr. Maung Shein then described the recently established Rice Commission (RC) as a demonstration of the Government's seriousness in expanding paddy production. The RC, under the chairmanship of the Minister of Agriculture, was established in August this year to review, among other matters, the adequacy of the present procurement price of paddy. The Commission's report and recommendations will be issued by December this year.

6. Dr. Maung Shein also mentioned the priority given to increasing fish and shrimp exports, in view of the great potential of Burma's marine resources. In response to Mr. McNamara's question regarding other exports, Dr. Maung Shein stated that in 1976 Burma exported 100,000 tons of teak which was far below the target of 200,000 tons of export they had hoped to attain that year. In this first phase of teak development, the Government was concentrating on areas nearest to Rangoon. Dr. Maung Shein hoped that implementation of the IDA-financed forestry project could be accelerated so that IDA could finance a second phase in the not too distant future.

7. The discussion then turned to Government efforts in the development of minerals and petroleum. With regard to minerals, Dr. Maung Shein stated that a study of the potential for developing an iron and steel project was undertaken by the Federal Republic of Germany about seven years ago. While a major problem was the lack of coal, the Government, nevertheless, considered the development of the iron and steel industry important enough to warrant its inclusion in the developmental plan. With regard to the petroleum sector, the Government recently succeeded in attracting a syndicated loan of \$37.75 million equivalent from Chase Asia for the construction of pipelines. The loan was for 5 1/2 years at an interest rate of 2 1/2% above the London Inter-Bank Rate (LIBO). While these terms were not attractive, the Government considered this a device to attract other foreign private commercial lending. In fact, a number of inquiries from other foreign commercial banks had already been received. However, the Government was being cautious in obtaining additional commercial loans because it did not want to tax the debt service capacity of Burma.

OFFICE MEMORANDUM ✓

TO: Files

DATE: June 5, 1978

FROM: M. E. Tadros, ASADC

SUBJECT: BURMA - Minister U Ye Goung's Meeting with Mr. McNamara

1. The Minister called on Mr. McNamara on May 23. He was accompanied by Ambassador U Tin Lat and U Khin Maung Latt, Director-General, Planning and Statistics of the Ministry of Agriculture and Forests. Messrs. Hopper and Tadros were also present. A copy of Mr. McNamara's brief for this meeting is attached.
2. The Minister conveyed to Mr. McNamara the best regards of the Prime Minister and the Minister of Planning and Finance. Mr. McNamara said that he had pleasant memories of his visit to Burma in November 1976.
3. Mr. McNamara inquired about the status of negotiations for the Paddyland Development II project. The Minister replied that negotiations were proceeding smoothly. Mr. McNamara said that he was pleased to learn that the Government attached high priority to the agricultural sector in its Third Four-Year Plan. He noted, however, that there was some confusion as to whether the share of the agricultural sector was 33% or 27%. The Minister replied that originally the share of the agricultural sector was 33%. However, in the final Plan allocations, it turned out to be 27%. The Minister indicated, however, that additional provisions would be made for the agricultural sector if necessary. He also pointed out that the present allocation of 27% did not include capital expenditure for agro-industries. Mr. McNamara said that the Minister should press for a larger allocation for the agricultural sector, given its high priority in Burma.
4. Mr. McNamara asked the Minister whether the Bank was doing what the Government desired in the agricultural sector. The Minister replied in the affirmative and noted that, after the completion of Paddyland I project, the Government would prepare a mathematical model to determine how much land should be reclaimed and where. In this connection, the Minister was referring to the hydrological investigation study that is currently being conducted under the Paddyland I project.
5. Mr. McNamara inquired about the role the Government attached to State farms and cooperatives in the future development of the agricultural sector. He noted that such organizations worked well in many countries. Mr. Hopper mentioned that under the ongoing Livestock Project, IDA is financing both private and State farms. The Minister said that the share of the public sector in the Third Four-Year Plan is estimated at about 40%, the cooperative sector at 5%, and the private sector at 55%. The Minister noted that the Government was carefully handling and establishing cooperatives. Mr. McNamara appreciated that and noted that it would be useful for Bank staff to learn of the Government's plans in this regard.
6. Mr. Hopper said that Mr. McNamara would be interested in learning from the Minister about the recommendations of the Rice Commission. The Minister indicated that the Commission was established to review all aspects

