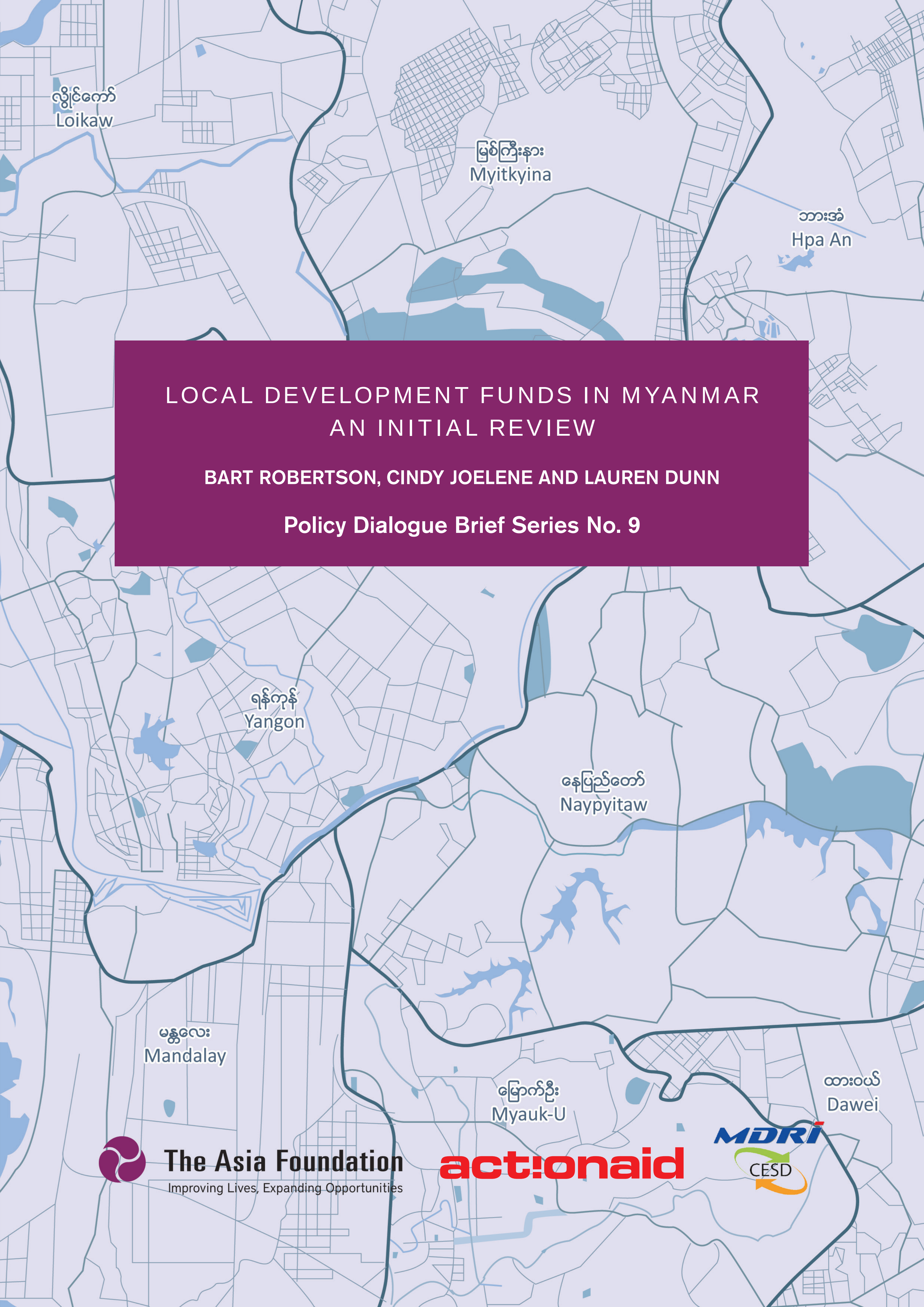

LOCAL DEVELOPMENT FUNDS IN MYANMAR
AN INITIAL REVIEW

BART ROBERTSON, CINDY JOELENE AND LAUREN DUNN

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ONE: LOCAL DEVELOPMENT FUNDS

1.1: The Purpose of Local Development Funds

Development financing in highly centralized governments can take a significant amount of time to filter through various bureaucratic layers before it reaches local government. Local development funds (LDFs) represent a source of development financing that is transferred directly to local governments and communities, promoting quicker, more direct fund disbursement. Doing so can provide local government and communities with some degree of fiscal autonomy over their own development agenda, and lead to development projects which are in line with both their needs and management capacities. LDFs are often used to finance small-scale, community-based development projects, such as small bridges and connecting roads between villages.

When designed and implemented correctly, LDFs should serve to unload micro-management burdens from higher-level government and empower local government and communities with discretion over how funds are managed. Large projects should continue to be funded and managed through departments and ministries, otherwise LDFs can actually serve to disempower capable government bodies and make national planning more problematic. This can also undermine the long-term development of government ministries and departments, and overload local government and communities with projects that are beyond their technical expertise and resources. Keeping LDF projects small and simple also allows communities to make proportionally significant contributions, either financially or in kind, through their voluntary participation and labor. Such community participation increases community ownership and decreases opportunities for corruption.

