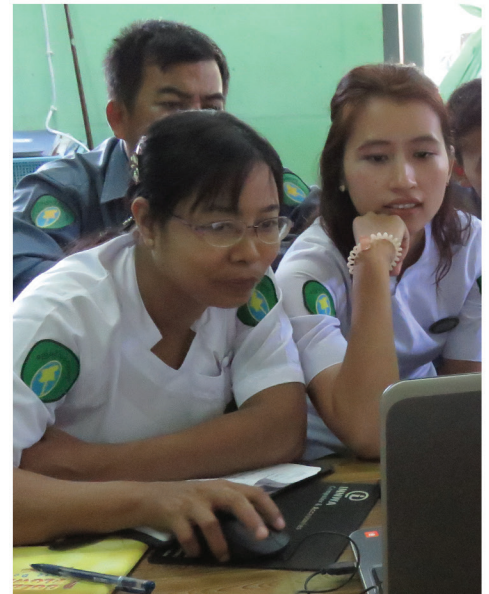


# The Provision of Public Goods and Services in Urban Areas in Myanmar:

## Planning and Budgeting by Development Affairs Organizations and Departments



Michael Winter and Mya Nandar Thin

DECEMBER 2016



RENAISSANCE INSTITUTE



The Asia Foundation

Improving Lives, Expanding Opportunities

**The Provision of Public Goods and Services  
in Urban Areas in Myanmar:  
Planning and Budgeting by Development Affairs  
Organizations and Departments**

Michael Winter and Mya Nandar Thin

December 2016



## Acknowledgements

The authors thank the many Development Affairs Organization (DAO) officials in Shan, Mon and Kayin States and in Ayeyarwady and Tanintharyi Regions who discussed their work and generously provided access to DAO documentation. The authors would also like to thank members of Township Development Affairs Committees (TDACs) who contributed to the production of this report.

In addition, the authors thank the staff of The Asia Foundation and Renaissance Institute for providing invaluable logistical and administrative support.

## About the Authors

Michael Winter, the lead author of the report, over the last twenty years, has worked as a consultant on local government and local development issues in Asia and Africa. His main clients have included UNCDF, UNDP, the World Bank, the Asian Development Bank, SDC, and the UK's Department for International Development (DFID). Mya Nandar Thin is a Program Associate at Renaissance Institute and provides support in the planning and implementation of research and advocacy activities lead by the Public Financial Management Reform team.

## About The Asia Foundation and Renaissance Institute

The Asia Foundation is a nonprofit international development organization committed to improving lives across a dynamic and developing Asia. Informed by six decades of experience and deep local expertise, our programs address critical issues affecting Asia in the 21st century—governance and law, economic development, women's empowerment, environment, and regional cooperation. In addition, our Books for Asia and professional exchanges are among the ways we encourage Asia's continued development as a peaceful, just, and thriving region of the world. Headquartered in San Francisco, The Asia Foundation works through a network of offices in 18 Asian countries and in Washington, DC. Working with public and private partners, the Foundation receives funding from a diverse group of bilateral and multilateral development agencies, foundations, corporations, and individuals.

The Renaissance Institute (RI) is a policy institute that is closely assisting the government and key policy makers of Myanmar with policy recommendations and research for evidence-based policy making. RI provides analytical support, assists government capacity-building and facilitates engagement between Myanmar's government and other relevant stakeholders. In particular, RI is supporting key policy priorities of the current government: public financial management reform and fiscal decentralization.



**The Asia Foundation**

Improving Lives, Expanding Opportunities



**RENAISSANCE INSTITUTE**

## Preface

With over a third of the Myanmar's population living in urban areas, the governance of towns and cities is of increasing importance. With rising rates of urbanization and population growth, urban services are a critical interface between citizens and government. Outside of Yangon, Mandalay and Nay Pyi Taw, urban agencies called Development Affairs Organizations (DAOs) provide a range of services and goods to the urban populace as well as oversee local economic governance. As key actors for urban management, attention to and support of DAOs are vital to Myanmar's democratic transition and economic development.

The Asia Foundation and the Renaissance Institute are pleased to present this research on the planning and budgeting frameworks and processes of DAOs. Understanding the mechanics of Myanmar's urban management and financing is critical to improving the livability of its urban areas and catalyzing their economic progression. Critical challenges facing DAOs are their exceptionally wide range of responsibilities and the need to be largely self-funding. However, as the most decentralized agency in Myanmar's government, DAOs are in a unique position to potentially strengthen local service delivery as well as help rebuild the social contract with citizens by improving fiscal accountability and transparency. Overall, supporting the reform and development of DAOs has the potential to help close the gap between the government and the citizen, foster trust and contribute to development outcomes that impact the daily lives of the urban populace. We hope that this report will contribute to ongoing discussions of governance and reform issues that are critical to Myanmar's democratic transition and economic development.

This paper is authored by independent researcher, Michael Winter, and Mya Nandar Thin, a Program Associate of the Renaissance Institute. Michael Winter is an expert in the field of local government and urban financing and Mya Nandar Thin has prior work experience in election observation and is currently working in the field of public financial management reform. The report was generously funded by the United Kingdom's Department for International Development (DFID), the Australian Department of Foreign Affairs and Trade (DFAT) and the Swiss Agency for Development and Cooperation (SDC). The opinions expressed in this report are solely those of the authors and do not necessarily reflect those of DFID, DFAT, SDC or The Asia Foundation and Renaissance Institute.

Dr. Kim N.B. Ninh

Country Representative

The Asia Foundation

U Soe Win

Executive Director

Renaissance Institute

# Table of Contents

Acronyms .....	i
Executive Summary .....	ii
<b>Section ONE: Introduction</b> .....	<b>1</b>
1.1 Report overview .....	1
1.2 Study approach .....	1
<b>Section TWO: Urbanization, urban areas and DAOs</b> .....	<b>2</b>
2.1 Urbanization and urban areas in Myanmar .....	2
2.2 Myanmar’s institutional response to urbanization and urban areas: Development Affairs Organizations .....	3
2.2.1 Overview .....	3
2.2.2 Development Affairs Organizations and Departments of Development Affairs: Myanmar’s hybridized arrangements for urban governance and management .....	4
<b>Section THREE: Management, functions and finance</b> .....	<b>8</b>
3.1 Who runs the DAOs? Management and resources of Development Affairs Departments and organizations .....	8
3.1.1. State/region level: DDAs .....	8
3.1.2. DAOs .....	9
3.1.3. DAO/DDA staff: subnational civil servants .....	12
3.1.4. Development Affairs Committees .....	13
3.2. What do DAOs do? DAO functions and spending patterns .....	14
3.2.1. State/region DDAs .....	14
3.2.2. DAOs .....	15
3.3. What do DAOs spend? DAO expenditure patterns .....	21
3.3.1. Aggregate expenditure patterns in state/region DAO systems .....	21
3.3.2. Individual DAO expenditure patterns .....	30
3.4. DAO finance: how do DAOs finance spending? .....	34
3.4.1. Revenue assignments, sources of revenue, and revenue re-distribution .....	34
3.4.2. DAOs: revenues and revenue patterns .....	36
3.4.3. DAOs: local and not-so-local own-source revenues .....	44
<b>Section FOUR: Planning, budgeting, and service delivery</b> .....	<b>48</b>
4.1. Long-term, strategic and urban planning .....	48
4.1.1. Long-term state/region planning and urban development strategies .....	48
4.1.2. Long-term and spatial planning by DAOs .....	48
4.2. Annual planning and budgeting .....	49
4.2.1. Budget calendars .....	50
4.2.2. Revenue forecasts and budget ceilings, caps, and floors .....	51
4.2.3. Choices: options and priorities .....	54
4.2.4. Budget submission and approval .....	59
<b>Section FIVE: Findings, discussion, and recommendations</b> .....	<b>61</b>
5.1. Findings & discussion .....	61
5.1.1. Bureaucratic discipline and procedures .....	62
5.1.2. Financing issues .....	62
5.1.3. Norms and practice .....	63
5.1.4. Longer-term, strategic, and spatial planning .....	63
5.1.5. Participation, accountability, and autonomy .....	64

5.2. Recommendations .....	64
5.2.1. DAO/DDA finance, planning/budgeting, and infrastructure/service delivery .....	65
5.2.2. DAOs, local governance and wider institutional frameworks .....	67
<b>Bibliography</b> .....	69
<b>Annex 1: Urbanization in Myanmar</b> .....	71
<b>Annex 2: State and Region government structures</b> .....	72
<b>List of Figure</b>	
Figure 1: Level of urbanization by township .....	2
Figure 2: DAO functional assignments .....	16
Figure 3: DAO expenditures by state/region per capita (for total state/region population) .....	29
Figure 4: DAO expenditures by state/region per capita (for total state/region population) .....	29
Figure 5: Current/capital expenditure (Tanintharyi Region and Mon State) .....	30
Figure 6: Composition of current expenditures in a sample of DAOs: Smaller towns and DAO offices .....	31
Figure 7: Composition of current expenditures in a sample of DAOs: Larger towns and DAO offices .....	32
Figure 8: Composition of capital expenditures in a sample of DAOs .....	33
Figure 9: DAO/DDA revenues per capita (by state/region) .....	41
Figure 10: DAO sources of revenue .....	42
Figure 11: Revenue sources and size of urban area (Ayeyarwady Region DAOs) .....	43
Figure 12: Ayeyarwady Region DAO revenue sources and township urbanization .....	43
Figure 13: Hlaing Bwe DAO small town revenues .....	44
Figure 14: Dawei DAO big town revenues .....	45
Figure 15: IRD revenue shares, Ayeyarwady DAO revenues and town size .....	46
Figure 16: Increasing per capita DAO revenues and declining rates of urbanization (Ayeyarwady) ..	47
Figure 17: Steps in the DAO/DDA annual planning and budgeting process .....	50
Figure 18: Tanintharyi Region total DAO revenues (2011-2016) .....	53
Figure 19: Ayeyarwady Region composition of the DAO/DDA current expenditure budget (FY 2016-17) .....	55
Figure 20: Ayeyarwady Region composition of DAO/DDA planned/budgeted capital expenditure (FY 2016-17) .....	57
<b>List of Boxes</b>	
Box 1: DAOs and DDAs Recent institutional history .....	4
Box 2: Township administrations in Myanmar .....	5
Box 3: DAOs/DDAs: A municipal glass – half full or half empty? .....	7
Box 4: DAO transport infrastructure activities in FY 2016-17 .....	17
Box 5: “Force account” modalities in public works .....	17
Box 6: Private sector waste collection in small cities and large towns .....	19
Box 7: Municipal water supply in Hpa-An (Kayin State): Future prospects .....	21
Box 8: Local government revenue forecasting .....	52
Box 9: Capital investment planning in Nyaungdon DAO .....	58
Box 10: DAO/DDAs’ overall context to and process of planning & budgeting .....	61
<b>List of Tables</b>	
Table 1: State/region DDA staffing levels .....	9
Table 2: DAO classes and numbers .....	10
Table 3: Ayeyarwady DAO – staffing levels .....	11
Table 4: Urban water supply in selected developing countries (% of households) .....	20

Table 5: DAO expenditure and Union transfers per capita .....	22
Table 6: Total DAO system expenditures in MMK (Ayeyarwady, Tanintharyi, and Mon) .....	23
Table 7: Total DAO system expenditure in USD (Ayeyarwady, Tanintharyi, and Mon) .....	24
Table 8: Total DAO system current & capital expenditures in MMK (Ayeyarwady, Tanintharyi, and Mon) .....	25
Table 9: Total DAO system current & capital expenditures in USD (Ayeyarwady, Tanintharyi, and Mon) .....	27
Table 10: Total DAO system revenues in MMK (Ayeyarwady, Tanintharyi, and Mon) .....	37
Table 11: Total DAO system revenues in USD (Ayeyarwady, Tanintharyi, and Mon) .....	38
Table 12: Total DAO system unspent balances in MMK (Ayeyarwady, Tanintharyi and Mon) .....	39
Table 13: Total DAO system unspent balances in USD (Ayeyarwady, Tanintharyi, and Mon) .....	40
Table 14: DAO/DDA budget calendars (BEs) .....	50
Table 15: DAO revenue forecasts (2015-16 and 2016-17) .....	52

## Acronyms

ADB	Asian Development Bank
BE	Budget Estimate
DAO	Development Affairs Organization
DDA	Department of Development Affairs
DUHD	Department of Urban and Housing Development
DRD	Department of Rural Development
EO	Executive Officer
FY	Fiscal Year
GAD	General Administration Department
IRD	Internal Revenue Department
JICA	Japan International Cooperation Agency
MMK	Myanmar Kyat
MoBA	Ministry of Border Affairs
MoLFRD	Ministry of Livestock, Fisheries, and Rural Development
OSR	Own Source Revenue
NRW	Non-Revenue Water
RE	Revised Estimate
RI	Renaissance Institute
S/R	State/Region
SLORC	State Law and Order Restoration Council
SWM	Solid Waste Management
TDAC	Township Development Affairs Committee
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
UNICEF	United Nations Children’s Fund
WHO	World Health Organization

### **A note on DDA and DAO nomenclature**

This report refers to Departments of Development Affairs (DDAs) as being the state or regional government institutions to which individual Development Affairs Organizations (DAOs; at the township or sub-township levels) are partly accountable. As such, DDAs should not be confused with what were once a department in the Ministry of Border Affairs.

This report refers to a DAO/DDA system as being the combination of the state/region DDA and its constituent DAOs at the township or sub-township levels.

## Executive Summary

- This research report looks at the ways in which finance, planning, and budgeting take place among Development Affairs Organizations (DAOs) in Myanmar.** The report is based on: (i) fieldwork carried out in Myanmar in June/July 2016, during which a small team from The Asia Foundation (the Foundation) and the Renaissance Institute (RI) visited several states and regions;<sup>1</sup> (ii) desk reviews of documentation on DAOs;<sup>2</sup> and (iii) broad international experience in the area of municipal governance, finance, and service delivery. It is important to note that this paper does not include any discussion of DAOs in Myanmar's three largest cities (Yangon, Mandalay and Nay Pyi Taw), all of which have specific urban management arrangements. Instead, the paper focuses on DAOs in Myanmar's secondary cities and towns.
- Myanmar is already fairly urbanized and will become increasingly urban in the coming decades.** Currently, about 33.5% of the country's total population live in urban areas; Myanmar's level of urbanization is thus similar to that of India and Bangladesh. Moreover, the urban population is growing faster than the country's population as a whole; by 2030, it is expected that 4 out of 10 citizens will live in urban areas. Urbanization is also widespread; although almost 40% of the urban population live in Myanmar's three major cities, while over 60% live in secondary cities and towns. Managing urban areas is important in meeting the needs of a significant percentage of Myanmar's population and to ensure that urbanization contributes to overall national growth. In their current or future form, DAOs should therefore be taken seriously.
- In the secondary cities and towns of Myanmar's states and regions, a range of urban public goods and services are provided by DAO/Department of Development Affairs (DAO/DDA) systems.** These DAO/DDA systems are under state/region governments and operate—for most intents and purposes—independently of the Union Government. DAO/DDA systems are subject to the development affairs laws of each state/region, but are very similar to each other in practice. Although DAO/DDA systems do benefit from shares of some Union-collected revenues and a few transfers from their state/region governments, they typically finance most of their activities through own-source revenues.
- At the state/region level, DAO/DDA systems operate like ministries or publicly owned economic enterprises.** DAO/DDA systems in each state/region typically consist of:
  - **A varying number of DAO township and sub-township offices** that collect a range of local revenues within their township jurisdictions and which use those revenues (plus a few others) to finance “municipal” services in urban wards. Although their mandate appears to be wide-ranging, in practice, DAOs deliver a fairly limited set of urban public goods and services. The construction/maintenance of road-related infrastructure and the provision of solid waste management services are the most important public goods that are delivered by DAOs. A few DAOs provide municipal water supply services. In addition, all DAOs regulate (and levy fees on) local businesses. DAOs are structured into two components: (a) the Township Development Affairs Committee (TDAC), which includes a number of (s)elected community representatives (one of whom is the TDAC Chair);<sup>3</sup> and (b) the DAO office itself, staffed by full-time civil servants.
  - **A state/region level DDA**, which is the collective budget unit for all DAOs in the state/region, and which is responsible for submitting a consolidated annual budget to the state/region government and for supervising, monitoring, and supporting its constituent township and

<sup>1</sup> Specifically, Mon, Kayin and Shan States; and Ayeyarwady and Tanintharyi Regions.