of paddy production, marketing and distribution including price policies and exports. He said that the Commission had collected a vast amount of data to assist in deliberations. He said that the Commission's recommendations were not yet complete, but as soon as they were finalized, they would be communicated to the Bank. Mr. Hopper inquired whether the Commission would recommend replacement of the present quota system. The Minister said that it was difficult to say at this stage whether the present quota system would be replaced or not.

7. Mr. McNamara inquired about rice exports. The Minister said that last year Burma exported about 600,000 tons of rice. Mr. McNamara then inquired whether rice exports would expand as a result of the recommendations of the Rice Commission. The Minister said that Government's target was to increase rice exports to one million tons in the next few years.

Attachment

cc: Messrs. Picciotto (ASP)
Hopper (ASNVP) (o/r)
Blobel (ASA) (o/r)

Division C

METadros:bt

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 22, 1978

FROM: W. David Hopper, Vice President, South Asia *W.D.H.*SUBJECT: BURMA - Meeting with U Ye Goung, Minister for Agriculture and Forests
Tuesday, May 23, 1978, 6:45 p.m.

1. U Ye Goung, Burmese Minister for Agriculture and Forests, is paying a courtesy call on you (Attachment A). He will be accompanied by His Excellency, the Ambassador U Tin Lat, and the Director-General of Planning and Statistics Department in the Ministry, U Khin Maung Latt. I will be accompanied by Mr. Mahfouz Tadros, Loan Officer for Burma.
2. The Minister is here to negotiate the proposed Paddyland Development II Project (Attachment B). You will recall that he accompanied you on a field trip to the Irrawaddy Delta during your visit to Burma in November 1-3, 1976. He also participated in several of your meetings with senior Government officials. The Minister has expressed the wish that this meeting be treated as a courtesy call and he is not expected, therefore, to raise substantive matters. Nevertheless, I recommend that we use this opportunity to seek some of his personal views on the following points.

Government's Priority for Agriculture (Attachment C)

3. In the late 1960's and early 1970's, the Government's long-term objectives led to the promotion of heavy industries at the expense of the primary producing sectors, and this proved to be a major cause of the poor economic performance during that period. In 1973, the Government reoriented its investment priorities in favor of agriculture and other primary producing sectors - a move which the Bank strongly endorsed. At the second meeting of the Burma Aid Group on February 1, 1978, the Burmese delegation reaffirmed that agriculture would receive the highest priority in the Third Four-Year Plan (1978/79-1981/82) - which at that time was still in draft form - and a greatly enlarged share of the capital budget in the forthcoming period (33% compared with less than 20% over the previous four years). However, the Plan, as finally approved by the Pyithu Hluttaw (People's Assembly) in March 1978, contains a smaller share for agriculture (27%) than was indicated at the aid group meeting. It also allocates a much larger share to industry (36% as against 27%). Given the resources that have been set aside for other sectors such as industry, as well as mining and transport, you may wish to ask whether the Minister feels that the share allocated to agriculture is adequate. In this connection, in accordance with the development priorities for Burma as we see them, IDA's lending program has been and remains concentrated in agriculture (over 50% of a total of \$164 million since 1973).

Establishment of State Farms and Cooperatives

4. The establishment of state farms and the promotion of producer cooperatives are accorded high priority in the Government's long-term strategy for agricultural development. Although they are of negligible importance at present, they are to account for 60% of cultivated land by the end of the Twenty-Year Plan (1974/75-1993/94). We are unable, at this time, to say

May 22, 1978

whether investments in state farms and cooperatives are likely to be as productive as programs geared to individual farmers. In view of the importance the Government attaches to these institutions, we would be interested in learning more about their nature, as envisaged at present, and the costs - financial as well as managerial - that may be required to create and support them. These are important concerns given the limited absorptive capacity of the public sector and the time required to transform institutions. You may also wish to use this opportunity to reassure the Minister that IDA's lending program in Burma will continue to be implemented within the framework of Burma's system of socialism.