1.2: How LDFs Function

LDFs operate under the premise that local government and communities are more in tune with local development needs than central government; hence, local government and community committees are given discretion over how the fund is spent. Consequently, LDFs are also referred to as "discretionary" funds. These funds hold significant potential in countries where ministries have historically been highly centralized. LDFs can also be an effective mechanism for delivering development funding in post-conflict areas,[1] though with a trade-off in efficiency. However, it is not advisable to use LDFs in areas that remain contested between the government and other armed groups. Doing so could reinforce the government's claims and increase the government's influence over such areas, and potentially fuel future conflict.

LDFs should also fund projects that are directly based on community needs. While conceptually desirable, the realization of this goal is often problematic. Providing funding directly to local government does not guarantee greater accountability and servicing of community needs. In fact, it is often the case that large sums of funding injected at the local level can be more easily captured by local elites, and serve only to further exacerbate existing power imbalances.[2]

The proper coordination of LDFs with other funding sources can create positive, cumulative effects for local government. For example, an LDF can help to identify community needs that may fall outside or beyond the accountabilities and capabilities of local governments, and that can therefore be funded by other sources. Furthermore, the budgets of local government can also be used to finance the maintenance of aging LDF projects, or vice versa. In the Philippines, local government budgets cover the recurrent costs of projects built through the Community Driven Development Fund.[3]

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[1] It is important to note that there is usually a great deal of continuity between "conflict" and "post-conflict" stages, and Myanmar has not entered such a post-conflict phase, as major outstanding issues of contention still persist.

[2] Susan Wong and Scott Guggenheim (2005), "Community Driven Development: Decentralization's Accountability Challenge," In *East Asia Decentralizes* (Washington DC: World Bank), *253-267.*

[3] *Ibid.*

1.3: Power Dynamics and LDFs

To safeguard against elite capture, management of the fund should include community oversight. This often takes the form of a community council. The exact composition, remit, and powers of such a council can vary depending on the country, but the aim is that a council duly elected by the community will ensure that funds are spent in the community's interest. International best practice dictates that these councils should be elected by the community through a transparent and widely publicized process, rather than being appointed by government.

Widespread public knowledge of LDFs, and community participation in project management, can promote a more responsive community, and hold symbolic importance, making funds far more valuable than their financial worth. LDFs can build trust and confidence between communities and the government. This is especially important in conflict-affected areas, where the government may have traditionally been perceived as a foreign occupier rather than a responsive service provider.

Finally, it is important to remember that the sum of money that is transferred directly to local government or community groups through the LDF shifts the balance of power. Control or "discretion" over the fund can be understood as directly empowering the individuals that possess it. Communities and local governments only have real power over their own development agenda if they have discretion over fund use. If fund discretion remains at higher levels of government, there is no guarantee that the finalized list of selected projects is in line with local needs.

1.4: Constituency Development Funds in Other Countries

A constituency development fund (CDF) is a particular type of LDF in which MPs identify community needs and control fund disbursement. CDFs work under the premise that MPs know the development issues affecting their respective constituencies and can effectively target development funding to address these issues. However, the existence of these funds is a contentious issue. In a democratic government, MPs have the responsibility of drafting the law, while the executive branch is tasked with implementing it. By giving MPs direct control over government funds, CDFs blur the lines between the executive and legislative branches of government.

International experience suggests that constituency funds – including in Pakistan, India, and the Philippines – can breach separation of powers and weaken legislative oversight, weaken government capacity to plan and monitor, and undermine equity when the program does not allocate funds equally across constituencies. CDFs can also create perverse political incentives, which have often led to vote buying and a pervasive mindset of political clientelism. For example, in the Philippines, where a CDF has been operating since 1990, journalists have reported that Filipinos primarily judge MPs on their ability to bring more funding to their constituency, rather than on their legislative actions.

The use of CDFs to curry political favor is also a driver of the rapid escalation in the size of CDFs in many countries. The Philippines saw a sixfold increase in CDF allocation per MP between 1990 and 2010.[4] Similarly, the CDF allocation per MP in Zambia increased from US $13,000 in 2006 to US $185,185 in 2012.[5] As CDFs grow, their management also requires a greater proportion of MPs' time, limiting their ability to effectively carry out legislative duties.[6] It is also politically difficult to reduce the size of CDFs once they have grown, lest MPs fall into disfavor with their

4 Albert van Zyl (2010), *What is Wrong with the Constituency Development Funds?* Budget Brief No. 10, International Budget Partnership. http://www.internationalbudget.org/publications/brief10/

5 Economics Association of Zambia (2011), *Impact of the Constituency Development Fund in Zambia.* Lusaka: Economics Association of Zambia. http://sayzambia.org:8080/jspui/handle/123456789/277.

6 van Zyl, *What is Wrong with the Constituency Development Funds?*

constituencies. Large CDFs can have long-term regressive effects on the capacity of government ministries and departments. Providing development funding through CDFs takes it away from ministerial budgets, reducing their ability to develop into more effective mechanisms for public service delivery. Ultimately, the benefits of poverty alleviation through CDF projects must be weighed against the long-term necessity of keeping the executive and legislative branches of government separate.