<sup>2</sup> Including two earlier reports of The Asia Foundation on DAOs (see Arnold et al. 2015 and Bissinger 2016).

<sup>3</sup> The term s(elected) has been used throughout the paper as in some cases community representatives on committees are selected (appointed) and in other cases they are elected.

sub-township DAOs. All DDAs are accountable to their respective state/region cabinets through their Ministers of Development Affairs. In a few cases, DDAs are also overseen by state/region Development Affairs Committees.

**If conceptualized as a state/region ministry, DAO/DDAs systems operate as highly de-concentrated departments, in which DAO offices are largely free to plan and budget as they see fit, provided that their spending is matched by their revenues.** Myanmar's DAO/DDA systems do not fit comfortably into orthodox institutional typologies. DAOs are not exactly municipalities; nor are they township municipal services departments. The DDAs are not exactly state/region Ministries of Urban Development or Ministries of Urban Services.

5. **In terms of public finance, DAO/DDA systems account for a relatively small proportion of total subnational expenditures, depending on the state/region.** For fiscal year (FY) 2016-17, for example, total budgeted DAO/DDA expenditure accounted for about 8% of the total S/R budget in Ayeyarwady Region, about 6% in Shan State, and about 5% in Tanintharyi Region.
6. **However, DAO/DDA systems do account for a large proportion of subnational own-source revenues.** For FY 2016-17, for example, DAO revenues account for 53% of Ayeyarwady Region's total own-source revenues, 47% of Shan State's, and 56% of Tanintharyi Region's. Given that DAO revenues are earmarked for DAO spending, it can be seen that a sizeable share of state/region revenues are used to fund urban infrastructure and service delivery.

#### ***DAO revenues and finance***

7. **DAOs finance urban infrastructure and service delivery through a mixture of own-source revenues, revenues shared with/by the Union Government, and (very) limited transfers from their state/region governments or from other DAOs.**<sup>4</sup> Of these, own-source revenues represent by far the largest share of total revenues, generally in the order of 90-95% of total DAO revenues. Total annual DAO revenues act as a hard budget ceiling, within which DAOs need to plan and budget for their infrastructure and service delivery activities.
8. **Own-source revenues can be broken down into three categories.** For most DAOs, the largest own-source revenue derives from license auctions, through which local monopolies (such as slaughterhouses or ferry services) are auctioned out to private sector operators. License auctions represent 40-70% of total DAO revenues, depending on the township. The next largest source of DAO revenues derives from a range of business licenses. The third main source of own-revenue consists of property rates (often translated as taxes), which are paid by households and businesses for basic municipal services (waste collection, street lighting, etc.). Generally, property rates account for less than 10% of total DAO revenues.<sup>5</sup>
9. **In addition, DAOs also get a small share of income tax (5%) and stamp duty (2%),<sup>6</sup> which is collected by the Internal Revenue Department (IRD) and allocated to DAOs on the basis of derivation;<sup>7</sup>** IRD is a Union Government agency. Such tax shares are usually lumped into overall property rates in DAO financial reports, but where they can be distinguished, revenue shares can amount to up to 45% of their total local tax revenues.
10. **Some DAO/DDA systems receive transfers from their respective state/region governments.** In

<sup>4</sup> For all intents and purposes, DAOs do not borrow.

<sup>5</sup> Given that the line item for "taxes/rates" in DAO revenue budgets often lumps together property rates, wheel (or vehicle) taxes, and tax shares, it is difficult to quantify the exact amount budgeted or collected as property rates.

<sup>6</sup> It is understood that these tax-sharing arrangements are currently being phased out. By FY 2017-18, DAOs will no longer receive shares of income tax and stamp duty; instead, states/regions will receive them.

<sup>7</sup> That is township DAOs receive shares of the taxes that are collected within their jurisdictions.

Mon State, for example, DAOs are expected to derive roughly a sixth of their total revenues in 2016-17 from state government transfers; in Kayin, DAOs have been provided with in-kind transfers (in the form of vehicles). **Finally, where township or sub-township DAOs do not generate sufficient own-source revenues, they will receive transfers from more fiscally affluent DAOs within their respective states/regions.** This amounts to a kind of “equalization” across DAOs within a given state/region’s DAO/DDA system.

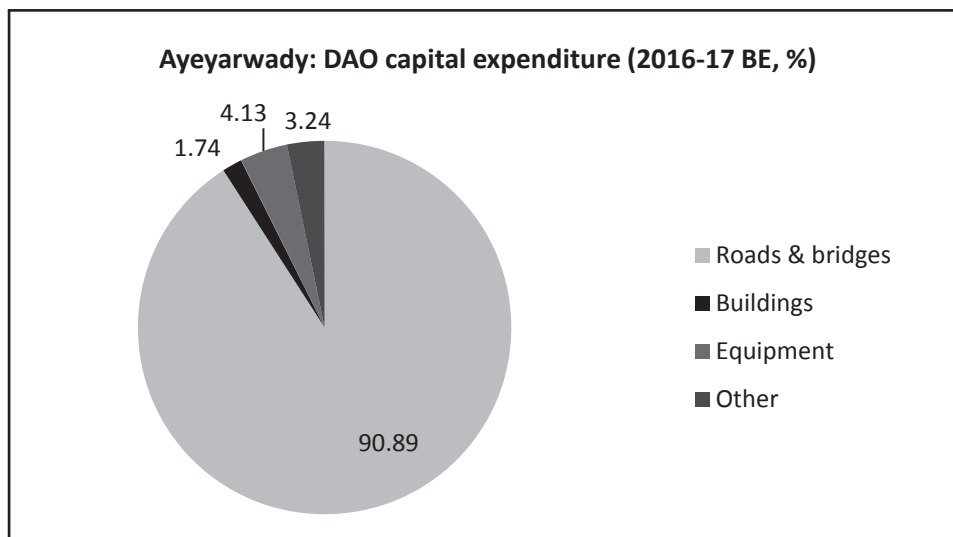
11. For the purposes of this report, there are **two important points** to note about DAO revenues:
  - Firstly, **DAOs are not wholly reliant on their own-source revenues**: not only do many DAOs benefit from shares of Union levied taxes; some DAOs are also provided with transfers from their respective state/region governments. DAOs are not “fiscally” autonomous, even if they do rely very largely on own-source revenues.
  - Secondly, **DAO own-source revenues are generally collected from a township-wide jurisdiction and are not limited to their urban areas**. License auctions, for example, provide DAOs with revenues from non-urban locations (e.g. ferry points in rural areas, slaughterhouses outside of the main towns). Given that DAO expenditures are concentrated exclusively on financing expenditures in urban areas, rural areas are partly paying for them.

#### ***DAO planning and budgeting for infrastructure and service delivery***

12. For the purposes of this report, planning is defined as the process of making choices and identifying spending priorities, usually within the context of limited resources.
13. **DAOs do not appear to undertake much in the way of longer-term strategic planning, medium-term investment planning, or spatial (town) planning.** A few DAOs have drawn up 5-year plans, but do not use them to guide annual investment decisions. There are no DAOs that have drawn up 3-year rolling investment plans or established investment pipelines. In a few cases, there are town spatial plans, but these have usually been drawn up by the Department of Urban and Housing Development (DUHD) in the Ministry of Construction and are clearly not something for which DAOs feel responsible. In the absence of any longer-term or spatial planning, DAO planning is largely limited to annual planning and budgeting.
14. **Annual planning and budgeting by DAOs takes place within the framework of annual revenue estimates, which provide a hard budget ceiling within which annual current and capital spending is prioritized.** In addition, some de facto budget norms further shape annual planning and budgeting processes. Payroll expenditure is normatively capped at 30% of total expenditure and DAO capital expenditure is expected to be at least 50% of total expenditure.
15. **Planning and budgeting also take place within the framework of the formal functions and responsibilities assigned to DAOs by state/region development affairs laws.** These are much the same from one state/region to another, and are summarized in the DAO functional assignments figure. In principle, DAOs have a wide functional mandate.
16. **In practice, when it comes to annual planning and budgeting for current expenditure items, DAOs do not have many options open to them.** To begin with, total current expenditure is effectively capped at 50% of the budget. A good portion of that is taken up by largely inflexible payroll spending, as well as regular operating expenses. What little room is left in the current budget leaves little room for choice and little fiscal space within which to expand some services or contract others. As a result, DAO current budgets tend to be much the same from year to year.
17. **For investments, it might be assumed that DAOs have more options, given their wide mandate**

**and the discretion they enjoy in prioritizing spending. In practice, however, DAOs do not have many investment choices.** A number of their mandated functions either require little in the way of infrastructure or capital or only very limited investment is needed.<sup>8</sup> Other mandates are unlikely to be appropriate in the context of many of Myanmar’s smaller urban centers. In addition, DAOs do not have a mandate for the provision of education or health services and therefore cannot invest in education/health facilities.<sup>9</sup> Moreover, and given their reliance on relatively limited revenues, DAOs are unable to make costly (or “lumpy”) investments in large scale infrastructure (such as flyovers or water supply networks).

18. **DAO investment choices, then, are effectively limited to two main types of spending: modest, road-related, infrastructure items and the purchase of equipment/vehicles.** These are the basic options that DAOs have when it comes to annual investment planning. For most DAOs, annual planning is largely a matter of making decisions about which roads or bridges to upgrade, repair or maintain, and which equipment or vehicles to purchase. In the case of the latter, there is often little need to decide as there are few requirements. This limited range of investment choices is mirrored in actual DAO capital expenditure patterns (see the figure for capital expenditure patterns for all DAOs in Ayeyarwady Region).



19. **The DAO planning and budgeting process for road/bridge sector investments appears to be both bottom-up and driven by technocratic considerations.** DAO offices, along with TDACs, clearly make an effort to consult with neighborhoods about priorities. This is not a systematic or institutionalized series of consultations, and only in a few cases are there formal ward-level committees with a mandate to identify and prioritize local needs. Consultations appear to be largely ad hoc, based on in-depth local knowledge, and also on the personal networks of TDAC (s) elected members. Technocratic considerations overlay any local prioritization, and are used by DAO engineers to inform their decisions on the basis of which roads are most heavily used or which roads serve a more “strategic” function within the urban transport network.
20. **In sum, DAO annual planning and budgeting is: constrained by resource availability and budget norms; limited, in practice, to making choices about capital expenditure; largely about making decisions in relation to upgrading, repairs, and maintenance of the urban road network; and informed by both bottom-up (albeit largely informal) consultations and technocratic considerations.** It is not informed by any longer-term, strategic or spatial planning. Nor does it

<sup>8</sup> Urban areas, for example, can only use a limited number of cemeteries or sports grounds; towns or even small cities need to be quite large in order to require costly investments in sanitary landfill sites.

<sup>9</sup> Schools and health centers are typically a major expenditure item for local governments in most countries.

involve coordination with other plans or other public sector agencies.

21. **This report concludes by making some recommendations about the way forward with respect to DAOs, in general, and with respect to DAO finance, planning/budgeting, and service delivery, in particular.** For example, in the medium to long terms, the Union Government and state/region governments will need to think through “big” local governance issues, with a specific focus on municipal or urban governance. Thinking about municipal governance is likely to be a good starting point, if only because urban services (in the form of “development affairs”) are already seen as being a state/region responsibility and because township DAOs already enjoy a good deal of de facto autonomy when it comes to the delivery of urban public goods and services.

# Section ONE: Introduction

## 1.1. Report overview

This report summarizes the findings and recommendations of a study on planning and budgeting of Development Affairs Organizations (DAOs) in Myanmar's states and regions. The study looked at the overall institutional and financing framework for DAOs, as well as the actual processes and outcomes of DAO planning and budgeting. The report also includes a set of broad suggestions as to how the government (at both the Union and state/region levels) might address some key issues related to DAO planning, budgeting, and service delivery, and how Myanmar's development partners might provide appropriate assistance.

The report is structured as follows:

- The first section provides a short summary of the governance and management challenge posed by urbanization in Myanmar, followed by a brief description of DAOs as Myanmar's primary institutional response to that challenge.
- The second section provides a description and analysis of the overall institutional and financing framework for DAOs.
- The third section examines DAOs and analyzes their planning and budgeting processes and outcomes.
- The fourth section of the report sums up the overall findings of the study and provides some recommendations for both the government (at Union and state/region levels) and development partners.

## 1.2. Study approach

This study of DAOs and their planning/budgeting activities in urban areas does not cover Myanmar's three principal cities (Yangon, Mandalay, and Nay Pyi Taw), all of which are subject to specific governance and management arrangements. Instead, this research has focused on DAO planning and budgeting in the smaller cities and towns of the other 12 states/regions in Myanmar.

This report is based on research that was conducted over the period April to July 2016. The research included:

- A review of the existing documentation on urban governance and service delivery in Myanmar, including several key reports published by The Asia Foundation.
- A number of field visits in selected urban areas of Myanmar. These included visits to Nay Pyi Taw and, most importantly, to Shan, Mon and Kayin States and to Ayeyarwady and Tanintharyi Regions—in all of which the study team had extensive meetings with government and DAO officials.

The study team was able to obtain a relatively large number of planning and budgeting documents from DAOs. Although not always complete, this DAO documentation was very useful for the research.

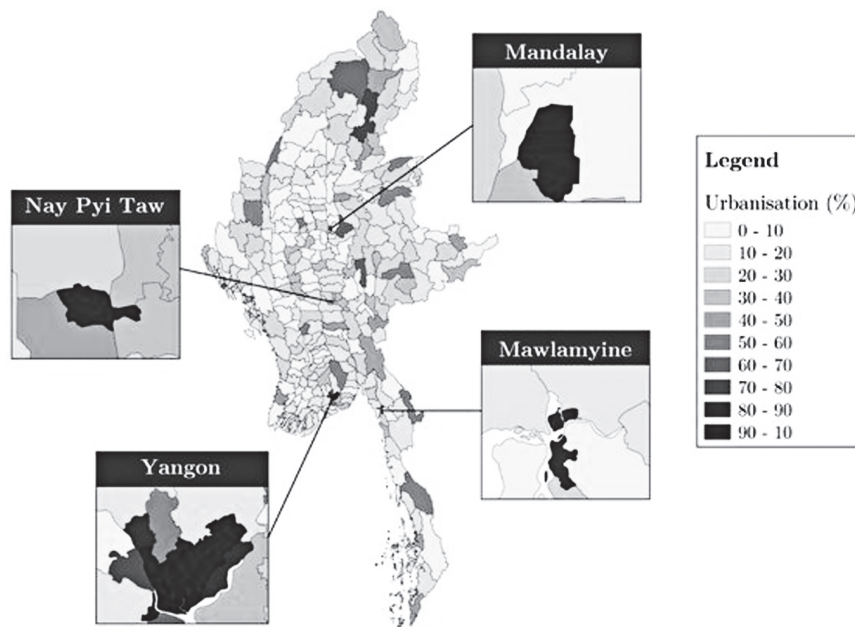
## Section TWO: Urbanization, urban areas and DAOs

### 2.1. Urbanization and urban areas in Myanmar

**Why is it important to take seriously, the issues related to the governance and management of urban areas in Myanmar?** There are three main reasons: firstly, an increasingly large proportion of the country's total population is, and will be urban; secondly, providing public goods and services in urban areas plays a key role in ensuring that urbanization is not only "liveable" but also economically beneficial; and, thirdly, urban areas pose quite specific service delivery and management challenges.

**Large numbers of Myanmar's population already live in urban areas and an increasingly large proportion will do so in the future.** Myanmar is (surprisingly) a fairly urbanized country: currently, roughly a third (33.55%) of Myanmar's total population of about 51 million<sup>10</sup> resides in urban areas.<sup>11</sup> Myanmar's level of urbanization is thus comparable to that of India (32.37%) and Bangladesh (33.52%), although it does not have anything like the mega-cities of India or Bangladesh. Moreover, Myanmar's cities and towns are growing rapidly: the urban population is growing at around 2.5% per year (considerably faster than the 0.85% growth rate of the population as whole). By 2030, an estimated 43% of Myanmar's total population will be urban, so in less than 15 years from today (2016), 4 out of every 10 Myanmar citizens will be living in towns and cities of some kind. Moreover, urbanization is widespread and is not confined to one or two parts of the country. Although a large proportion (38%) of Myanmar's urban population lives in its main cities of Yangon, Mandalay, and Nay Pyi Taw, the majority (62%) lives in smaller cities, towns and minor urban settlements. Urbanization is thus taking place across the country (see Figure 1).