Rice Commission

5. The Minister is Chairman of the Rice Commission established in the fall of 1977 to review all aspects of paddy production, marketing and distribution, including pricing policies and Government procurement. The Commission was established in recognition of the need to revive paddy production and in particular to have more rice available for exports. While the Government's recommendations are due only later this summer, you may wish to inquire about any preliminary findings and recommendations.

Attachments

- A. Biographical Information
- B. Description of the proposed Paddyland Development II Project
- C. The Agricultural Sector.

cc: Messrs. Blobel, Picciotto, Shibusawa(o/r)

Biographical Information - U Ye Goung
Minister for Agriculture and Forests

U Ye Goung was born in 1922. Although his formal education did not go beyond the first few years of high school, he managed to rise rapidly within the military. After military training in Japan, he joined the Burma Independence Army in 1942 as a young officer in the then Colonel Ne Win's 4th Regiment rising to the rank of Lt. Colonel. From 1962-69, he was Additional Secretary, Ministry of Agriculture and also Director General of Agricultural Rural Development Corporation. In 1970, he was promoted to Secretary. In 1972, he retired from the Army and was appointed Deputy Minister for Agriculture. He was promoted to Minister in 1974. U Ye Goung is said to be one of the few Ministers who have the confidence of President Ne Win.

BURMA

PADDYLAND DEVELOPMENT II PROJECT

Total Project Cost
(net of taxes and duties)

US\$52.0 million

Proposed IDA Credit

US\$34.5 million

Project Description

The proposed project, the sixth IDA agricultural project in Burma, would be the second in a series to protect existing cultivated areas and reclaim abandoned paddyland in Lower Burma. It would replicate the Paddyland I Project. The project would protect 125,000 acres of existing farm land from flood inundation and salt water intrusion, and reclaim 50,000 acres of abandoned paddyland. The main project components are:

- (a) Rehabilitation and construction of about 255 miles of earth embankments (6.5 million cu yd), about 220 miles of drainage channels (9.4 million cu yd), about 57 concrete gated pipe drainage culverts, 21 gated drainage sluices and approximately 52 drainage channel crossings.
- (b) Clearance and reclamation of about 50,000 ac of abandoned and wasteland within these protected areas.
- (c) Improvement and expansion of the Irrigation Department's (ID) central workshop in Rangoon, and construction in the project areas of four building complexes for operation and maintenance (O&M) of project works.
- (d) Provision of equipment, spare parts, and materials for construction and O&M of works and for land clearing and surveying, and equipment and spares for the ID central workshop.
- (e) Provision of about 1,000 small irrigation pumps, 1,050 power tillers including spare parts for sale to farmers.
- (f) Construction of and provision of equipment for three field workshops for repairing project farm machinery.
- (g) Strengthening of extension services in three townships additional to the five already included in the Paddyland I Project.
- (h) Construction of six godowns for fertilizer storage and six graining centers and provision of transport and equipment for extension and research activities.
- (i) Provision of survey and office equipment for demarcating into plots the land to be reclaimed and allotted.

- (j) Provision of about 39 man-months of consulting services and transport and office equipment for the Myanma Agricultural Bank (MAB).
- (k) Provision of overseas training for extension service staff.

Project Benefits

The project would benefit 18,300 farm families, of which 5,500 are presently landless resident families. Annual incremental production, at full development, is estimated at 90,000 tons of rice, 2,000 tons of jute and 19,000 tons of pulses, groundnuts and other crops. The economic rate of return is 26%.