TWO: LOCAL DEVELOPMENT FUNDS IN MYANMAR

2.1: The Major LDFs and Local Development Financing Schemes That Exist in Myanmar

President Thein Sein's focus on implementing a "people-centered" development agenda[7] has been a key driver behind the creation of LDFs in Myanmar. Within Myanmar's current institutional environment, the state/region government and the township administrative unit have been tasked with managing recently established LDFs. LDFs are not new to Myanmar. In 1962, the Revolutionary Council established a Rural Development Fund (RDF) in Myanmar, which aimed to encourage people's participation in, and contribution to, community development. Yet under the military government, the RDF remained subject to significant guidance from the central government, and individuals' contributions to community development projects were not voluntary.

The current LDFs, which have a higher degree of community participation, have been heralded as a means of promoting both participatory planning and fiscal decentralization. The Poverty Reduction Fund (PRF), Constituency Development Fund (CDF), and RDF are the only LDFs with a ubiquitous presence across Myanmar.[8] The township and village tract committees play a fundamental role in needs identification and project implementation for the CDF and PRF. The details of the major LDFs are outlined in the following sections.

2.2: Constituency Development Fund (CDF)

Constituency Development Fund	
Fund Objective and Use	Construction and maintenance of small-scale infrastructure and "other development projects"
Prioritization of Projects/Sectors	(1) Water supply, (2) building and repair of roads and bridges in rural areas, (3) "other essential tasks"
Fund Total Size	33 billion kyats
Fund Source	Union budget
Maximum Project Size	5 million kyats
Geographic Allocation	100 million kyats to each of the 330 townships in Myanmar
Implementation	Labor provided by villagers
Auditing Body	Township auditor and "audit inspection team" at the national level

The CDF made its debut in Myanmar in the 2013-14 fiscal year (FY). The first version of the CDF procedures law was revised in response to President Thein Sein's concern that it contradicted the constitution by granting executive powers to the legislative branch of government.[9] Despite revisions, the amended version still granted MPs a significant degree of autonomy over fund management. An updated version was passed in FY 2014-15 that allows for greater inclusion of township committees in fund management, and provides some budgetary oversight to the Union Financial Commission.

7 Government of the Union of Myanmar. "Framework for Economic and Social Reform," para. 106. People-centered development figures prominently, among elsewhere, in "Speech of President Thein Sein" (9 August 2013).

8 Research also revealed other "funds" for local development. However, many of them have only a limited geographic presence, and their management structure differs significantly from that of a traditional LDF model. Even the three LDFs mentioned here do not fit the strict, technical definition of LDFs, because final discretion over fund use does not rest with the township administration.

9 Hamish Nixon and Cindy Joelene (2014), *Fiscal Decentralization in Myanmar: Towards a Roadmap for Reform* (Yangon: Asia Foundation/MDRI-Centre for Economic and Social Development).

The primary purpose of the CDF is to support the construction and maintenance of small-scale infrastructure and development projects. The Township Development Implementation Committee (TDIC)[10] consists of both state/region and Union MPs, with one serving as chairperson. This committee is responsible for collecting and/or drafting project proposals and submitting a finalized list of proposals with a total budget to the Central Committee at the Union level.

MPs typically consult with the township administrator and township committees[11] and select proposals from a needs-gathering mechanism,[12] but ultimately have final discretion over which projects are chosen. The current law does not provide any specific guidelines for the identification and prioritization of community needs; rather, the coordination of this process is dependent upon the capacity of the township committees, and many MPs have developed their own criteria:

> *"Projects were prioritized on the number of beneficiaries in the communities. If there are a significant number of beneficiaries, we chose that project."*[13]

Although MPs have final discretion over which projects are selected, their finalized list of projects must also be reviewed and signed by the Township Development Support Committee (TDSC) and the Township Municipal Affairs Committee (TMAC) to ensure that their projects do not overlap. Placing a community council in charge of financial management makes for a more transparent funding system and safeguards against some common weaknesses of the CDF.

CDF Issues and Concerns

- Discretion over the CDF remains at the township level, but with the legislative rather than executive branch. As such, the CDF does not fit the strict technical definition of LDFs.

- There are allegations of misappropriation of government funds for political gain occurring in Myanmar. It is imperative that Myanmar's CDF be structured in such a way as to minimize these risks, including a legal framework and transparent fund management.

- Although CDF guidelines are outlined in law, criteria for project selection remain vague and fail to provide adequate safeguards against the political ambitions and personal interests of MPs.

- Findings from a recent public opinion poll show very limited public knowledge about the CDF.[14] More awareness-raising initiatives will be required to achieve true community participation and comprehensive public knowledge about the CDF and its projects.

- The law does not limit the size of the CDF, but suggests that the CDF should be based on the size and development needs of a township. Evidence from other countries has shown that CDFs tend to increase exponentially within a few years. While variable funding can theoretically allow for more efficient targeting as compared with fixed funding, it risks further politicizing the fund.