**Figure 1: Level of urbanization by township**



Source: International Growth Centre 31 March (Twitter)

<sup>10</sup> The demographic data used here are taken from the World Bank's World Development Indicators database available at: <http://data.worldbank.org/country/myanmar?view=chart>.

<sup>11</sup> Myanmar's urban population is defined, in the 2014 census, as being made up of ward (rather than village tract) residents. Wards are classified as such by the General Department of Administration (GAD), however, on what basis GAD defines a ward is not known.

Annex 1 of this report provides details on levels of urbanization by state/region, as well as a list of the cities and towns with a population greater than 20,000.

**Urbanization is potentially advantageous, through the opportunities it offers in terms of agglomeration economies,<sup>12</sup> and more rapid economic growth. However, these advantages of urbanization can be undermined through negative externalities, also resulting from high urban population densities:** over-loaded infrastructure, congestion, over-crowding, higher costs of living, greater public health hazards, pollution, and the like. Many of these externalities can be addressed through public sector interventions: regulation, planning, coordination, public investments in infrastructure and services, and the like. How well (or badly) these public goods and services in urban areas are delivered makes a considerable difference to whether urbanization drives economic growth, as well as to the livelihoods and well-being of large numbers of urban residents.

**Urban areas typically require public goods and services that are different and additional to those needed in more rural areas. As well as regular social services (such as education and health), urban areas need waste management services, greater public transport services, networked water systems and the like, which are generally not required in rural areas.** Higher urban population densities and urban economic activities pose serious public health challenges due to greater waste generation and pollution; they also need specific water supply services; and pose major challenges (and require costly solutions) when it comes to meeting the needs for public transportation and connectivity. Finally, land use and spatial planning in urban areas are often of much greater importance and complexity than in rural areas. These specifically urban challenges are in addition to the regular requirements of citizens (such as education, health, security, etc.).

## **2.2. Myanmar's institutional response to urbanization and urban areas: Development Affairs Organizations**

### **2.2.1. Overview**

**In most developing countries, local authorities of some kind usually play a role in urban governance and management.** Nonetheless, governance arrangements in urban areas are highly variable. These usually involve a combination or mix of elected local government, and/or institutionally distinct urban local governments (cities and municipalities), and/or metropolitan authorities (for large cities), and/or single- or special-purpose urban authorities (for such services as water supply or transport, or for planning). Central or national governments also play a varying role in urban governance, management and regulation, often through line ministries (for “non-urban” services such as health and education) or ministries of urban development and housing.

**Compared to many (if not most) countries, urban governance in Myanmar is atypical, and unsurprisingly so given the country's particular politico-administrative history.** A short history of urban governance and the management of urban areas in Myanmar can be found in a previous report of The Asia Foundation.<sup>13</sup> What is important to note here is that Myanmar does have colonial and immediate post-independence experience of “municipal” governance of some kind and many policymakers and citizens are familiar with concepts such as city governments and self-governing municipalities. However, Myanmar's current institutional response to the challenge of managing urban areas remains unorthodox (by any standards), even in Yangon and Mandalay, where City Development Committees (CDCs) have been in place for some time.

<sup>12</sup> See Glaeser & Joshi-Ghani (2013): “The benefits of being around other people are typically labeled agglomeration economies, the starting point for understanding the sources of urban success... At their core, agglomeration economies occur because density increases the ease of moving goods, people, and ideas. Cities remove the physical spaces between people and firms, and proximity is valuable precisely because it makes connections easier. ... The most basic agglomeration economy is the reduction of transport costs for goods ... if a supplier locates near customers, the costs of shipping decline.”

<sup>13</sup> See Arnold M. et al. (2015).

**Outside of Yangon, Mandalay, and Nay Pyi Taw, direct management of urban areas is effectively split between the Union and state/region governments:**

- **At the Union level, the Department of Urban and Housing Development (in the Ministry of Construction) appears to take the lead in terms of urban development policies, urban/town planning, and urban infrastructure development.** The department is in the process of re-drafting a law on regional and urban planning. It has offices in the states/regions, which appear to be under-staffed and under-resourced. In addition, other Union agencies (such as the General Administration Department – GAD) also appear to play a role in urban planning, largely as a result of their institutional responsibility for land administration, and (in the case of GAD) of the pre-eminent role played by the township and district administrators who are the senior local Union officials charged with convening and coordinating other local departments.
- **At the state/region level, development affairs “systems” are largely responsible for the day-to-day delivery of municipal public goods and services in cities and towns** (such as solid waste management, urban transport networks, public spaces, water supply, business registration, etc.). The governments of states and regions are responsible for regulating development affairs (or what might be termed municipal governance and management in other countries) and have done so through the enactment of development affairs laws (most of which date from the period 2012–2014).

### **2.2.2. Development Affairs Organizations and Departments of Development Affairs: Myanmar’s hybridized arrangements for urban governance and management**

**At the subnational level, the provision/delivery of urban public goods and services in Myanmar is largely in the hands of Development Affairs Organizations (DAOs) and their parent state/region Department of Development Affairs (DDA).** This report will consistently refer to:

- The institutions that are active in the direct delivery of urban public goods and services at the sub-state/regional level as Development Affairs Organizations (DAOs).<sup>14</sup>
- The state/region-level umbrella institutions which supervise, monitor, and support individual DAOs will be referred to as state/region Departments of Development Affairs (DDAs).
- The state/region cabinet-level minister in charge of the DDA (and its constituent DAOs) will be referred to as the State/Region Minister of Development Affairs (even if Development Affairs is only one of his/her sector portfolios).

The following box provides a brief summary of the recent institutional history of DAOs and DDAs.

#### **Box 1: DAOs and DDAs Recent institutional history**

In 1974, local governance actors, such as Municipal Committees and District Councils, were amalgamated into Township Development Committees with a focus on both urban governance and rural development ... additional changes were made to local administration via the 1993 Development Committees Law. Among other issues, this 1993 law clearly established that the Development Committees reported to the Ministry of Home Affairs and its respective officials. However, in January 1994, the Development Committees were moved out of the Ministry of Home Affairs’ General Administration Department and placed under the newly-created Ministry of Border

<sup>14</sup> In general, there are DAO offices in each township and in most sub-townships (collectively portrayed by DAO staff as being the main elements of the “GAD” system for territorial administration).

Affairs (MoBA)... all of the GAD's administrative functions for development affairs were officially shifted to MoBA. From 1997 until the change in government in April 2011, the MoBA was responsible for both municipal governance and rural development through its Department of Development Affairs.

The 2008 Constitution had major ramifications for subnational governance, and municipal governance in particular. The constitution moved the Department of Development Affairs out of the MoBA and spread its component subnational offices between the 14 states and regions, and under the full remit of the new state and region governments that were created in April 2011. In accordance with Schedule II of the 2008 Constitution, it was the only government entity that was placed under the total control of the state and region governments, and the Department of Development Affairs was abolished as a department of MoBA .... The MoBA's mandate to work on rural development did not shift to the state and region governments along with the DAOs, but rather went to the newly-constituted Ministry of Livestock, Fisheries, and Rural Development (MoLFRD) in June 2013. Within this new ministry was a dedicated Department of Rural Development (DRD), whose staff came primarily from the defunct Department of Development Affairs. In this manner, responsibilities over urban areas (DAOs) and rural areas (DRD) were once again officially separate.

**Source:** (and cited directly from): Arnold et al. (2015): 7-8.

**In general, DAO offices are located in the urban centers of townships and sub-townships,<sup>15</sup> and provide their respective urban areas with a variable range of “municipal” services:** solid waste management, the construction and maintenance of urban roads and streets, water supply, business registration and regulation, spatial and land use planning, etc. In certain respects, a DAO office operates as if it is the “urban services” department of a given township, in much the same way as a township's education office oversees educational services within the township.

## **Box 2: Township administrations in Myanmar**

Strictly speaking, there is at the moment no single *Township Administration* as one organizational unit (let alone something that resembles a local government). The present Township Administration is rather a number of loosely coordinated individual departments that all have their own lines of command and upward reporting, either to the states/regions or union level. As such, there is very little township planning, apart from the mechanical annual exercise of the township planning department in putting together the township plans for the various departments under one cover page, to be presented to higher levels of government, where the township plans are then stapled together and presented as e.g. the state/region plan under a state/region cover page.

**Source:** (and cited directly from): Gerhard van't Land (2016): *Institutional Assessment of Local Governance in Myanmar*.

**There are, however, several key differences between DAOs and other township sector departments, among others:**

- The DAOs parent institution, the DDA, is a purely state/region level public sector agency, with no equivalent at the Union level, and accountable only to the state/region cabinet. DAOs are formally accountable to their DDAs and thus to state/region governments.

<sup>15</sup> Although sub-townships do not appear to be official administrative units, they are used by DAO/DDA systems in several states and region (Kayin State, Shan State, and Tanintharyi Region) to denote small urban centers and their immediate rural hinterlands. In such cases, small DAO offices have been established to provide municipal services. They have their own budgets, but are typically unable to finance their expenditures through local revenues, and thus depend on transfers or subsidies from larger township DAOs.

- Each DAO has its own local oversight/governance body, the Township Development Affairs Committee (TDAC), made up of four locally (s)elected members and three representatives from the General Administration Department, Department of Rural Development, and the DAO office itself.
- Each DAO, by virtue of its revenue assignments and a few transfers (from the Union Government and states/regions), has its own source of income (partly shared with the DDA and other DAOs, as necessary). This allows individual DAOs to operate as semi-autonomous planning and budgeting agencies. In addition, DAOs spend the vast majority of their revenues on the provision of local public goods and services in the urban wards of their respective townships.

**DDAs are also distinct from other government departments (both Union and state/region) in several respects:**

- A few DDAs are subject to oversight,<sup>16</sup> regulation and policymaking by state/region level Development Affairs Committees. These are made up of state/region officials and representatives of the general public, and chaired by State/Region Ministers of Development Affairs.
- DDAs are stand-alone state/region departments, with no Union-level equivalent.
  - DDAs are the only service delivery agency (as opposed to state/region publicly-owned economic enterprises) at state/region level that employ significant numbers of sub-national civil servants.
- DDA budgets (made up of the budgets of individual DAO offices and that of the state/region office itself) are largely (but not wholly) reliant on the various revenues that are mobilized by DAO offices in the townships. Unlike other state/region agencies, DDAs are not dependent on Union transfers.

**The DAO/DDA system in each state/region typically consists of:**

- **A varying number of DAO township and sub-township offices** that collect a range of local revenues within their township jurisdictions and which use those revenues (plus a few others) to finance “municipal” services in their township’s urban wards. Each DAO is supervised, monitored, and assisted by a TDAC, partly made up of (s)elected representatives from urban areas.
- **A state/region level DDA**, which is the collective budget unit for all DAOs in the state/region, and which is responsible for submitting an annual budget to the state/region government and for supervising, monitoring and supporting its constituent township and sub-township DAOs. All DDAs are accountable to their respective state/region cabinets through their Ministers of Development Affairs.<sup>17</sup> In a few cases, DDAs are also overseen by state/region Development Affairs Committees.

**Myanmar’s DAOs and their parent state/region DDAs do not fit comfortably into orthodox institutional typologies.** DAOs are not exactly municipalities; nor are they township municipal services departments. The DDAs are not exactly State/Region Ministries of Urban Development or Ministries of Urban Services. Indeed, individual states/regions appear to see DAOs/DDAs in different ways: in Tanintharyi Region, for example, DAOs and the DDA are classified as being a ministry or department in the regional budget; in Shan State, on the other hand, DAOs and the DDA are classified (as quasi publicly-owned economic enterprises) as a budget category distinct from ministries/departments. Box 3 provides two (among potentially several) alternative ways of conceptualizing DAOs and DDAs.

<sup>16</sup> In Mon State, Shan State, and Magway Region.

<sup>17</sup> Annex 2 includes a diagram of state/region government structures, including development affairs.

Finally, it is worth emphasizing that DAO/DDA systems are not part of the Union Government and appear to be very largely the concern of state/region governments. The constitution appears to endorse this. And, in practice, state/region governments have been free to draft and enact their own development affairs laws. Indeed, since late-2012, all 14 state and region governments have developed their own development affairs laws, all of which are largely based on the State Law and Order Restoration Council (SLORC) Law No. 5/93. In spite of very similar laws, the various state/region DAO systems have begun to diverge in a number of ways since 2012, as will be seen in the following sections of this report.

### Box 3: DAOs/DDAs: A municipal glass – half full or half empty?

Two possible “ideal types” (or institutional models) can be applied to DAOs/DDAs, depending on how one wishes to see them:

**A highly deconcentrated State/Region Ministry of Municipal Services:**<sup>18</sup> headed by a state/region cabinet minister and consisting of a Department of Development Affairs, staffed by state/region civil servants. The DDA is made up of local branches (DAOs) in townships and sub-townships, in which the DAOs provide municipal services to urban wards. DAOs finance their service delivery functions by raising the largest share of their revenues through their townships, and a smaller share which is allocated to them by the state/region level and used by the state/region level to finance corporate DDA expenditures. Unused or unspent DAO revenues are passed on to state/region governments to finance general spending.

**A state/region “federation” of semi-autonomous municipalities,**<sup>19</sup> subject to local oversight through their respective TDACs, but subordinate to state/region legislative and policy oversight: DAO/municipal staff are seconded from the state/region DDA, which acts as a kind of umbrella-federation and as a liaison between state/region governments and DAOs/municipalities. DAOs/municipalities share a small proportion of their local revenues with the state/region level, but are largely free to spend their own revenue shares on local municipal services as they see fit.

<sup>18</sup> Many DAO officials appear to subscribe to this institutional ideal type. In the words of one senior DDA official in Ayeyarwady Region: “We are not municipalities. We are staff of the Regional Government”.

<sup>19</sup> This ideal type appears to dominate among those who see DAOs as embryonic or nascent forms of urban local government.

## Section THREE: Management, functions and finance

This section of the report provides a more detailed description of the institutional framework for DAOs/DDAs, as a foundation for the following section which will examine the specifics of DAO planning and budgeting.

### 3.1. Who runs the DAOs? Management and resources of Development Affairs Departments and organizations

#### 3.1.1. State/region level: DDAs

**At the apex of all state/region DAO/DDA systems are the Ministers of Development Affairs, who are full members of their respective state/region government cabinets.** State/region ministers often have multiple portfolios: The Minister of Development Affairs for Mon State, for example, is also the Chief Minister; the Minister of Development Affairs in Kayin State is, at the same time, State Minister of Planning and Finance.

**For the most part, day-to-day responsibility for development affairs is provided by the state/region DDA, headed up by its director, who also serves as the Secretary of the Development Affairs Committee.** As things stand at the moment, the DDA Director is the most senior civil servant in the DAO/DDA system in any state or region—and holds the most senior position that any full-time DAO/DDA staff member can expect to occupy through regular promotion.

**State/region DDAs are typically divided into two main divisions:**

- The administrative division, which generally consists of the department’s administrative unit, finance, and budget sections, and the tax and legal sections. It is this division that takes the lead in putting together annual DDA budgets, overseeing DAO budgets and budget execution, and providing DAOs with regulatory and revenue-raising assistance.
- The engineering division, which provides DAOs with technical support for roads/bridges and other sectors.

The heads of each of these DDA divisions effectively act as deputies to the DDA Director.

**In almost all cases, DDAs only have offices in their respective state/region capitals.** Only in the case of Shan State does the DDA have sub-state offices (in Lashio for Shan North and in Kengtung for Shan East).

**Staffing levels in state/region DDAs are modest.** Table 1 provides a summary of staffing levels in a number of state/region DDAs.

**Table 1: State/region DDA staffing levels**

State/region	State/region population	No. of state/region DDA staff (headquarters)	No. of DAO offices	
			Townships	Sub-townships
Kayin	1,504,326	26	7	9
Mon	2,054,393	27	10	2
Ayeyarwady	6,184,29	71	26	7
Tanintharyi	1,408,401	23	10	6

Although there is no comprehensive quantitative data, DDA offices appear to be under-equipped in terms of information and communications technology (ICT) equipment.<sup>20</sup>

### 3.1.2. DAOs

**DAO offices are the frontline service delivery units of the DAO/DDA system in Myanmar’s states and regions.** Administratively subordinate to the state/region DDA, township and sub-township, DAOs are responsible for the direct provision of municipal services within the urban areas of their respective jurisdictions.