BURMA

THE AGRICULTURAL SECTOR 1/

1. Burma's agricultural crop sector accounts for 27% of GDP, employs 66% of the work force and accounts for 58% of exports. About 60% of the industrial output is derived from cotton, jute, and sugarcane. During the period 1964/65 to 1975/76, performance of the sector has been poor with an average annual growth rate of only 2.3% compared to a population growth rate of 2.2%. The poor performance reflects a set of policies that gave the farmer no incentive to increase output and provided the sector with little direct support through services, inputs, and investment. As noted in the previous section, the Government's view of the role of agriculture in the development of the country has since changed and creation of a healthy, growing agricultural sector is now seen as being of pivotal importance - as a means of increasing the income of the majority of Burmese who are farmers, as a source of foreign exchange through exports, and as a supplier of raw materials to industry. With this change in attitude have come changes in policies - prices are used, if not always adequately, as a means of stimulating growth in output; provision is being made for expansion of services and the supply of inputs; the share of agriculture 2/ in public investment has risen significantly and is intended to be about 33% in the Third Four-Year Plan (1978/79-1981/82). It is in this context that the proposed project, which aims at raising agriculture production, particularly rice for exports, should be seen.

2. Burma's main crop is rice which accounts for 55% of the total sown area and is the main export commodity. Production has grown slowly, increasing by only about 2.0% per annum during the last decade. Once the largest rice exporter in the world, Burma suffered considerable devastation to embankment structures during World War II and subsequently from recurrent social disturbances. The stoppage of rice exports during the war period, changes in land tenancy, and general lack of embankment maintenance led to further deterioration and land abandonment. A special reclamation program of the Government managed to boost sown area by 1963-64 to its pre-war level of 12.4 million acres primarily through the restoration of approximately 71% of the 1.7 million abandoned acres in Lower Burma. However, due to insecurity, inadequate embankment maintenance, and a generally low level of commercial and economic activity over the last decade, the total abandoned area of Lower Burma increased once again to about 1.0 million acres by 1973/74. Over the last ten years, there has been no significant increase in the total sown area nationwide as increases in acreage in Upper Burma merely compensated for the losses in Lower Burma. Up to 1974, yields were also stagnant, and annual production of paddy fluctuated around pre-war levels of about 8 million tons. In the last two years rice production has exceeded 9 million tons for the first time, although the recent harvest has been affected by late rains.

1/ This is Part III of the draft President's Report for the proposed Paddyland Development II Project.

2/ In contrast to the preliminary indicated share, the Plan as approved by the Pyithu Hluttaw called for a share of 27%.

3. About 70% of the area under paddy is concentrated in Lower Burma, mainly in the Irrawaddy Delta. Mostly local varieties are sown. Adoption of high-yielding varieties (HYV) has been constrained in the past mainly by inadequate water control but also by the lack of material inputs, especially seeds, fertilizers, and by power shortages during peak demand periods. In Upper Burma, lack of water is the major constraint to increased production and adoption of HYV. With more adequate price incentives to induce farmers to use improved technology, yields of traditional varieties could be increased from the present average of about 1,500 lbs/acre to 1,700 - 1,800 lbs/acre. However, any significant yield breakthrough will depend on the widespread production of high-yielding varieties (HYV). Although the first HYV were introduced in Burma in the mid-sixties, they are as yet only grown on about 1 million acres (8% of the rice area). The Seed Development Project (Credit 745-BA) would increase the area sown with HYV rice to about 3.5 million acres.
4. Government control of rice marketing and pricing policy until recently has had a substantial constraining effect upon productivity. The Government maintained low procurement prices for paddy during the 1960s and early 1970s in an effort to keep food costs for urban residents low and to make sizable profits from export sales. The results of such a policy were to: (a) stimulate domestic consumption through artificially low retail prices; (b) reduce incentives for private investment in agriculture; (c) reduce procured volumes and induce covert diversion of paddy into free market channels; (d) generate an active black market for food commodities to satisfy demand; and (e) limit exportable volumes. The impact of low procurement prices was particularly severe on paddy farmers in Lower Burma who have virtually no alternative to paddy production in the wet season. Farmers, therefore, attempted to circumvent the compulsory quotas and to sell as large a portion as possible of marketable surpluses onto the free market.
5. Although private paddy transactions are still strictly regulated, state controls on the sale, purchase, and transport of milled rice within townships were abolished in May 1973, thereby legitimatizing limited local free market trading in rice. The low procurement price policy was eventually reversed in 1972 and procurement prices of paddy were increased by 150% during the period November 1972 and July 1974. * Except for a 2-6% price increase of premium quality paddy in November 1977, which was recommended by the recently established Rice Study Commission, procurement prices have remained unchanged since July 1974.
6. Other important crops include jute, cotton, oilseeds (groundnuts and sesamum), pulses, and sugarcane. Following a tenfold increase in production over the previous decade, jute production declined by 50% over the 1973-77 period, predominantly in response to shortages of seeds and relative profitability of paddy over jute; groundnuts and pulses increased during 1973-76. Adopted in recent years as a follow-up crop to paddy, production of groundnuts has been constrained by drought and shortage of viable seed. Pulses are grown on dryland areas of Upper Burma and on paddyland as a follow-up crop in Middle Delta of Lower Burma; further boosts in production will require water control measures and extension efforts to popularize improved varieties.
7. Burma has considerable potential for increases in agricultural productivity, especially in paddy development. In Lower Burma, the key factor for development is the protection of paddyland from flooding (Middle Delta) and salt water intrusion (Lower Delta). In addition, procurement prices