2.3: Poverty Reduction Fund (PRF)

The PRF was introduced in FY 2013-14 as a funding mechanism for the development priority areas highlighted in the president's 2011 speech to the Poverty Alleviation Committee. The fund was disbursed before an adequate institutional framework existed for its implementation, and no law exists that stipulates the size, usage, or management of the PRF. Consequently, the General Administration Department (GAD) was tasked with managing the fund in the first year of implementation, but proper monitoring procedures were widely absent, and project selection and loan disbursement were not transparent.

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[10] The TDIC is a committee formed solely for the management of the CDF. This should not be confused with the Township Development Affairs Committee (AKA the municipalities committee) or the TDIC.

[11] Consultation with these committees is mentioned in articles 5(d) and (j) in the CDF law.

[12] Needs-gathering mechanisms include village tract administrators (VTAs) or ward administrators (WAs) holding a meeting with one member of each household in the village to discuss the community's needs and potential development projects; or VTAs/WAs ask village administrators or village elders for either a written or verbal list of needs, which is then forwarded to the Village Tract Development Support Committee.

[13] Interview with an MP.

[14] Myanmar Egress (2013), *Public Opinion Poll of Approved National Budget Bill for 2013/2014 FY.* Yangon: Myanmar Egress.

Poverty Reduction Fund	
Fund Objective and Use	Support poverty reduction measures in accordance with 8 priority areas.
Prioritization of Projects/Sectors	Eight development priority areas[15] as set out in the president's 2011 speech to the Poverty Alleviation Committee
Fund Total Size	FY 2013-14: 16 billion kyats. FY 2014-15: 50 billion kyats.
Fund Source	State and region government budget
Maximum Project Size	None
Geographic Allocation	FY 2013-14: 1 billion kyats to each S/R except 3 billion to Chin FY 2014-15: 1 billion kyats to each S/R except 5 billion to Chin, 15 billion to Kachin, 15 billion to Rakhine, and 4 billion to Shan
Implementation	Private companies are the lead implementers, often with labor inputs from villagers.
Auditing Body	Township auditor

Since FY 2014-15, township committees have been responsible for managing the fund, but the chief minister still decides how the fund is allocated across townships, and retains final discretion on project selection. In some states and regions, the PRF is divided evenly among all the townships, while others target more funding to poorer townships. There is no standardized formula for determining fund allocation; rather, final figures are ultimately dependent upon the chief minister. In townships where committees are not involved in the management of the PRF, the GAD manages the process. Project transparency is limited, and does not necessarily promote projects that are in line with community needs.

PRF Issues and Concerns

- While local management of the PRF is possible and often occurs, it is not guaranteed so long as final discretion over the fund rests higher up the administrative ladder.

- The lack of formally written procedures has not only led to wide variation in how the fund is managed, but also does not guarantee the continued existence of the fund.

- The current allocation of the PRF, both between states and between townships, is inefficient and has led to "widely varying entitlements on a per capita poverty basis."[16] For example, Yangon Region received 136 kyats per capita from the PRF in FY 2014/15, while Chin State received 10,445 kyats per capita. Although the need for poverty alleviation is greater in Chin State than in Yangon Region, a funding formula based on poverty incidence would lead to a more uniform and equitable allocation of the PRF.

- Finally, state/region governments are concerned that there is inadequate financial monitoring, as the PRF falls outside the traditional budgets of line ministries.

2.4: Rural Development Fund (RDF)

The RDF continues to be governed and administered under its 1977 regulations, although some new directives have been added to accommodate the new government structure. The objective of the new RDF is to reduce the inequality between rural and urban populations by improving the social, economic, and physical quality of life in rural areas.

[15] The eight development priority areas are: agricultural production; livestock breeding and fish and meat production; rural productivity and cottage industries; micro-saving and credit enterprises; rural cooperative tasks; rural socio-economy; rural energy; environmental conservation.

[16] Nixon and Joelene, *Fiscal Decentralization.*

Rural Development Fund	
Fund Objective and Use	Fund development projects in rural areas.
Prioritization of Projects/Sectors	Official prioritization is unknown, but it has been used to fund new farmland-identification projects, transportation projects, health programs, education programs, and other economic and social programs that are not overlapping with other projects.
Fund Total Size	254.5 million kyats in FY 2011-12 and 329.5 million kyats from FY 2012-13 onwards
Fund Source	Varies by township.
Maximum Project Size	10-20 million kyats
Geographic Allocation	Every township receives some level of funding from the RDF.
Implementation	Labor provided by villagers.
Auditing Body	Township auditor

In the new RDF scheme, the budget is not under the control of the GAD head office or the Ministry of Home Affairs. Budget allocations from the Union depend on the number of projects that are submitted. The state/region government determines the township-level allocations. Funding must be used within the fiscal year for which it is allocated, and unspent funding must be returned to the Union government. Hence, fund under-spending is rare.