**Within each state/region, DAO offices are located in townships and sub-townships.** Townships and sub-townships correspond to GAD’s territorial administrative units, and within jurisdictions of these administrative units, DAO offices provide municipal services in urban wards and collect revenues from both wards and village tracts. In general, township DAO offices are larger and provide more services than do their equivalents in sub-townships. Although DDA/DAO officials in some states/regions sometimes describe sub-townships as being “deficit” units (which spend more than they raise as local revenues), this is not always the case. Instead, it would probably be more accurate to describe sub-township DAOs as simply serving very small urban settlements (or even large villages).

#### *Classification*

**In principle, DAO offices are classified according to the quantum of revenues that they collect.**<sup>21</sup> This appears to be based on a 2004 regulation. Table 2 summarizes the hierarchy of DAO office classes in four states/regions.

<sup>20</sup> During the course of visits to DDAs in Shan, Mon and Kayin States and in Ayeyarwady and Tanintharyi Regions, the authors only noticed a few (and sometimes no) computers in the administrative offices.

<sup>21</sup> In reality, there is little evidence that the classification of DAOs is still consistent with the regulation. The annual revenues of only two individual DAO offices in Ayeyarwady Region, for example, are less than MMK 40,000,000, even though seven DAO offices are classed as D, E, or F (all of which are defined as having annual revenues of less than MMK 40,000,000).

**Table 2: DAO classes and numbers**

DAO Class <sup>22</sup>	Definition (by revenue MMK 000s)	No. of DAO offices by class			
		Kayin	Mon	Ayeyarwady	Tanintharyi
Special	> 150,000	-	1	1	-
A	75,000 – 150,000	2	3	8	3
B	55,000 – 75,000	-	1	8	-
C	40,000 – 55,000	1	1	9	-
D	20,000 – 40,000	-	4	4	-
E	6,000 – 20,000	1	-	3	5
F	< 6,000	3	-	-	2
Unclassed	n/a	9	2	-	6
<b>Total no. of DAO offices</b>		<b>16</b>	<b>12</b>	<b>33</b>	<b>16</b>

**In practice, the classification of DAO offices does not appear to have any real consequences in terms of treatment (fiscal or otherwise).** While higher order DAO offices are notionally provided with a higher complement of approved staff positions (as shown in table 3), actual staffing levels are a long way from the approved staffing level. Nonetheless, it is typically the case that lower order DAO offices tend to have fewer staff than higher order DAO offices.

### **Structure**

**In much the same way as the state/region DDAs, DAOs are formally structured into two main divisions:** (i) an administrative and finance division, which is also typically responsible for budgets, financial management, revenue collection, regulatory functions, public spaces (such as parks) and waste management; and (ii) an engineering division, responsible for roads and bridges, municipal water supply, and all construction-related activities. The head of each DAO office, known as the Executive Officer (EO),<sup>23</sup> is usually seconded by the DAO's senior administrative/finance and engineering officers. All DAO staff operate out of their respective township offices.

### **Staffing**

**Staffing levels in DAO offices can be broadly divided up into two payroll categories: staff that are paid monthly salaries and staff that are paid on a daily (but regular) basis.** As an illustration, table 3 provides a summary of staffing levels in the DAO/DDA system in Ayeyarwady Region.

**In Ayeyarwady, there is one DAO staff member (this includes daily wage workers) for approximately**

<sup>22</sup> Based on Notification No. 73/C-1/SaYaKha, August 17, 2004.

<sup>23</sup> This appears to be the case even in the smaller DAO offices, where the head of office does not officially qualify as an EO.

every 4,400 people for the region as a whole, and one staff member for about every 630 urban residents in the region. The ratios of total DAO/DDA staff,<sup>24</sup> to the urban population are similar in Mon and Kayin States. In Mon State, the ratio is 1:3,800 (total population) and 1:1,050 (urban population). In Kayin State, the ratio is 1:4,350 (total population) and 1:610 (urban population).

**Most DAOs are officially under-staffed.** The actual number of DAO staff is almost always considerably lower than the number of approved or gazetted positions, particularly with respect to more junior staffing positions. In Ayeyarwady Region, for example, only about 20% (1,211 out of 5,635) of approved DAO positions are currently filled.

### Equipment

**Most of the larger DAO offices have their own heavy equipment and vehicles, used for road works, solid waste management and other tasks; smaller DAO offices, on the other hand, do not have any equipment or vehicles.** DAO equipment typically includes asphalt and concrete mixers, backhoes, rollers, and compactors. Vehicles include garbage collection trucks, tractors, and trailers. Much of the equipment appears to be old and undergoing constant repair, with some of the equipment clearly not in working order.

**Table 3: Ayeyarwady DAO – staffing levels**

DAO	Type of city or DAO class	Officers			Staff			Daily wage workers	Total No: officers & staff
		App- proved	No: Staff	Vacant	App- proved	No: Staff	Vacant		
DAO region		21	17	4	74	54	20	-	71
Patheingyi	Special	6	8	(2)	434	123	311	26	157
Pyawbwe	A	6	6		249	61	188	6	73
Bogale	A	6	6	-	249	30	219	14	50
Maubin	A	6	5	1	249	68	181	12	85
Myaungmya	A	6	6	-	249	84	165	8	98
Wakema	A	6	6	-	249	44	205	15	65
Hinthada	A	6	6	-	249	81	168	21	108
Nyaungdon	A	6	4	2	249	57	192	9	70
Myanaung	A	6	5	1	249	35	214	7	47
Kyaiklat	B	3	3	-	182	32	150	3	38
Mawlamyinegyun	B	3	3	-	182	37	145	12	52
Labutta	B	3	4	(1)	182	32	150	10	46

<sup>24</sup> Not including an unknown number of daily wage workers.

DAO	Type of city or DAO class	Officers			Staff			Daily wage workers	Total No: officers & staff
		App- roved	No: Staff	Vacant	App- roved	No: Staff	Vacant		
Ingapu	B	3	2	1	182	40	142	4	46
Einme	B	3	3	-	182	30	152	2	35
Kyonpyaw	B	3	3	-	182	30	152	3	36
Kyangin	B	3	3	-	182	30	152	1	34
Yegyí	B	3	3	-	182	26	156	4	33
Kangyidaunt	C	3	3	-	122	17	105	-	20
Ngapudaw	C	3	2	1	122	16	106	4	22
Zalun	C	3	3	-	122	24	98	3	30
Danubyu	C	3	3	-	122	19	103	5	27
Pantanaw	C	3	3	-	122	19	103	4	26
Kyaunggon	C	3	3	-	122	19	103	4	26
Lemyethna	C	3	2	1	122	12	110	-	14
Thabaung	C	3	2	1	122	14	108	1	17
Dedaye	C	3	2	1	122	19	103	8	29
Ngathaingchaung	D	2	1	1	78	10	68	2	13
Shwethaungyan	D	2	2	-	78	8	70	3	13
Ngwesaung	D	2	1	1	78	4	74	2	7
Hainggyikyun	D	2	1	1	78	5	73	-	6
Pyinsalu	E	1	1	-	44	1	43	4	6
Ngayokeykaung	E	1	1	-	44	2	42	3	6
Ahmar	E	1	1	-	44	4	40	5	10
Totals		137	124	13	5,498	1,087	4,411	205	1,416

### 3.1.3. DAO/DDA staff: subnational civil servants

**The status of DAO/DDA staff is somewhat ambiguous.** Before being hived off from the Ministry of Border Affairs in 2013, DAO officials and staff were Union Government civil servants. After being devolved to the states/regions, however, they have effectively become subnational civil servants—and

probably the largest cadre of state/region civil servants in Myanmar. DAO salary scales continue to follow Union regulations (as witnessed in 2014-15, when DAO salaries were increased in the same way as were Union civil service salaries), but DAO staff are clearly no longer seen as civil servants of the Union Government. Promotion is now largely limited to career moves up the state/region DAO ladder;<sup>25</sup> transfers are now limited to within the state/region DAO/DDA system. Recruitment of full-time staff is now a state/region responsibility, even if new staff are subject to some (but not all) Union Government civil service rules and regulations. Some DAO/DDA systems have begun moving towards more contractual arrangements for staff recruitment.<sup>26</sup>

### 3.1.4. Development Affairs Committees

#### *Township Development Affairs Committees (TDACs)*

**Each DAO is made up of an office and a TDAC.** TDACs are made up of seven members, of whom four are (s)lected from the urban wards that make up the township's urban area, and three are representatives of the DAO office, the GAD township administration, and the DRD. One of the (s)lected citizen representatives is the TDAC Chair. The DAO Executive Officer acts as the TDAC secretary.

**In theory, the TDACs are the principal policy- and decision-making bodies in DAOs.**<sup>27</sup> The EO, for example, formally reports to the TDAC Chairman (but also to his/her DDA for administrative purposes). The role and responsibilities of TDACs in DAO planning and budgeting will be described in the next main section of this report.

**In most TDACs, the current batch of citizen representatives was (s)lected in 2013, through a somewhat opaque (s)election process.** Although there appears to have been some variation across states/regions, the process for (s)election was broadly similar. Wards put forward lists of candidates; these lists were then whittled down to a more manageable number,<sup>28</sup> from which a final selection of names was made. Although there was clearly an element of competitive election in 2013, the choice of TDAC citizen representatives was not necessarily based on a fully democratic process. In Kayin State, however, there were new TDAC elections held in May 2016, following the recent change of government at the Union and state level.<sup>29</sup>

**(S)lected TDAC members are intended to be representative of the local urban community.** In the states/regions visited during the course of this research, the four (s)lected TDAC members usually presented themselves or were described as:

- The chairman, a (s)lected ward elder;
- Another (s)lected ward "elder";
- A representative of the business community (often the owner of a local business); and
- A representative of the socio-professional community (often an engineer or lawyer).

**Citizen representation on TDACs can be low relative to the total population.** There is a maximum of four (s)lected TDAC members, irrespective of the population size of the urban area served by the DAO. In larger towns, this means that citizen representation is intrinsically limited. For example, in a large town like Pathein, with a total population of around 170,000 people, each of the four (s)lected TDAC members represents over 40,000 people, on average.

<sup>25</sup> Sanctions are equally constrained: as explained by a senior DDA officer in Kayin State, now that Kayin's DAOs have been cut off from the main civil service, it is no longer possible to sanction under-performing individuals by transferring them to hardship postings such as Kachin.

<sup>26</sup> In Kayin State, for example, engineers are now hired on the basis of 2-year contracts, rather than as civil servants.

<sup>27</sup> This, at least, seems to be the intent of most of the development affairs laws enacted by state and region governments between 2012 and 2014.

<sup>28</sup> This is done either by the candidates themselves or by an appointed committee, depending on the state/region.

<sup>29</sup> The authors understand that several other states/regions are about to hold new TDAC "elections".

**Although there is variation from one TDAC to another, (s)elected members tend to be of much the same profile.** Men are overwhelmingly represented among the (s)elected TDAC membership; women members are few and far between.<sup>30</sup> The Ward elders tend to be older men and are often retired civil servants. Among the socio-professional representatives, many appear to be engineers, presumably chosen because of their technical expertise and potential contribution to the DAO's construction and works activities.

**Most (if not all) TDACs tend to meet on a regular, weekly, basis.** As a rule of thumb, however, the TDAC Chairman and the other ward elder come to the DAO office on a regular, and often, daily basis. Understandably, they tend to see their positions as full-time jobs and (in Ayeyarwady Region, at least) receive a monthly stipend from the DAO.<sup>31</sup> The other regular citizen-members of the TDAC—specifically those representing the business and socio-professional communities—are somewhat less engaged. Indeed, business community representatives in the TDACs would appear to be the least engaged, presumably having other (more pressing) matters to deal with. In the larger DAO township offices, the TDAC Chairman has his/her own room.

**The *de facto* role and importance of TDACs (as opposed to EOs/DAO staff) seems to vary from one township to another,** often reflecting the personal authority of either the TDAC Chairman or the EO. In some DAOs, the TDAC Chairmen are clearly seen (and act) as the highest authority. In others, the TDAC Chairman's role is eclipsed by that of the EO. Indeed, there are also cases where there is a degree of tension between the TDAC's (s)elected members and the EO and the DAO staff.

### ***State/Region Development Affairs Committees***

**In a few states/regions, state/region development affairs committees (DACs) have been established.** These are chaired by the Minister of Development Affairs and comprise a varying membership: citizen representatives ("town elders"), representatives from the state/region business community and socio-professional groups, and GAD, DRD, and DDA officials. It is unclear exactly what role is played by these state/region DACs, other than that they provide some kind of general oversight.

## **3.2. What do DAOs do? DAO functions and spending patterns**

This subsection of the report examines the functions and expenditures of DAOs/DDAs, as a prelude to describing and discussing (in the next section) DAO/DDA planning and budgeting.

### **3.2.1. State/region DDAs**

**DDAs at the state/region level do not have direct responsibilities for the provision of urban public goods and services.** Instead, state/region DDA functions appear to be limited to:

- supervising and monitoring DAOs;
- ensuring budget collation, coordination, and reporting;
- providing support to DAOs; and
- representing the development affairs portfolio at the state/region level, with respect to other ministries and departments.

In the next section, this report will describe in more detail the role of DDAs in planning and budgeting.

**In general, it would be fair to say that DDAs play little more than an administrative/liaison and back-office role with respect to DAOs and urban management:** handling personnel issues, collating and

<sup>30</sup> During the course of fieldwork, the authors only came across one TDAC in which there was a (s)elected woman member.

<sup>31</sup> In Patheingyi DAO, for example, the Chairman receives a monthly stipend of MMK 150,000; other TDAC members receive monthly stipends of MMK 100,000.

reporting on budgets, and the like. They do not seem to play any discernible role in state/region policy making, neither in terms of contributing to any state/region-wide strategic thinking nor in terms of any state/region-wide urban development strategy.

### 3.2.2. DAOs

*“DAOs are one of the largest, though least understood, social service providers in Myanmar. They deliver a significant range of services (as part of their 31 core duties and responsibilities) which are directly funded through local taxes and fees, among the other revenues that DAOs collect. In contrast to other major social service providers in the country, such as the Ministry of Education and the Ministry of Health, DAOs have a diverse mandate to provide services ranging from water, sewage and trash collection to street lighting, roads and bridges, and drainage.” (Arnold et al. 2015: 23)*

**DAOs have one obvious focus for their activities: they are expected to provide services in urban wards** (and not in village tracts). Although this is not clearly stated in state/region development affairs laws, it is certainly what DAO officials and staff consider to be their principal mandate.

**The specific functions assigned to DAOs are provided for in their respective state/region development affairs laws.**<sup>32</sup> In most cases, this amounts to around 30 functional assignments, which are summarized in Figure 2. The list of formal DAO functional assignments gives the impression of a sprawling and heterogeneous mandate.

**In practice, the principal functions of most DAOs are limited to a few key infrastructure and service delivery tasks, and a set of regulatory and revenue collection responsibilities,** summarized as follows:

- Construction, upgrading, repair and maintenance of road and bridge-related infrastructure in urban areas (including drainage and pavements).
- Solid waste management (including collection and disposal, cleaning of urban roads and public spaces) and (less frequently) sanitation (emptying of septic tanks, management of public toilets).
- Upkeep of parks and public spaces (such as roundabouts).
- Upkeep and maintenance of public market places.
- Provision of street lighting.
- Inspection and monitoring of regulatory compliance.
- Collection of taxes, fees and charges.

In a few DAOs, the management of water supplies is also a functional responsibility. Where, for whatever reason, a town has a piped water supply network, DAOs assume responsibility.

---

<sup>32</sup> Most of these simply re-iterate the functions and tasks assigned to DAOs in SLORC Law 5/93.