particularly for paddy should be reviewed and adjusted if necessary to ensure that farmers have sufficient incentives to increase production of agriculture export commodities. It is in this spirit that the Government recently established a Rice Study Commission to review all aspects of rice production, marketing and pricing. Other important complementary measures for increased productivity include: (a) increase of crop yields on presently cultivated land through effective extension programs and improved distribution of inputs; (b) activation of a development-oriented rural credit system, especially for medium- and long-term credit; (c) acceleration of programs to reclaim part of the abandoned and waste paddyland in Lower Burma; (d) improvement of post-harvest infrastructure for storage, processing and marketing of produce; and (e) development of groundwater resources in Central Burma and expansion of gravity irrigation systems in Upper Burma. The proposed project replicates the IDA financed Lower Burma Paddyland Development Project (Paddyland I Project), Credit No. 642-BA, and is designed to meet the first three objectives. The latter two objectives will be addressed through the proposed paddy storage and handling project and the groundwater exploration project, financed under the UNDP Umbrella Project.

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President
(Through Mr. Ernest Stern, SVP, Operations)
FROM: W. David Hopper, Vice President, South Asia

DATE: April 22, 1981

SUBJECT: BURMA - Meeting with His Excellency U Tun Tin, Deputy Prime Minister
and Minister of Planning and Finance
Friday, April 24, 1981, at 5:30 p.m.

1. His Excellency U Tun Tin, the Burmese Deputy Prime Minister and Minister of Planning and Finance, is paying a courtesy call on you to thank you for your interest in Burma and to bid you farewell. He is on his way to the annual meetings of the Asian Development Bank being held in Honolulu; he is not expected to raise substantive issues. The Deputy Prime Minister will be accompanied by His Excellency Dr. Maung Shein, Deputy Minister of Planning and Finance and our primary contact on major issues. (See attached biographical sketches.)

General Background

2. Real economic growth in Burma averaged 6% during the late 1970s, largely due to strong performance in agriculture and in particular to the Government's "Whole Township Special High Yield Paddy Production Programme." This program, which is currently being extended to other crops, is entirely locally conceived and has been implemented without any direct foreign assistance. The 1980/81 season produced a bumper paddy harvest estimated at over 12 million tons, or some 20% more than the previous year. Rice exports in 1981/82 are thus likely to exceed 1 million tons, compared to an average of 600,000 tons in recent years. Forestry and mining have also shown significant growth in recent years as has the construction sector. Public investment has been expanding rapidly; and exports, which were declining or stagnant for many years, have picked up.

3. Although the increased economic activity in Burma is heartening, it is not problem-free. During the course of your discussion, you may find it appropriate to refer not only to Burma's improved economic performance, and to the High Yield Paddy Production Programme in particular, but also to our concerns for (1) improved public sector resource mobilization, (2) a more aggressive export program, and (3) more efficient allocation of resources.