Project proposals are compiled by the GAD and submitted for discussion to the four committees at the township level. These proposals are then submitted to the state/region chief minister (CM). The CM finalizes project selection, and the budgetary allocation and implementation are the responsibility of the GAD. Individual RDF project budget amounts are usually small, and roughly half of project costs are covered by monetary and/or labor contributions in kind from the community. In-kind contributions vary greatly, and can range from 30 percent to 500 percent,[17] and the norm is that those who are expected to benefit the most from the project are asked to make the majority of the contributions.

RDF Issues and Concerns

- The small size of the RDF means that projects continue to be small, and it is difficult for projects to meet local needs. The fund would benefit from updated guidelines regarding public consultations, and from local GAD officials seeking input from community organizations.

- Guidelines regarding in-kind contributions should be clarified, as should how contributions can be solicited from community members so as not to unduly burden them.

2.5: Village Development Plan (VDP)

Launched in early 2015, the village development plan (VDP) program is an effort to fund integrated planning at the village level.[18] Government and organizations noted that village development planning often resulted in a "shopping list" of local needs and wants, rather than a strategic plan.[19] The VDP model is designed to support villages in creating village development plans that will be aggregated and inform national development planning – thereby also ensuring that national development planning reflects local needs and priorities.

[17] Interview with deputy director, Rural Development Department, Ministry of Livestock, Fisheries, and Rural Development.
[18] Interview with deputy director, Rural Development Department, Ministry of Livestock, Fisheries, and Rural Development.
[19] Government of Myanmar (2015), *Guidelines on the National Village Development Planning Process*. Nay Pyi Taw: Republic of the Union of Myanmar.

Village Development Plan	
Fund Objective and Use	To encourage active participation of villagers for the greater wellbeing of their families and the elimination of poverty.
Prioritization of Projects/Sectors	Small-scale infrastructure projects for all 63,899 villages across the country's 305 rural townships
Fund Total Size	Unknown[20]
Fund Source	Department of Rural Development
Maximum Project Size	Unknown
Geographic Allocation	10 million kyats per village
Implementation	Implementation is approved by the VDC and is the responsibility of the DRD.
Auditing Body	Community social audit

The projects developed by the elected Village Development Committee (VDC) are submitted to the township level for incorporation into the township development plan. A Township Multi-Sectoral Planning Team, made up of representatives from appropriate departments and headed by the GAD, determines resource allocation. VDPs are intended to contribute to township- and regional-level planning by creating opportunities for integrated projects according to villagers' needs.

VDP Issues and Concerns

- It would be premature to draw conclusions about the program at this stage. However, the multi-stage consultation process involved in the development of the VDPs has potential to overlap with similar projects being undertaken through other LDFs.

- VDPs have potential to make a broader impact on local development planning, yet to date have remained in their own silo. For the VDPs to maximize their impact, they will need to link with other local development initiatives, which would require explicit direction from the Union government.

- The results of the test villages showed that local planning capacity must be built at both the township and village levels, and highlighted the need for technical support from the Union government and for programmatic support from the township administration.[21]

2.6: National Community Driven Development Project (NCDDP)

The National Community Driven Development Project (NCDDP) was initiated in 2013 under the poverty reduction scheme, with support from the World Bank. Implementation began in just three townships, but plans exist to dramatically expand the coverage. The project aims to give rural communities increased access to development resources and funding, and greater input into the planning processes.

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[20] The total fund size is unknown because the fund is new, and at the time of writing the VDP had only been tested in two locations.

[21] Shafique Rahman (2015), *Key Findings of Development Planning in Two Villages in Pyinmana Township – Lei Lu Ai Village and Nyaung Pin Tha Village.* Workshop on Village Development Planning, Nay Pyi Taw, 9 June 2015, 4. http://www.lift-fund.org/sites/lift-fund.org/files/uploads/Events/VDP%20Workshop-%20Key%20findings%20from%202%20villages_0.pdf .

National Community Driven Development Project	
Fund Objective and Use	To support people-centered development and enable poor rural communities to benefit from improved access to infrastructure and services.
Prioritization of Projects/Sectors	Public goods
Fund Total Size and Source	Originally, the NCDDP received a US $80 million grant from the World Bank International Development Association. Another US $6.3 million was provided by the Myanmar government. Further funding was received through a loan from the government of Italy and a grant from the Japanese Social Development Fund. Funding increases were approved in mid-2015.
Maximum Project Size	Village tracts receive block grants based on their population, ranging from 20 million kyats for the smallest village tracts, to a maximum of 120 million kyats for the largest village tracts.[22]
Geographic Allocation	The fund is currently being piloted in nine townships. A funding increase was approved in mid-2015, which will expand coverage to 64 townships across the country by the end of the current six-year project cycle.
Implementation	Communities are in charge of all aspects of project implementation. Most communities have chosen to implement projects themselves. Some have hired contractors for complicated parts of a project.[23]
Financial Auditing	A financial audit is carried out annually by the Union auditor general's office and is publicly available on the project's website.[24]

The Project is also intended to enhance the government's capacity to respond to priorities that emerge from this bottom-up planning process.[25] Although the NCDDP is considered an LDF, it differs from other LDFs in that it has a highly formalized management structure, is managed under a government line department, and has a formalized needs-identification mechanism.