**Figure 2: DAO functional assignments<sup>33</sup>**

DAO Social Services Duties and Functions	DAO Economic Governance Duties and Functions
<ul style="list-style-type: none"> <li>- town planning</li> <li>- water supply</li> <li>- sanitation</li> <li>- sewage disposal</li> <li>- disaster preparedness</li> <li>- street lighting</li> <li>- roads and bridges</li> <li>- vagrant persons on streets</li> <li>- animal control</li> <li>- parks, swimming pools, public baths, and recreation centers</li> <li>- road rules, street naming &amp; addresses</li> <li>- cemeteries and crematoriums</li> <li>- removal of cemeteries</li> <li>- other development works in the public interest</li> <li>- other duties as needed</li> <li>- public buildings under the charge of the committees</li> <li>- demolition of squatter buildings</li> <li>- construction permission for private buildings</li> </ul>	<ul style="list-style-type: none"> <li>- markets owned by the committee</li> <li>- privately-owned markets</li> <li>- cattle markets</li> <li>- slaughter houses</li> <li>- roadside stalls</li> <li>- small loan business</li> <li>- bakeries and restaurants</li> <li>- dangerous trade</li> <li>- lodging houses</li> <li>- breeding of animals and disposal of carcasses</li> <li>- ferries</li> <li>- slow-moving vehicles</li> </ul>
<p><i>All duties and functions are largely supported by revenues raised locally by DAOs</i></p>	

***Urban roads and transport infrastructure***

**Apart from any Union or state/region roads or bridges located in cities and towns, DAOs are formally responsible for the construction and upkeep of all roads within their urban jurisdictions.** This includes secondary roads/bridges and residential streets, as well as related pavements and drainage systems.

**In general, small cities and larger towns in Myanmar appear to have basic and reasonably extensive road networks in place.<sup>34</sup> DAO activities in the road infrastructure sector are therefore largely limited to upgrading** (from dirt to asphalt/concrete, from asphalt to concrete, widening, adding box culverts, improving drainage) **or repairs and maintenance.** Few DAOs (outside of Yangon, Mandalay and Nay Pyi Taw) appear to undertake the construction of entirely new roads or very large road infrastructure items (such as flyovers).

**The vast majority of annual roads-related works undertaken by DAOs are of limited scope and size:** the upgrading of short sections of road, repairs and maintenance of short stretches of road, the installation of one or two box culverts on existing roads, etc. In some years, DAOs may take on slightly larger road upgrading projects, occasionally for an entire street but more commonly for a stretch of main road. Box 4 provides some examples of DAO road infrastructure activities in 2016-17.

<sup>33</sup> This is adapted from Arnold et al. (2015).

<sup>34</sup> A good number of the DAOs that serve smaller cities or large towns have relatively detailed maps of their urban road networks.

#### Box 4: DAO transport infrastructure activities in FY 2016-17

##### **A small city: Mawlaymine (Mon State)**

Mawlaymine DAO's road infrastructure activities for FY 2016-17 are budgeted at a total of about MMK 1 billion. Of this, the single largest project (budgeted at a little under MMK 0.25 billion) is the upgrading of a 3-mile stretch of road from dirt to asphalt, along with the construction of associated drainage. Other than this one large project, the DAO's other road-related activities are divided up into numerous and much smaller, upgrading, repair, and maintenance projects.

##### **A large town: Hpa-An (Kayin State)**

Hpa-An DAO's total development or capital budget for FY 2016-17 is around MMK 0.4 billion. Of this, around MMK 0.3 billion has been set aside to finance road-related projects. The largest roads project is the upgrading (from asphalt to concrete) of a 0.75-mile stretch of the university's road; the next largest is the re-asphalting of a 0.25-mile stretch of another urban road. Other road projects are much smaller, consisting of spot repairs and maintenance.

##### **A small town: Hlaing Bwe (Kayin State)**

In 2016-17, Hlaing Bwe DAO is carrying out a number of roads-related projects. The largest (budgeted at MMK 16.5 million) is the upgrading from dirt to concrete of a 950 ft. stretch of road leading to the local health center. The second largest roads project (budgeted at MMK 9.5 million) is the upgrading of 550 ft. of dirt road to concrete. In addition to these two road upgrading projects, the DAO is also building two 4 ft. diameter box culverts on town roads.

Source: field visits (June 2016)

**Wherever and whenever possible, DAOs tend to opt for “force account” implementation of their road infrastructure projects** (see Box 5 for a description of “force account”). “Force account” consists of relying on DAO equipment, DAO engineers, and directly hired labor or directly purchased materials (such as concrete, aggregates, and asphalt) to undertake works. This is certainly the option that is chosen by larger DAOs, which have their own engineers and equipment/vehicle assets. No large DAOs appear to out-source road infrastructure projects to private sector contractors through public tendering. Only in smaller DAOs, which do not have their own equipment, is there any evidence of out-sourcing road infrastructure projects to the private sector.<sup>35</sup>

#### Box 5: “Force account” modalities in public works

“Force account” is the term commonly used to describe the construction of public works through the employment of an agency's own staff and the use of its own equipment. Typically, the use of force account for works by a local or municipal government involves recourse to its own public works or engineering department. This was the traditional approach to tasks such as maintenance of the local road network in many countries in the past. It stands in contrast to out-sourcing to the private sector through regular public procurement procedures.

Although force account methods, when properly funded and effectively managed, can result in

<sup>35</sup> During the fieldwork for this research, only one case of out-sourcing road infrastructure activities was noted: that of Hlaing Bwe DAO (responsible for municipal services in a small town with a population of about 14,000) in Kayin State. In Hlaing Bwe, DAO roads projects had been out-sourced to small work gangs from Mawlaymine.

reliable and good-quality service, current thinking is to discourage direct implementation of works in favor of contracting out works to the private sector through competitive tendering. The reasons for this include:

- Force account is seen as inefficient: private sector contractors are able to manage personnel and equipment more efficiently and so implement works more cheaply.
- The existence of a public works department creates pressure for works to be programmed and funded through the department, to give the department a reason to exist, and to create rent-seeking opportunities for the staff of the department. This results in supply-driven pressures on the planning and budgeting processes of the local government.
- Force account results are nontransparent.
- Cost control is difficult, and abuses are easy to commit and difficult to detect—for example, misuse of fuel, supplies, and materials or of major equipment items.
- Local governments tend to experience particular difficulty in managing fleets of expensive equipment, with high and sometimes unexpected repair costs, and large periodic capital costs for replacement.

The use of force account may be justified where the:

- quantities of work involved cannot be defined in advance;
- works are small and scattered or in remote locations for which qualified construction firms are unlikely to bid at reasonable prices;
- work is must be carried out without disrupting on-going operations; and
- there are emergencies needing prompt attention.

Source: World Bank (2001); UNCDF (2013) “Procurement for Local Development: A Guide to Best Practice in Local Government Procurement in Least Developed Countries”.

### ***Solid waste management***

**Solid waste management (SWM) is one of the more important services provided by municipalities in most countries, and Myanmar is no exception.** All DAOs see SWM as one of their primary responsibilities.

**Most DAOs collect waste in their urban areas using the same basic model.** To simplify, this consists of:

- The direct sweeping up and collection of waste from public areas (open spaces, roads, pavements, etc.), relying on DAO vehicles and directly hired labor.
- The periodic (in most cases, daily) collection of waste along main and readily accessible urban roads and streets by DAO vehicles, with residents being alerted to the arrival of garbage trucks by whistle-blowing or bell-ringing.
- Occasional use of collection points, or bins on main roads used by residents, as and when needed, and emptied by DAO vehicles.

- Households and businesses pay for DAO waste collection and management through their annual property taxes (or rates), with businesses paying somewhat more.

**As with road infrastructure activities, DAOs overwhelmingly prefer to carry out waste collection through “force account”.** In most cases, DAOs rely upon their own vehicles and labor to collect domestic waste, financed out of general DAO revenues.

**In a limited number of cases, DAOs rely on (or operate alongside) the private sector to collect municipal waste.** Box 6 provides two cases of this.

#### **Box 6: Private sector waste collection in small cities and large towns**

In Taunggyi (the capital of Shan State), the DAO has, for several years, licensed one private sector firm to collect waste from the main part of its urban jurisdiction. The firm pays a monthly franchise fee of MMK 3 million to the DAO, in exchange for which it enjoys the exclusive right to collect municipal waste from households and businesses in the 22 urban wards that make up Taunggyi city proper; the firm itself charges households and businesses a monthly fee of between MMK 2-3,000 (depending on the amount of waste). It is understood that the property tax (or rates) paid to the DAO by the households and businesses in these 22 wards do not include a charge for garbage collection. This, however, only applies to the 22 wards of Taunggyi proper: in Ayetharyar (12 wards) and Schwenyaung (7 wards), which are also part of the DAO’s jurisdiction, waste collection is undertaken directly by the DAO itself, using its own vehicles and labor. In these wards, payment for waste collection is made through the annual property rates paid to the DAO by residents.

In Dawei (the capital of Tanintharyi Region), the DAO has recently introduced a franchise system through which three private sector operators collect waste from businesses, restaurants, and shops. The private sector operators are paid a monthly fee of MMK 2-3,000 by users. It is not known whether the operators pay a licensing fee to the DAO. Households in Dawei, however, are served directly by the DAO, which uses its own vehicles and labor.

Source: field visits (June 2016)

**In other cases, DAOs provide waste collection services at the same time as, and alongside, private sector operators.** In the small town of Hlaing Bwe (Kayin State), for example, two private sector operators provide households and businesses throughout the town with waste collection services (in return for payment). Those households and businesses that do not wish to use these private sector operators are able to use the DAO’s regular waste collection service.<sup>36</sup>

**Although there is no hard quantitative data on SWM in Myanmar’s smaller cities and towns, it seems reasonable to assume that collected waste amounts to a relatively small proportion of total generated waste.** In Nyaungdon (Ayeyarwady Region), for example, the DAO estimates that it collects about 3 tonnes of solid waste on a daily basis, which probably amounts to less than a third of the total amount of waste generated by the town’s population of roughly 25,000 people.<sup>37</sup> Whatever waste is not collected is either dumped “illegally” or burned at source.

**As far as is known, waste disposal in all of Myanmar’s cities and towns consists of simple, open, dumping at designated landfill sites.** All of the DAOs visited for this study use open dump sites, situated several kilometers from the urban area. No waste treatment methods are used at these dumpsites.

<sup>36</sup> This was recently upgraded by the acquisition of a truck provided to the DAO by the state government.

<sup>37</sup> This assumes (on the basis of waste generation rates in other developing countries) that daily waste generation (per capita) in Myanmar’s urban areas is around 0.4 kg.

### *Other municipal services*

While road infrastructure and solid waste management are far and away the most important public goods and services provided by the DAOs (in terms of finance and scope), other municipal services are also provided on a limited basis or by some DAOs. Prominent among these is street lighting—although there appears to be a good deal of entirely private street lighting in some towns. Another municipal service provided by most DAOs is the management of public markets; more often than not, market management and upkeep is out-sourced to franchised (or licensed) operators, who themselves charge any market fees, especially those paid by itinerant stall keepers.

### *Water supply: a note*

Compared to other countries, the supply of water in Myanmar’s urban areas is highly atypical, as shown by the following table.

**Table 4: Urban water supply in selected developing countries (% of households)**

Country	Urban water supply (2015)			
	Piped onto premises (%)	Other improved source (%)	Other improved (%)	Surface water (%)
Myanmar	19.0	74.0	7.0	-
Thailand	76.0	22.0	2.0	-
Bangladesh	32.0	55.0	13.0	-
Nepal	50.0	41.0	8.0	1.0
Morocco	91.0	8.0	1.0	-
Kenya	45.0	37.0	13.0	5.0
Malawi	33.0	63.0	4.0	-

Source: WHO/UNICEF (2015): Joint Monitoring Programme for Water and Sanitation<sup>38</sup>

**A remarkably small proportion of urban households in Myanmar obtain their water from piped or networked supply systems.** Not surprisingly, then, very few DAOs actually manage piped water systems—and where this does happen, it is on a very limited basis. Some DAOs serving relatively large towns, like Patheingyi (in Ayeyarwady Region), provide no municipal water at all. Other DAOs do so in a limited and inadequate way: Nyaungdon’s DAO, for example, provides piped water (pumped from the river, and untreated) to 120 households, or about 2% of the total urban population (a tiny proportion). Most urban households rely on individual sources of water (wells, tubewells) or on small private networks.

**This, however, is about to change in many DAOs:** development partners, such as the Japan International Cooperation Agency (JICA) and the Asian Development Bank (ADB) are now beginning to finance and

<sup>38</sup> See: <http://www.wssinfo.org/> for country files.

implement ambitious municipal water supply schemes in many of Myanmar’s smaller urban areas. Box 7 provides an example of how DAOs are becoming increasingly involved in municipal water supply.

### **Box 7: Municipal water supply in Hpa-An (Kayin State): Future prospects**

Hpa-An’s DAO is already more involved in supplying water to its urban area than most other DAOs in Myanmar. The DAO, by its own estimate, currently pumps about 0.5 million gallons of untreated water (from the river and local wells) to roughly 25% of the town. Users are supposed to pay on the basis of consumption, measured by meters. The existing supply network in Hpa-An is old: many pipes leak. The DAO engineers estimate that roughly 75% of the water pumped through the system is “non-revenue” water (NRW)— which is water that is either not paid for by users (mainly government departments that simply do not pay their water utility bills) or water that leaks out of the physical system.

With JICA and ADB funding, Hpa-An’s water supply system will undergo a major upgrade. Two new water treatment plants and distribution networks are to be constructed (and completed before 2018), which will produce 2 million gallons of water per day and provide all households in Hpa-An with access to piped water. ADB funding (which is being routed through the Union Ministry of Construction) is expected to amount to \$14 million; the total amount of funding to be provided by JICA (to be channeled through the Union Department of Rural Development) is not clear. In both cases, however, funds will be provided through loans, which will be repaid by DAO revenues.

Source: field visits (June 2016)

### **3.3. What do DAOs spend? DAO expenditure patterns**

This sub-section of the report provides a description of the quantum of DAO/DDA expenditure and the types of expenditure budgeted for and incurred by DAO systems.

#### **3.3.1. Aggregate expenditure patterns in state/region DAO systems**

**DAO systems (all townships, sub-townships and DDAs combined) spend relatively modest amounts per annum.**<sup>39</sup> For all DAOs and DDAs in Ayeyarwady Region, Tanintharyi Region and Mon State, tables 5-9 below provide a summary of total and per capita expenditures over the period 2011 to 2016.<sup>40</sup> As can be seen from the tables, average per capita expenditure (for the total population) by DAOs and DDAs amounted to about MMK 2,570 in 2014-15. DAO system total expenditure in the same year amounted to about MMK 9,700 per capita (for the urban population).

**To put this in perspective, per capita DAO expenditure data is compared to budgeted per capita Union Government transfers to the states/regions (in 2015-16) in table 5.**

<sup>39</sup> On the basis of complete and available finance data for three states/regions.

<sup>40</sup> When portraying overall state/region DAO expenditures in per capita terms, two measures are used: (a) per capita in relation to the total population of the state/region in question; and (b) per capita in relation to the total urban population of the state/region.

**Table 5: DAO expenditure and Union transfers per capita**

State/Region	MMK		USD	
	DAO expenditure per capita (2014-15)	Union transfer per capita (2015-16)	DAO expenditure per capita (2014-15)	Union transfer per capita (2015-16)
Ayeyarwady	1,435	23,100	1.30	21.00
Tanintharyi	1,878	103,200	1.71	93.82
Mon	2,896	34,400	4.60	31.27

As can be seen from the table above, **per capita DAO expenditures are relatively small in relation to the per capita amounts transferred to states/regions by the Union Government.**

**Consistent with the above, DAO expenditures account for a relatively small proportion of total budgeted expenditure in their respective states/regions.** In Ayeyarwady Region, for example, total DAO/DDA spending accounts for about 7% of the total budget for the region; and in Tanintharyi, for around 2-3% of the total budget for the region.