Public Sector Resource Mobilization

4. Disbursements of loans and grants during 1980/81 were about US\$400 million, and during the last Burma Aid Group meeting, which was held December 1980 in Paris, total aid indications for the coming year amounted to about US\$500 million. The Government has had to finance a large share of the local currency counterpart to these aid flows, as well as its non-aided capital expenditure program, from bank borrowing rather than public savings. Official indicators of inflation are low, but increases in public sector credit and total liquidity have exceeded 20% a year over the last two years. It is, therefore, important for the Government to increase public savings, and in particular public sector resource mobilization.

Tax revenues are already 15% of GDP, but the overall deficit of the consolidated public sector budget in 1980/81 was 11% of GDP, reflecting a growing public sector investment program, now 17% of GDP. The Government has a number of options to choose from, including improved collections from existing taxes, extension of certain taxes to the private sector, and elimination of a number of implicit subsidies by raising prices of goods produced in the public sector. One specific measure which we have discussed with the Government is an initial increase of about 15% in the average tariff for electric power. Such increases are essential to ensure the economic use of power and to enhance the financial viability of the Electric Power Corporation.

More Aggressive Export Program

5. Although Burma is well endowed with natural resources compared to many developing countries, exports are still less than 10% of GDP. The current account deficit in the balance of payments, excluding grants, was 6% in 1979/80 and 4% in 1980/81; however, these figures reflect the Government's complete control over official imports rather than the underlying demand. This underlying demand and Burma's needs are quite extensive. Since Burma does not import oil -- being close to self-sufficiency -- the urgency to export has not been felt as keenly as in some other South Asian countries. There is, however, substantial potential for increased output of non-traditional exports, such as fishery products and various agricultural commodities, and of traditional exports such as rice, teak, and minerals. A more vigorous export program would permit a higher level of development imports, including fertilizer which is in short supply, and would relieve the debt service burden which has risen to about 25%. Over 60% of the debt service payments in 1980/81 were due to suppliers' credits and loans from financial institutions, and we continue to express our strong concern to the Government over the increasing reliance on commercial borrowing.

More Efficient Allocation of Resources

6. The competition among public agencies for investment funds and foreign exchange -- both of which are centrally allocated -- has been intense. The industrial sector has been absorbing a growing share of public capital expenditures, increasing from 25% during the Second Four Year Plan (1974/75-1977/78) to 35% during the first two years of the Third Four Year Plan (1978/79-1979/80). We are concerned in particular about the number of apparently uneconomic assembly-type activities -- producing such items as vehicles and durable consumer goods -- which have been absorbing large amounts of these scarce resources in recent years. Burma should direct more investment and more foreign exchange toward the primary producing sectors (agriculture, forestry, and mining), supporting infrastructure, and agro-based industries.

Attachment

Cleared with & cc: Messrs. Pilvin, Tadros

cc: Messrs. Holsen, Wiehen (o/r), Clements, Shibusawa (o/r)
Vandendries (o/r)

mlm
MdeMelo:gw

BURMA

BIOGRAPHICAL DATA

U Tun Tin, Deputy Prime Minister, Minister of Planning and Finance, and Governor IBRD, is 59. He was appointed to his present position in October 1978. In January 1978, he held the portfolio of Minister of Planning and Finance. Prior to this assignment, he served as Minister and Deputy Minister for Cooperatives. He reportedly had been enrolled in Rangoon University prior to enlisting in the Army in which he served some 20 years.

Dr. Maung Shein, Deputy Minister of Planning and Finance and Alternate Governor IMF, is 53 years old. He graduated from Rangoon University (B.A. in Economics) in 1952. He holds a B.Sc. in Economics from the London School of Economics (1956) and a Ph.D. from Queens College, Cambridge (1960). From 1960 to 1964, he was lecturer in Economics at the University of Rangoon and became Professor of Economics at the Institute of Economics in 1964. In November 1972, he was appointed Adviser to the IMF Executive Director and from November 1974 to January 1976, he was IMF Alternate Executive Director. He was appointed Deputy Minister for Planning and Finance in February 1976.