NCDDP Issues and Concerns

- The NCDDP is still in its initial stages of implementation, so it is too early to draw any conclusions about the fund's long-term effectiveness or inclusiveness.

- It follows standard guidelines for project selection, implementation, monitoring, and tendering, while leaving some flexibility to fit the local context. These formal guidelines bode well for community participation and fiscal transparency, and should be taken into consideration when drafting guidelines for other LDFs in Myanmar.

- While other LDFs in Myanmar rely primarily on the TDSC and Township Management Committee (TMC) at the township level, the NCDDP relies on the TPIC at the township level, which is not considered to be widely active relative to other township level committees.[26]

2.7: Impact and Effectiveness of LDFs

As LDFs in Myanmar continue to evolve, it is important that they do so in a coordinated manner. They have emerged as individual initiatives rather than a consolidated set of reforms. Consequently, the environment for local development funding has grown in absolute size, but has also become more fragmented and more burdensome to manage. The existence of separate management structures for separate funds leads to the duplication of needs-identification activities. The multiple planning committees also place an undue

[22] Government of Myanmar (2014), *National Community Driven Development Project, Operations Manual*. Nay Pyi Taw: Republic of the Union of Myanmar.
[23] Email communication with Nik Myint, senior social development specialist, World Bank. July 29, 2015.
[24] See http://www.worldbank.org/projects/P132500/myanmar-national-community-driven-development-project?lang=en
[25] Government of Myanmar (2014), *National Community Driven Development, Operations Manual, Part 1.*
[26] In 2014, the United Nations Development Programme conducted local governance mapping in each state and region in Myanmar. The TPICs' low level of capacity and activity was noted multiple times throughout the report series.

administrative burden on local leadership and authorities.

2.8: Local Development Financing Mechanisms

LDFs are not the sole means by which the government provides pools of funding to support local development. Numerous Union ministries have funding for local development, which can overlap with LDFs and require facilitation and fund management by communities. Some local funding mechanisms provide loans to individuals at the village level, rather than to community development projects. The most notable funds are the Agricultural Loan Program of the Ministry of Cooperatives and the Green Emerald Fund of the Department for Rural Development (DRD), which cannot be accurately classified as LDFs. These funds hold significant potential impact on local development, yet, simultaneously, they place additional management burdens on village and township leadership.

Green Emerald Fund

DRD launched the Green Emerald Fund in FY 2014-15, with the goal of establishing revolving funds for entrepreneurial activities at the village level. The township DRD officer is responsible for village identification and selection, although final selection requires the approval of the chief minister and the director of the DRD for a given state or region.[27] The Fund distributes a significant amount of development financing (a maximum of 30 million kyats per village) over a small population. While concentrated funding is not intrinsically negative, people living in a small village may receive more credit than what is needed, and those living in larger villages may feel unfairly treated.[28]

Ministry of Cooperatives Agricultural Loan Program

Cooperatives have emerged as a significant part of the government of Myanmar's rural development agenda. The agricultural loans from the Ministry of Cooperatives are providing much-needed agricultural credit to individuals through cooperative associations, which are self-arranged borrowing clusters. The fact that the loans are being taken out signals demand, and therefore some degree of usefulness. However, township officers from the Ministry of Cooperatives noted that 100,000 kyats falls short of farmers' need for agricultural credit, and the Ministry of Cooperatives plans to expand the maximum loan size to 500,000 kyats for repeat borrowers.

2.9: Community Needs Identification, Prioritization, and Selection

LDFs represent a means for financing bottom-up planning in which communities play a participatory role, but the alignment of funding to community needs is not a straightforward process. The traditionally hierarchical nature of the Myanmar government stands in contrast to the mindset and mechanisms needed for participatory planning. Effectively responding to community needs, therefore, requires both a conceptual shift in the way civil servants think, and an institutional retooling of government for collecting and prioritizing community needs.

Needs Identification

Partly due to the rapid pace of government reforms since 2011, processes for identifying community needs are still evolving, and no comprehensive national strategy exists. Apart from the NCCDP, there is little, if any, additional budget given to the township to finance the logistical and administrative costs of participatory planning. In general, community needs are assigned to funding sources at township level, and the township committees act as a bridge between government and the wider population, and advise township officials on socioeconomic development issues.[29]