**Table 6: Total DAO system expenditures in MMK (Ayeyarwady, Tanintharyi, and Mon)**

**MYANMAR DAO EXPENDITURE MMK millions**

State/ Region	2011-12			2012-13			2013-14			2014-15			2015-16		
	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK
Ayeyarwady	5,632.173	938	6,850	7,078.414	1,167	8,440	8,124.131	1,327	9,496	8,874.933	1,435	10,171	n/a	n/a	n/a
Tanintharyi	2,334.675	1,708	5,356	2,585.640	1,873	7,949	2,561.132	1,837	7,719	2,644.341	1,878	7,814	2,899.280	2,038	8,399
Mon	3,613.332	1,812	3,361	4,688.404	2,328	4,233	4,951.598	2,434	4,340	5,950.243	2,896	5,062	6,089.043	2,935	5,028
Totals	11,580.180	1,237	6,892	14,352.458	1,518	8,374	15,636.861	1,637	8,944	17,469.517	1,811	9,797	8,988.323	2,570	9,677

Source: State/region DDAs and authors' calculations

**Table 7: Total DAO system expenditure in USD (Ayeerwady, Tanintharyi, and Mon)**  
**MYANMAR DAO EXPENDITURE USD**

Exchange rate = 1,100 MMK : USD 1.00

State/ Region	2011-12		2012-13		2013-14		2014-15		2015-16						
	Total USD	Per capi- ta (total pop.) USD	Per capi- ta (ur- ban pop.) USD	Total USD	Per capi- ta (total pop.) USD	Per capi- ta (ur- ban pop.) USD	Total USD	Per capi- ta (total pop.) USD	Per capita (ur- ban pop.) USD	Total USD	Per capi- ta (total pop.) USD	Per capita (urban pop.) USD			
Ayeerwady	5,120,157	0.85	6.23	6,434,922	1.06	7.67	7,385,574	1.21	8.63	8,068,121	1.30	9.25	n/a	n/a	n/a
Tanintharyi	2,122,432	1.55	4.87	2,350,582	1.70	7.23	2,328,302	1.67	7.02	2,403,946	1.71	7.10	2,635,709	1.85	7.64
Mon	3,284,847	1.65	3.06	4,262,185	2.12	3.85	4,501,453	2.21	3.95	5,409,312	2.63	4.60	5,535,494	2.67	4.57
Totals	10,527,436	1.12	6.27	13,047,689	1.38	7.61	14,215,328	1.49	8.13	15,881,379	1.65	8.91	8,171,203	2.34	8.7974

Source: State/region DDAs and authors' calculations

**Table 8: Total DAO system current & capital expenditures in MMK (Ayeyarwady, Tanintharyi, and Mon)**

**MYANMAR DAO CURRENT & CAPITAL EXPENDITURE MMK millions**

State/ Region	2011-12				2012-13				2013-14			
	Recurrent	Capital	Capital as % of total	Total USD	Recurrent	Capital	Capital as % of total	Total USD	Recurrent	Capital	Capital as % of total	Total USD
Ayeyarwady	2,412.06	3,220.11	57.2	5,632.17	3,015.47	4,062.95	57.4	7,078.41	3,169.28	4,954.85	61.0	8,124.13
Tanintharyi	904.64	1,430.04	61.3	2,334.68	1,033.07	1,552.57	60.0	2,585.64	1,200.89	1,360.24	53.1	2,561.13
Mon	1,575.65	2,037.68	56.4	3,613.33	1,871.76	2,816.65	60.1	4,688.40	2,159.57	2,792.03	56.4	4,951.60
Totals	4,892.35	6,687.84	57.8	11,580.18	5,920.29	8,432.17	58.8	14,352.46	6,529.74	9,107.13	58.2	15,636.86

State/ Region	2014-15				2015-16			
	Recurrent	Capital	Capital as % of total	Total USD	Recurrent	Capital	Capital as % of total	Total USD
Ayeyarwady	4,068.83	4,806.11	54.2	8,874.93	n/a	n/a	n/a	n/a
Tanintharyi	1,275.64	1,368.70	51.8	2,644.34	1,377.88	1,521.40	52.5	2,899.28
Mon	2,571.91	3,378.33	56.8	5,950.24	3,126.66	2,962.38	48.7	6,089.04
Totals	7,916.38	9,553.14	54.7	17,469.52	4,504.54	4,483.78	49.9	8,988.32

Source: State/region DDAs and authors' calculations

**Table 9: Total DAO system current & capital expenditures in USD (Ayeyarwady, Tanintharyi, and Mon)**

**MYANMAR DAO CURRENT & CAPITAL EXPENDITURE USD**

Exchange rate = 1,100 MMK : USD 1.00

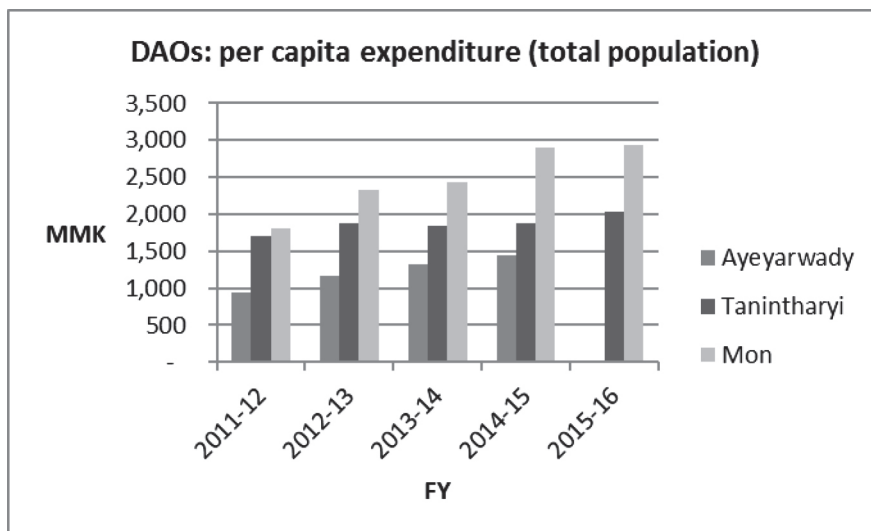
State/ Region	2011-12				2012-13				2013-14			
	Recurrent	Capital	Capital as % of total	Total	Recurrent	Capital	Capital as % of total	Total	Recurrent	Capital	Capital as % of total	Total
Ayeyarwady	2,192,781	2,927,376	57.2	5,120,157	2,741,335	3,693,586	57.4	6,434,922	2,881,163	4,504,411	61.0	7,385,574
Tanintharyi	822,396	1,300,035	61.3	2,122,432	939.15	1,411,431	60.0	2,350,582	1,091,716	1,236,585	53.1	2,328.30
Mon	1,432,409	1,852,438	56.4	3,284,847	1,701.60	2,560,589	60.1	4,262,185	1,963,245	2,538,208	56.4	4,501.45
Totals	4,447,586	6,079,850	57.8	10,527,436	5,382.08	7,665,606	58.8	13,047,689	5,936,124	8,279,205	58.2	14,215.33

State/ Region	2014-15				2015-16			
	Recurrent	Capital	Capital as % of total	Total	Recurrent	Capital	Capital as % of total	Total
Ayeyarwady	3,698,934	4,369,187	54.2	8,068,121	n/a	n/a	n/a	n/a
Tanintharyi	1,159,673	1,244,274	51.8	2,403,946	1,252,620	1,383,089	52.5	2,635,709
Mon	2,338,102	3,071,210	56.8	5,409,312	2,842,418	2,693,075	48.7	5,535,494
Totals	7,196,708	8,684,671	54.7	15,881,379	4,095,038	4,076,165	49.9	8,171,203

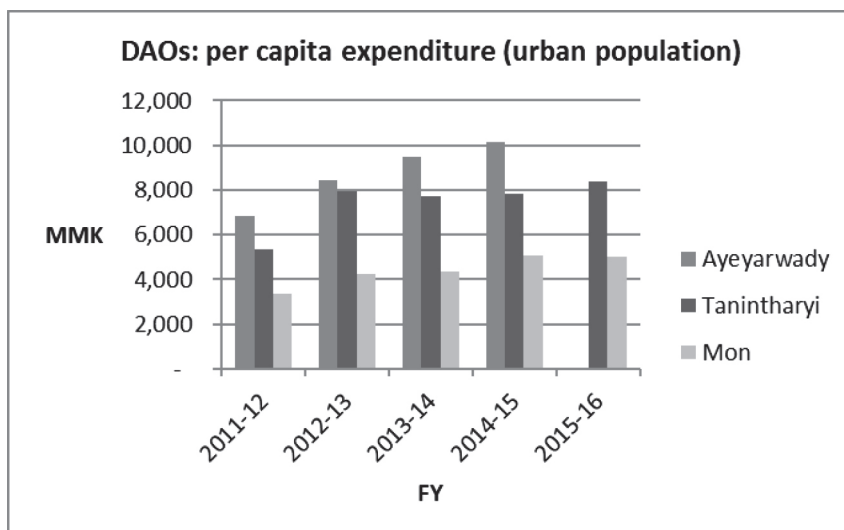
Source: State/region DDAs and authors' calculations

There is a good deal of variation between the three states/regions in terms of per capita DAO expenditure. DAO system expenditure in Mon State, for example, is a good deal higher than that for either Ayeyarwady or Tanintharyi Regions, when measured in terms of per capita of the total population. But expenditure is lower for the urban population when measured in per capita terms. This is shown in figures 3 and 4.

**Figure 3: DAO expenditures by state/region per capita (for total state/region population)<sup>41</sup>**



**Figure 4: DAO expenditures by state/region per capita (for total state/region population)<sup>42</sup>**

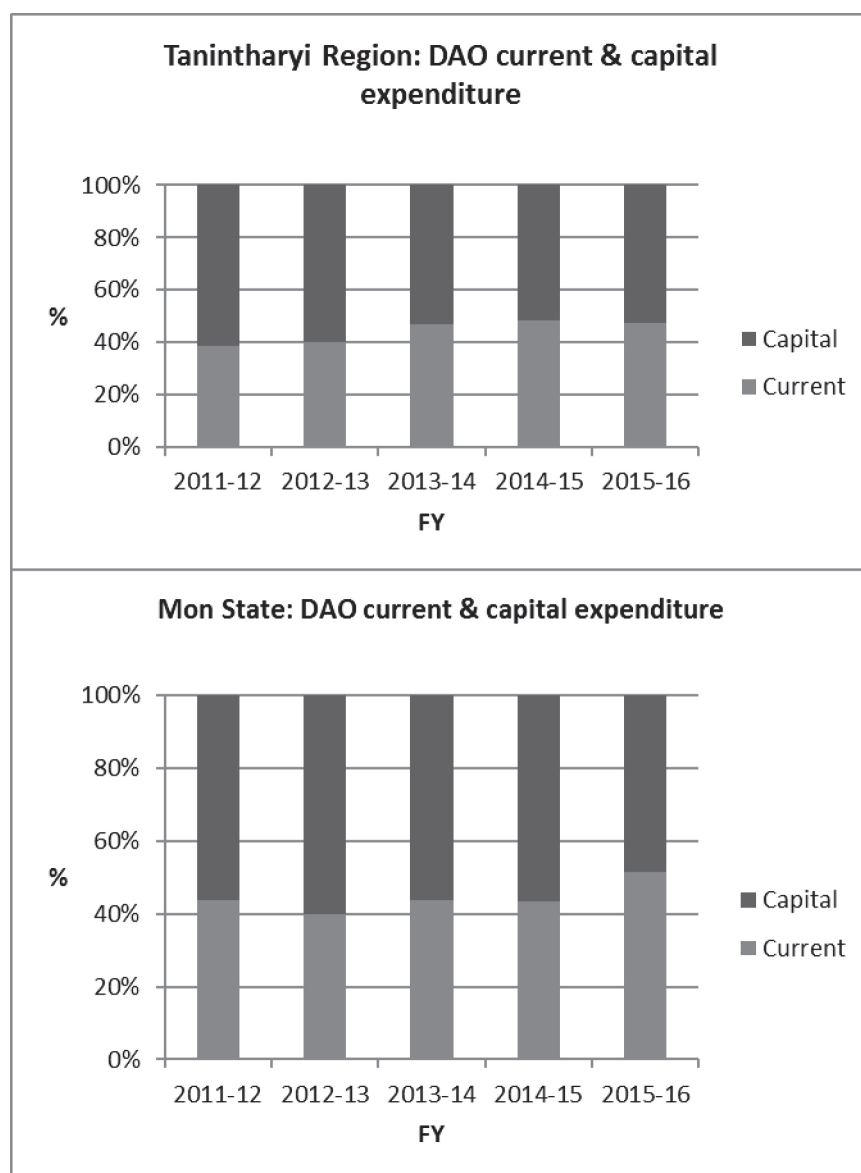


While the three DAO systems in the three states/regions have very different levels of per capita expenditures, they have very similar ratios of current to capital expenditure, as shown in figure 5. DAO capital expenditure, as a whole, consistently accounts for between 50-60% of DAO total expenditure.

<sup>41</sup>Data for Ayeyarwady Region is not available for FY 2015-16.

<sup>42</sup>Data for Ayeyarwady Region is not available for FY 2015-16.

**Figure 5: Current/capital expenditure (Tanintharyi Region and Mon State)**



### 3.3.2. Individual DAO expenditure patterns

#### *Current expenditure*

DAO current expenditure is typically made up of a range of items:<sup>43</sup>

- Payroll costs (salaries, allowances, stipends);
- Goods and services (fuel, utilities, office operating costs, etc.);
- Maintenance (which appears to be related to equipment/vehicles—road/bridge maintenance is a capital expenditure item);
- Pensions; and
- Other (travel costs, miscellaneous items).

**Current expenditure in DAOs is dominated by payroll and goods & services.** Figures 6, 7, and 8 illustrate the composition of DAO current expenditure for a small sample of DAOs. Payroll spending is

<sup>43</sup> DDA current expenditure is made up of the same items.

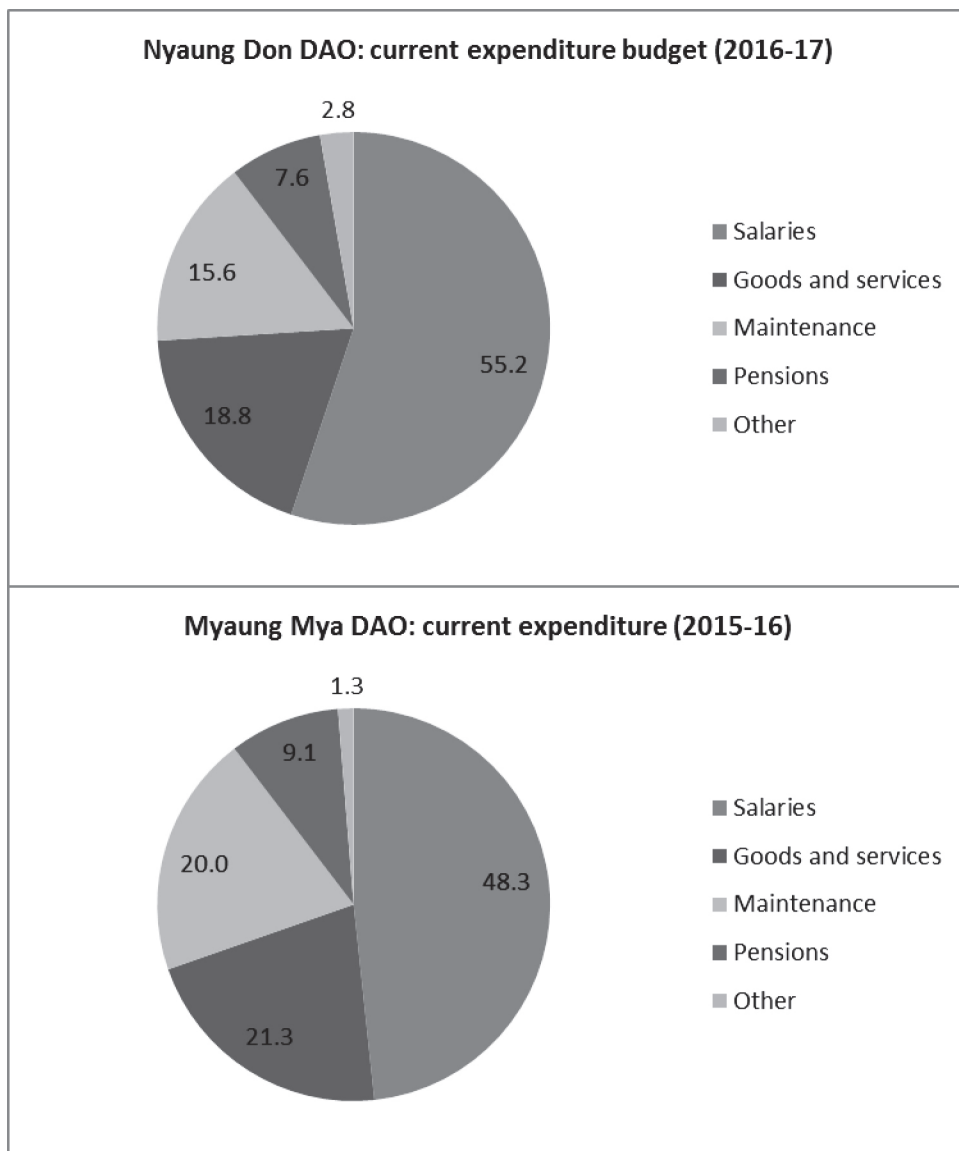
the largest current expenditure item and usually accounts for between 30-60% of all current spending. In general, the percentage accounted for by payroll appears to be smaller in larger DAOs (or in DAOs that serve larger towns). Goods and services usually make up the second largest share of DAO current expenditure. Again, there is a difference between larger and smaller towns or DAO offices, with goods and services being proportionately bigger in larger towns/DAOs than in smaller towns/DAOs.

**Capital expenditure**

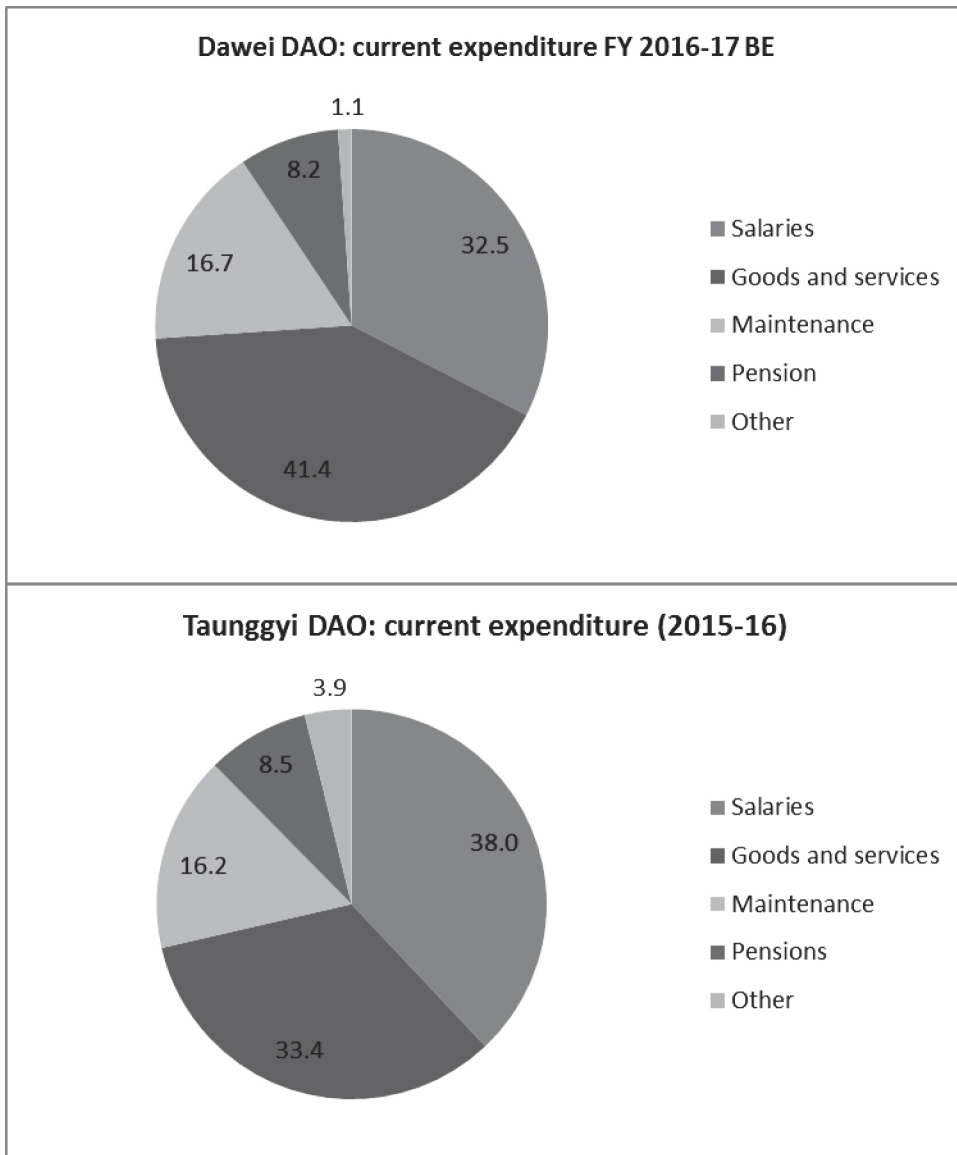
**DAOs spend the largest proportion of their capital budgets on the construction, upgrading, and maintenance of roads/bridges.** In most DAOs, spending on roads/bridges is invariably described by DAO staff as the main capital expenditure item—and, indeed, this accounts for at least 50% of total capital costs, or sometimes, even more.

**Other capital spending items include buildings, water supply, and equipment.** Most spending on equipment appears to be the purchase of vehicles for road works activities or, more rarely, for solid waste management.

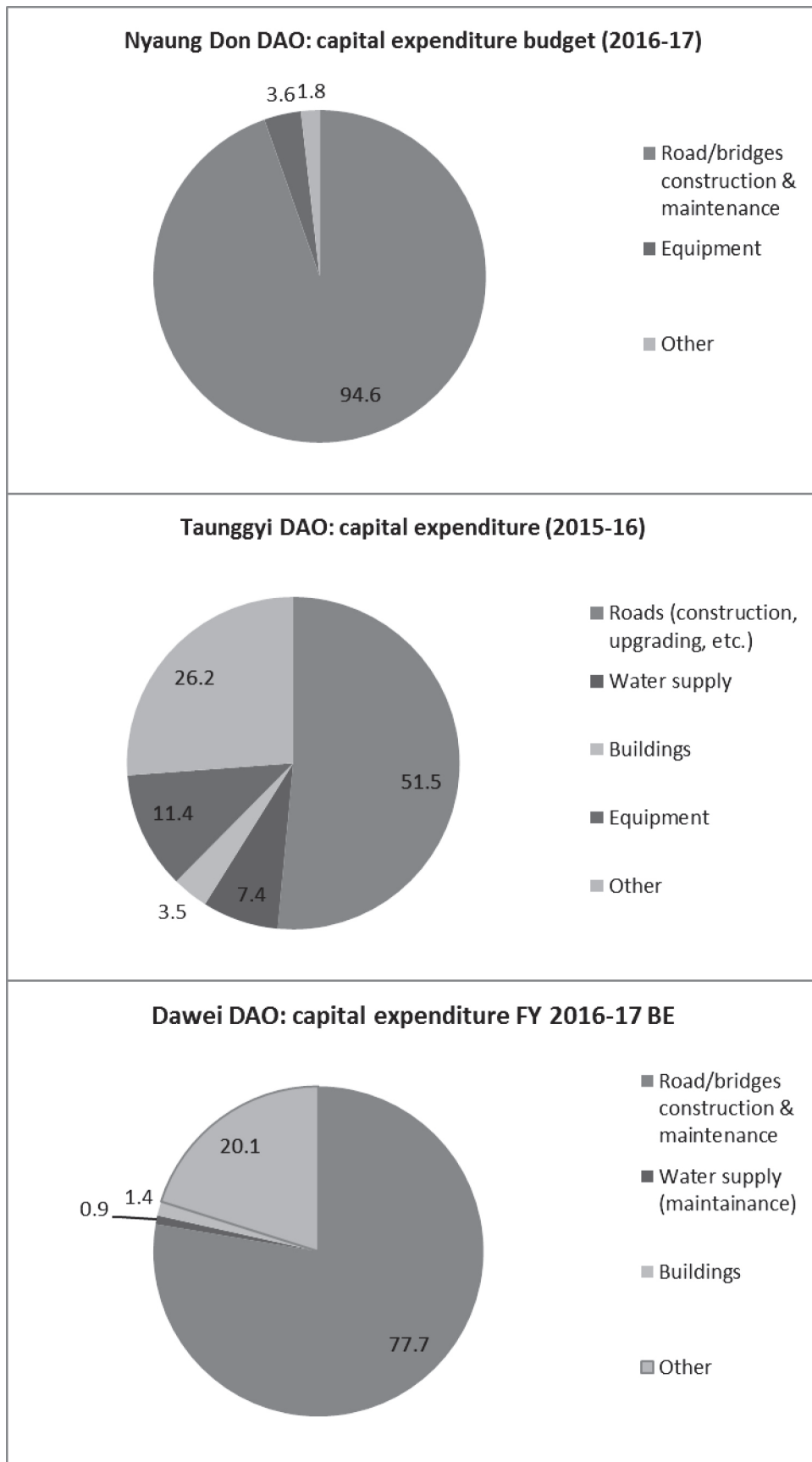
**Figure 6: Composition of current expenditures in a sample of DAOs: Smaller towns and DAO offices**



**Figure 7: Composition of current expenditures in a sample of DAOs: Larger towns and DAO offices**



**Figure 8: Composition of capital expenditures in a sample of DAOs**



### 3.4. DAO finance: how do DAOs finance spending?

#### 3.4.1. Revenue assignments, sources of revenue, and revenue re-distribution

##### *Sources of revenue*

DAO/DDA systems are expected to be largely self-financing, in much the same way as state/region-owned economic enterprises. State/region development affairs laws back this up by assigning a range of own-source revenues to DAOs. These can be summarized as follows:<sup>44</sup>

- Business registration license fees:<sup>45</sup> these revenues derive from the business registration and regulatory functions of DAOs.
- License auctions:<sup>46</sup> DAOs auction off the rights to undertake certain economic or administrative activities (e.g. slaughterhouses, ferries, pawnshops, market management, collection of wheel taxes,<sup>47</sup> management of public toilets, etc.). Bid winners of these auctions pay the DAO for these licenses, either as an upfront payment or in regular installments.
- Property rates (or “taxes”): DAOs levy an annual property “tax” on households, broken down into a number of separate elements (property tax, waste collection, street lighting, water, etc.). These “taxes” are very similar to the property “rates” levied in a number of Anglophone countries and are intended to pay for basic municipal services; where those services are not provided (as is the case for garbage collection in some wards), property rates do not include a charge for them.
- Wheel tax: these are levied as part of vehicle registration and on out-of-town vehicles; Building permits: DAOs collect building permit fees for the construction of buildings of up to two stories high.
- Property rental and sales: DAOs collect rent from the users of DAO properties and obtain revenues from the sale of any such property.
- Fines and penalties: levied on infractions of various regulations.

**In addition to these own-source revenues administered and collected by DAOs themselves, DAOs also receive a 5% (derivation) share of the income tax revenue,<sup>48</sup> and a 2% (derivation) share of the stamp duty (this is sometimes mistakenly translated as “commercial tax”) collected in their respective jurisdictions.<sup>49</sup>** Revenues shared with a higher level of government effectively amount to a form of inter-governmental fiscal transfer; they are not own-source revenues. Both income tax and stamp duty are administered and collected by the Union Government’s Internal Revenue Department (IRD). In DAO budget documents, this share of income tax and stamp duty is registered in the same line item as

<sup>44</sup> For more detail on DAO revenue sources see Arnold et al. (2015) and Bissinger (2016).

<sup>45</sup> See Bissinger (2016) for a detailed description and discussion of DAO business licensing and registration charges and fees.

<sup>46</sup> See Bissinger (2016) for a detailed description and discussion of DAO auction licensing revenues.

<sup>47</sup> Wheel taxes consist of two elements: (a) a charge to vehicle owners who reside and register the vehicle in a township, and (b) a charge to vehicle owners coming into the township but not registered there. While vehicle registration is a Union responsibility, under the Ministry of Transportation, vehicle owners wishing to register vehicles must first come to the township DAO Office to pay the required wheel tax, after which the transportation department registers them. The second type of wheel tax, the collection of which is usually auctioned off, requires payment from those who do not have vehicles registered in a particular township but when entering the township, they are asked to pay a small fee, usually at a booth located at the edge of the town or city. See Arnold et al. (2015). The authors suspect that some elements of the wheel tax can be seen as payment of township parking fees.

<sup>48</sup> Levied on individuals (and not businesses). Presumably, most of this is paid by either government staff or employees in the formal private sector.

<sup>49</sup> According to IRD officials in Nay Pyi Taw, this is a long-standing tax-sharing arrangement. Indeed, the sharing of Stamp Duty has historic origins, starting with the 1920 Rangoon Development Trust Act which mandated such sharing in the then Rangoon municipal area, then extended to Mandalay in 2009, and across all DAOs nationwide in 2014.

property tax (or rates) and is often not distinguishable from other taxes.<sup>50</sup>

**More explicit transfers to DAOs/DDAs from either state/region governments or the Union Government are uncommon but do exist.** Some state/region governments do provide their DAO/DDA systems with some kind of fiscal support. Most significantly, DAOs in Mon State were instructed by the State Budget Department to draw up their FY 2016-17 budgets on the assumption that they would receive transfers from the state, estimated at 15-20% of their total own-source and shared revenues. In Tanintharyi Region, the DAO system was provided with a top-up transfer from the regional government in FY 2014-15 to make up any deficit arising from across-the-board pay increases for the civil service. Finally, in Kayah State, DAOs have received transfers in kind in the form of garbage collection trucks, procured/purchased by the State Government but handed over to individual DAOs.

### ***Borrowing***

**Although the various state/region development affairs laws provide for borrowing by DAOs,<sup>51</sup> there is no evidence that this has happened.<sup>52</sup>**

**However, there do appear to be increasing instances of DAOs taking on the responsibility for repaying loans from bilateral or multilateral development partners.** According to DDA and DAO officials in several states/regions, both JICA and ADB are now (or in the process of) making loans to the Union Government in order to finance investments in urban water supply infrastructure (treatment plants, pumping stations, piped distribution networks). These loans have officially been (or will be) made to either the Union Ministry of Construction or the Union Department of Rural Development, but importantly, will be repaid using DAO revenues.<sup>53</sup> Given that these JICA and ADB loans will not begin until after a period of grace,<sup>54</sup> no interest or capital (re)payments have been made by the DAOs concerned.

### ***Revenue re-distribution***

**As far as possible, most DAO/DDA systems are expected to finance all of their spending out of current revenues. Indeed, each separate cost center (township and sub-township offices) in a state/region's DAO/DDA system is expected to "pay its own way".** This, however, is not possible in the case of township and sub-township offices where own-source revenues and revenue shares are unable to cover basic spending. DDAs themselves are also unable to cover their costs out of any own-source or shared revenues.

**In order to finance such "deficit" DAOs and the state/region DDAs themselves, most DAO/DDA systems include an element of revenue redistribution—with the more fiscally affluent (or "surplus") DAOs ceding a proportion of their revenues to a DDA-managed pool used to finance the DDA itself, and any "deficit" township or sub-township DAOs.** The proportion of total revenue ceded by DAOs with a "surplus" varies from 5-10%, depending on the state/region and sometimes varies from year to year. In one case, Mon State, this revenue redistribution has not been used for several years because the state government itself has provided additional financing to its DAO/DDA system. In other states/regions, the DDAs manage this process of revenue redistribution during the course of budget preparation, balancing out "surplus" against "deficit" cost/budget centers.

**DAO/DDA systems also "redistribute" their revenues in another important way—by ceding any end-**

<sup>50</sup> These IRD/DAO revenue sharing arrangements are expected to be phased out. By the end of FY 2017-18, the shares of income tax and stamp duty will no longer be allocated to DAOs, but to state and region governments.

<sup>51</sup> See Arnold et al. (2015: ix).

<sup>52</sup> During the course of the fieldwork undertaken as part of this research, no state/region DDA or township DAO made any mention of borrowing by the DAOs or DDA.

<sup>53</sup> Presumably, water charges will be expected to contribute to these repayments.

<sup>54</sup> The length of this grace period is not known.

**of-year unspent revenues to their respective state/region governments.** Towards the end of the fiscal year, or at the end of the FY, DAOs are expected to transfer their unspent revenues to the state/region government, either directly or via their parent DDA.<sup>55</sup> Given this, there are two curious “non-events”.<sup>56</sup>

- State/region governments do not appear to exert any significant pressure on DAO/DDAs to either maximize their revenues or minimize their expenditure, in order to benefit from greater unspent balances.<sup>57</sup>
- DAO/DDAs themselves do not appear to over-budget expenditure or under-budget revenues, as a way of minimizing unspent balances.