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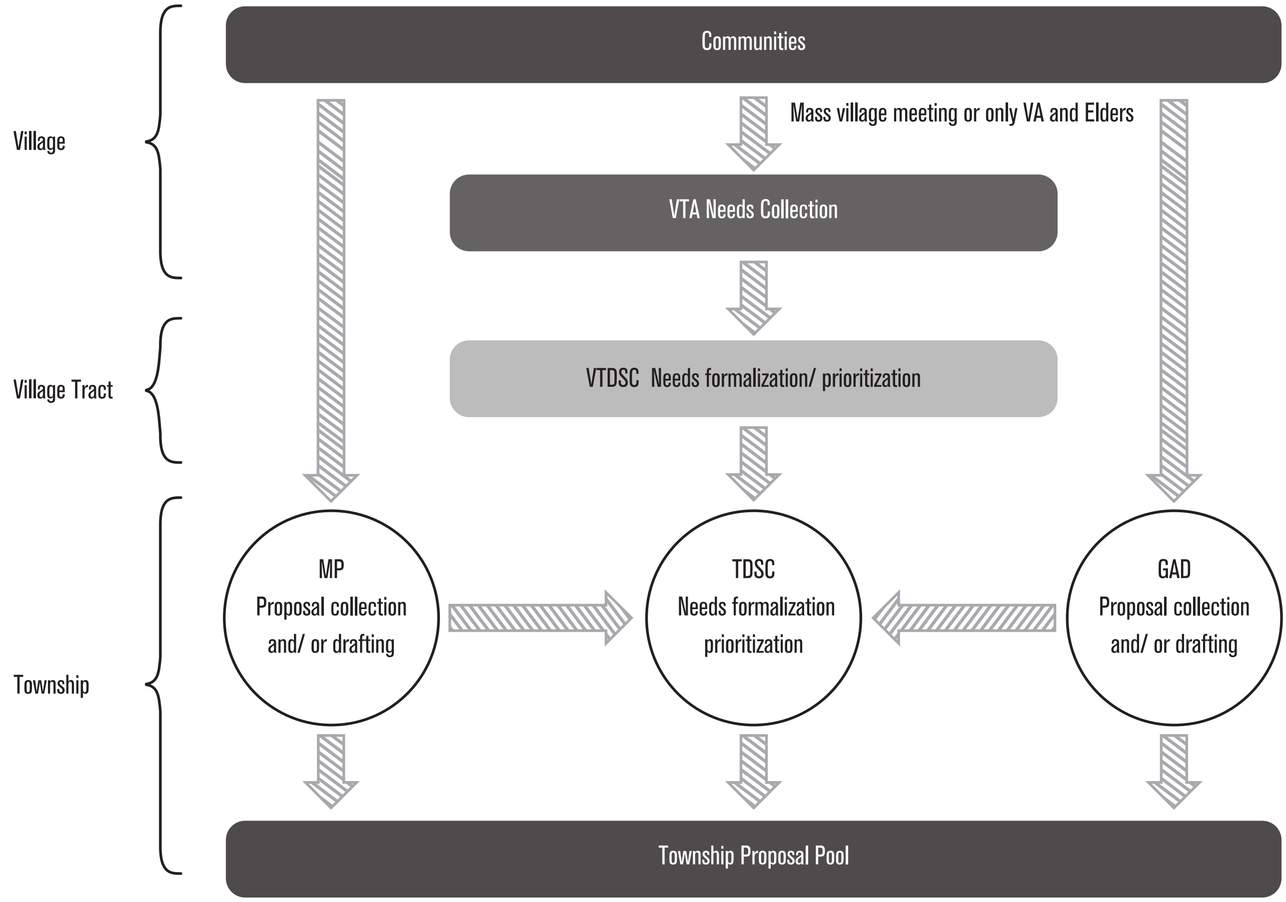
[27] DRD internal documents provide guidelines for both village selection and fund management.
[28] A GEF village visited in Tanintharyi Region had approximately 30 households. This means a ratio of one million kyats per household.
[29] The Township Development Support Committee (TDSC) is comprised of civilians who, according to the presidential notification, are "elected." As with the TDSC members, VTAs/WAs are supposedly elected, yet they are government employees serving under the township administrator as part of the GAD.

Figure 1: Typical LDF Needs-Identification Mechanism in Myanmar



The VTDSC and the TDSC often share the task of formalizing community needs into proposals. This is an iterative process, with much revision and direct discussion with local communities through site visits. Anecdotal evidence suggests that TDSCs often seek technical advice from engineers.

There are no definitive guidelines for how the TDSC and VTDSC are supposed to identify community needs; however, input is often solicited directly from community members or from VTAs and WAs. The end goal is to produce a pool of project proposals at the township level, and Figure1 illustrates the multiple channels through which proposals reach this pool. The large majority of proposals are submitted through the VTDSC and TDSC channel.

Proposal Prioritization and Selection

Needs are collected in response to a call for proposals for a particular fund, such as the CDF or the PRF, but they are not necessarily linked to that fund. Rather, township-level meetings are held to determine the best-aligned funding source for a given proposal. At a minimum, these meetings include the TDSC and MPs, but it is common for the Township Municipal Affairs Committee and Township Management Committee (TMC) to attend. Proposals are prioritized and selected according to their alignment with fund objectives; however, fund criteria and objectives for the PRF and CDF are limited and vague. Significant leeway exists in how proposals are prioritized and selected. Committee members often base decisions on factors such as proposed community contribution to the project, estimated number of beneficiaries, and poverty incidence in the area. In general, communities that received funding for projects last year are ineligible for project funding this year. Other government spending is taken into account.

System Formality and Public Knowledge

The committees that collect and prioritize lists of needs enjoy little legitimacy in their respective townships, as public knowledge about them remains limited. For the most part, communities are unaware of where their list of needs is going and where funding is coming from. According to a recent, nationally representative survey conducted for the UNDP's local governance mapping, only four percent of respondents are aware of the township-level committees.[30]

Although this needs-identification system is a promising start, it lacks formality, and the community is not actively involved in the decision-making process. The few guidelines that do exist are ambiguous and open to interpretation, which can lead to shortcomings. Most noticeably, the use of "verbal proposals" provides no guarantee that the needs gathered by the VTDSC are actually in line with what the community voiced. Relatedly, a lack of clearly demarcated development funding for rural areas runs the risk of favoring urban centers while neglecting the periphery.

THREE: POLICY CONSIDERATIONS

Effects of LDFs on fiscal decentralization: At this time, the LDFs in Myanmar have a negligible impact on fiscal decentralization. First, LDFs are small relative to total government expenditure at the township level. Second, final discretion over LDF allocation lies outside the hands of township-level officers and committees.

Long-term growth and coordinated development: While, in many countries, LDFs have increased substantially in size since their introduction, it is important to weigh the immediate benefits of increasing fund size against the necessity for the long-term growth and coordinated development of traditional systems of government service provision. At present, the main benefit of these funds in Myanmar is to quickly disburse targeted funding to small-scale community development projects. If LDFs are to be used in areas administered by ethnic armed groups (EAGs), it will be important to balance and coordinate existing community development projects under EAGs with LDFs and wider government service provision, while avoiding Bamarization of these areas. Ethnic priorities and governance structures will also need to be respected. Simultaneously, the government should develop a policy "home" to better coordinate LDFs and fiscal decentralization reforms in general.

Township and village autonomy in fiscal decentralization: LDFs such as the CDF, PRF, and RDF do not formally provide the township administrative unit greater discretion over government expenditure, but they give greater discretion over the identification and prioritization of community needs. From this perspective, the funds appear to promote administrative decentralization rather than fiscal. This stands in contrast to the de facto, informal impacts of LDFs on fiscal decentralization. The township administrative unit has shown adequate capacity to prioritize needs, disburse funding, and monitor LDF projects. True decentralization must guarantee communities and the township and village administrative units a greater degree of fiscal autonomy over their own development, and final discretion over how the funds are used. Increased autonomy is accompanied by greater capacity requirements and the need for formal coordination structures to ensure complementarity of projects and reduce overlap with larger development plans.

Streamlining needs-identification systems: A common needs-identification system, formally shared by all LDFs, would reduce the burden on township- and village-level committees. Donors could provide technical assistance to committees to promote better fund management, and where appropriate, financial assistance could cover logistical costs of fund management.

[30] UNDP (2015), *The State of Local Governance: Trends in Myanmar, A Synthesis of People's Perspectives Across All States and Regions*. Yangon: UNDP.

Transparency, accountability, and monitoring: Measures for monitoring and evaluation of the LDFs and their projects could help to build trust and increase the legitimacy of the relevant bodies. The role of CSOs in documenting fund usage and raising public awareness about the funds should be stipulated in any guidelines developed for LDFs, to encourage greater participation in project implementation and oversight.

Processes to ensure inclusive participation: If designed and managed properly, LDFs in Myanmar can serve as a suitable financing mechanism for community development projects, and pave the way for more significant forms of fiscal decentralization, alongside greater devolution of powers. Unfortunately, the rapid pace of reforms that has brought about these funds and the institutions that manage them has also meant a general lack of formal procedures for fund management, especially regarding community participation. The change of government in 2016, and the peace process, present potential opportunities to agree on appropriate and more formalized procedures, particularly with regard to inclusive participation.

Ramifications for the peace process: One of the key benefits of well-designed and participatory LDFs is their ability to build trust and confidence between communities and the government. This has significant implications for the potential positive role that LDFs might be able to play in areas where ceasefire groups operate. Here, LDFs could offer new funding sources that meet local development needs and engage with existing structures within the community, but only if LDFs can simultaneously ensure respect for ethnic priorities, foster local initiatives and leadership, and avoid Bamarization of these areas. Where governance remains contested, LDFs can do more harm than good, as funds could increase the government's influence in these areas and potentially fuel conflict. Where communities comprise ethnically diverse populations, there may be potential for LDFs to promote greater cooperation, if LDFs are truly inclusive and formally defined guidelines for allocation exist.

FOUR: KEY QUESTIONS AND FUTHER READING

Discussion Questions

- At which level of administration should allocation of local development funds (LDFs) lie? What (if any) would be the most appropriate role for chief ministers in LDF allocation?
- What measures can be taken to ensure that LDFs complement strategic national planning in a coordinated way, for more effective targeting of resources?
- How can LDFs be used in areas where EAGs operate, particularly where EAGs have existing administrative and service-provision structures? Can LDFs support stabilization in these areas?
- What should be the process for establishing more formal procedures, guidelines, and formulas for fund allocation and disbursement? Which actor(s) should be responsible?
- What practical measures can be taken to ensure that the needs of women and marginalized groups, especially ethnic minorities, are reflected in needs assessments and prioritization processes for allocating LDFs?
- What steps could be taken to mitigate the risk of corruption and instill systems of accountability that could help to build trust and increase the legitimacy of committees?

Further Reading

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