### **3.4.2. DAOs: revenues and revenue patterns**

#### ***Aggregate DAO/DDA revenues***

**Aggregate DAO/DDA revenues are typically a little higher than aggregate expenditure**, as indicated by the tables on the following page (compared to the earlier expenditure tables; see sub-section 3.3.1.). In most cases (see tables 10-13), total annual revenues exceed total annual expenditures in DAO/DDA systems, and thus generate unspent balances and contribute revenue to states/regions. This is the case for Tanintharyi and Ayeyarwady (for which there is hard data), and also (according to DAO/DDA officials) for Shan and Kayin States (for which the dataset is incomplete). Only in the case of Mon State does the DAO/DDA system generate an overall “deficit”, made up by transfers from the state government.

---

<sup>55</sup> Given that this redistribution of DAO/DDA “surplus” to the state/region government takes place at the end of the year, and that end-of-year unspent state/region revenues are, in turn, “returned” to the Union Government, it could be assumed that DAO/DDA unspent balances are simply handed over to the Union Government, because it would be too late in the year for the state/region to spend these funds. It is not clear whether this happens or not. In some systems, DAO/DDA officials claim that their unspent balances are transferred to the State/Region Reserve Fund. In others, such as Tanintharyi, it would appear that any foreseeable unspent DAO balances are transferred to the region as soon as possible (well before the end of the fiscal year), presumably to give time for them to be used by the region.

<sup>56</sup> The authors could find no convincing explanations for this.

<sup>57</sup> In none of the states/regions visited during the course of this research was any mention made by DAO/DDA officials of any such pressure being exerted by state/region authorities.

**Table 10: Total DAO system revenues in MMK (Ayeerwady, Tanintharyi, and Mon)**

**MYANMAR DAO REVENUES MMK millions**

State/ Region	2011-12			2012-13			2013-14			2014-15			2015-16		
	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK	Total MMK mil- lions	Per capi- ta (total pop.) MMK	Per capi- ta (ur- ban pop.) MMK
Ayeerwady	6,321.710	1,053	7,688	7,396.392	1,220	8,819	8,418.744	1,375	9,841	9,313.451	1,506	10,673	9,936.846	1,591	11,164
Tanintharyi	2,335.139	1,708	5,357	2,687.653	1,947	8,263	2,719.745	1,950	8,197	2,866.699	2,035	8,471	3,138.229	2,206	9,091
Mon	3,853.031	1,932	3,584	4,671.228	2,319	4,217	4,700.446	2,311	4,119	5,218.639	2,540	4,440	5,497.097	2,649	4,539
Totals	12,509.880	1,336	7,445	14,755.273	1,560	8,609	15,838.935	1,658	9,060	17,398.789	1,803	9,757	18,572.172	1,906	10,211

**Table 11: Total DAO system revenues in USD (Ayeerwady, Tanintharyi, and Mon)**  
**MYANMAR DAO REVENUES MIMK USD**

Exchange rate = 1,100 MMK : USD 1.00

State/ Region	2011-12		2012-13		2013-14		2014-15		2015-16		
	Total USD	Per capi- ta (total pop.) USD	Total USD	Per capi- ta (total pop.) USD	Total USD	Per capi- ta (total pop.) USD	Total USD	Per capi- ta (total pop.) USD	Total USD	Per capi- ta (total pop.) USD	
Ayeerwady	5,747,009	0.96	6,723,993	1.11	7,653,404	1.25	8,466,774	1.37	9,033,496	1.45	10.15
Tanintharyi	2,122,854	1.55	2,443,321	1.77	2,472,495	1.77	2,606,090	1.85	2,852,935	2.01	8.26
Mon	3,502,755	1.76	4,246,571	2.11	4,273,133	2.10	4,744,217	2.31	4,997,361	2.41	4.13
Totals	11,372,618	1.21	13,413,885	1.42	14,399,032	1.51	15,817,081	1.64	16,883,793	1.73	9.28

**Table 12: Total DAO system unspent balances in MMK (Ayeyarwady, Tanintharyi and Mon)**

**MYANMAR DAO UNSPENT BALANCES MMK millions**

State/ Region	2011-12			2012-13			2013-14			2014-15		
	Revenues	Expend.	Balance	Revenues	Expend.	Bal- ance	Revenues	Expend.	Balance	Revenues	Expend.	Balance
Ayeyarwady	6,321.71	5,632.17	689.54	7,396.39	7,078.41	317.98	8,418.74	8,124.13	294.61	9,313.45	8,874.93	438.52
Tanintharyi	2,335.14	2,334.68	0.46	2,687.65	2,585.64	102.01	2,719.75	2,561.13	158.61	2,866.70	2,644.34	222.36
Mon	3,853.03	3,613.33	239.70	4,671.23	4,688.40	(17.18)	4,700.45	5,590.60	(890.15)	5,218.64	5,950.24	(731.60)
Totals	12,509.88	11,580.18	929.70	14,755.27	14,352.46	402.82	15,838.94	16,275.86	(436.93)	17,398.79	17,469.52	(70.73)

State/ Region	2015-16		
	Revenues	Expend.	Balance
Ayeyarwady	n/a	n/a	n/a
Tanintharyi	3,138.229	2,899.28	238.95
Mon	5,497.10	6,089.04	(591.95)
Totals	8,635.33	8,988.32	(353.00)

**Table 13: Total DAO system unspent balances in USD (Ayeerwady, Tanintharyi, and Mon)**  
**MYANMAR DAO UNSPENT BALANCES USD**

Exchange rate = 1,100 MMK : USD 1.00

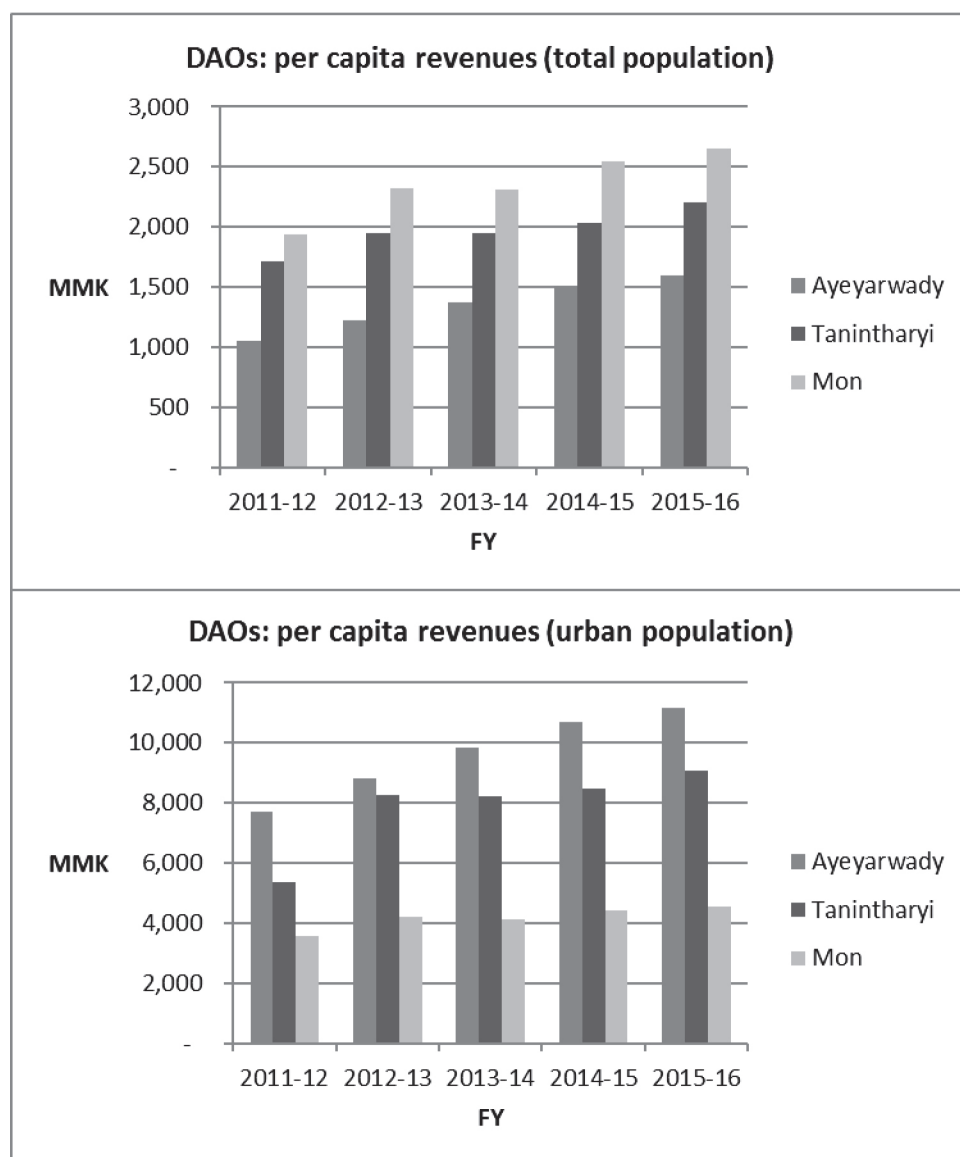
State/ Region	2011-12			2012-13			2013-14		
	Revenues	Expend.	Balance	Revenues	Expend.	Balance	Revenues	Expend.	Balance
Ayeerwady	5,747,009	5,120,157	626,852	6,723,993	6,434,922	289,071	7,653,404	7,385,574	267,830
Tanintharyi	2,122,854	2,122,432	422	2,443.32	2,350,582	92,739	2,472,495	2,328,302	144.19
Mon	3,502,755	3,284,847	217,908	4,246.57	4,262,185	(15,615)	4,273,133	5,082,362	(809.23)
Totals	11,372,618	10,527,436	845,182	6,730,683	13,047,689	366,195	14,399,032	14,796,237	267,165

State/ Region	2014-15			2015-16		
	Revenues	Expend.	Balance	Revenues	Expend.	Balance
Ayeerwady	8,466,774	8,068,121	398,653	n/a	n/a	n/a
Tanintharyi	2,606,090	2,403,946	202,144	2,852,935	2,635,709	217,226
Mon	4,744,217	5,409,312	(665,095)	4,997,361	5,535,494	(538,133)
Totals	15,817,081	15,881,379	(64,298)	7,850,296	8,171,203	(320,906)

**Per capita DAO/DDA revenues**

DAO/DDA revenues vary significantly across states/regions, as shown in the tables above and in figure 9. DAO/DDA per capita revenues (taking the total state/region population) are highest in Mon State and lowest in Ayeyarwady, while per urban capita revenues (taking just the urban populations) are lowest in Mon and highest in Ayeyarwady. This is puzzling, but is probably accounted for by a combination of lower revenue rates (for taxes, licenses, etc.) in Mon State, as well as the fact that the population of Mon State is more urbanized (and less rural) than Tanintharyi and (in particular) Ayeyarwady.<sup>58</sup>

**Figure 9: DAO/DDA revenues per capita (by state/region)**



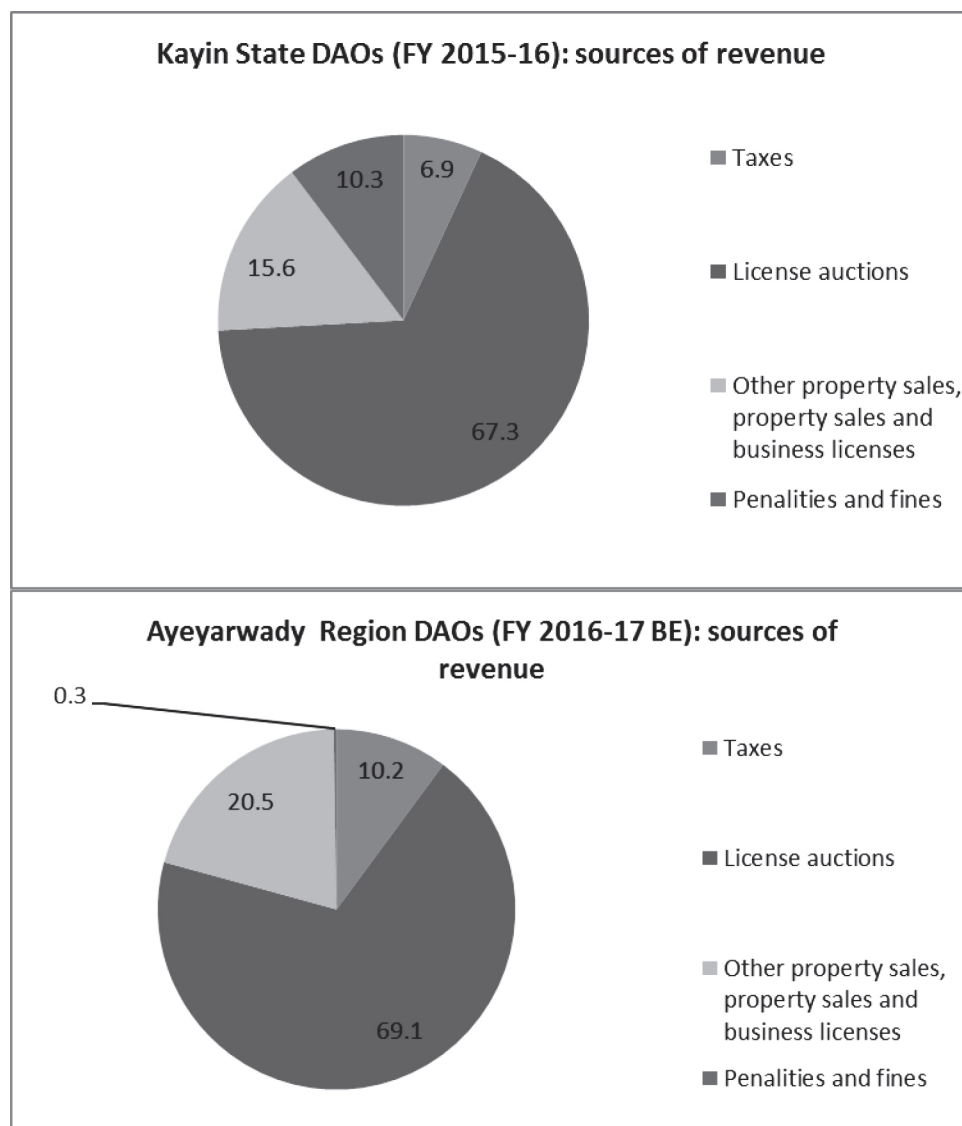
**Revenue sources in relation to total revenues: state/region aggregates**

In general, total DAO revenues are dominated by revenues derived from license auctions. As can be seen in the following figure, license auctions generate just over two-thirds of total DAO revenue in Kayin State and Ayeyarwady Region. As will be seen in figure 10, a large (if indeterminate) proportion

<sup>58</sup> As will be explained in the following sub-sections, a large proportion of DAO revenues are actually derived from rural (rather than urban) areas. Given that DAOs spend more or less what they raise in revenue, this results in greater per capita urban expenditure in more rural states/regions.

of license auction revenues appears to be derived from the wider township or sub-township fiscal catchment (including rural village tracts, as well as urban wards), and this may go some way to explaining the importance of license auctions as a source of DAO revenue. License auctions (as opposed to direct taxes) also require little fiscal effort on the part of DAOs, and moreover, provide up-front down payments or regular installments from license awardees.

**Figure 10: DAO sources of revenue**



**The second largest source of DAO revenue derives from business licenses, property rental, and other revenues.** These account for between 15-20% of total revenues in Ayeyarwady and Kayin.

**Taxes (or rates) make up the third largest source of DAO revenues.** On the face of it, tax revenues might be seen as indicative of DAO fiscal effort. However, this needs to be nuanced because the share of income tax and stamp duty (administered and collected by IRD) that accrues to township DAOs is included in this revenue category.<sup>59</sup> These shared revenues can make up a significant proportion of overall DAO tax revenues. In Ayeyarwady Region as a whole, they account for almost 30% of budgeted tax revenues for 2016-17;<sup>60</sup> in Dawei DAO, shared income tax and stamp duty revenues accounted for

<sup>59</sup> Indeed, it is reported as “property tax” in DAO revenue summaries. Only in some of the more detailed DAO revenue statements is the IRD tax-sharing amount shown as a separate item.

<sup>60</sup> Or a little under 3% of Ayeyarwady’s total DAO/DDA system revenues.

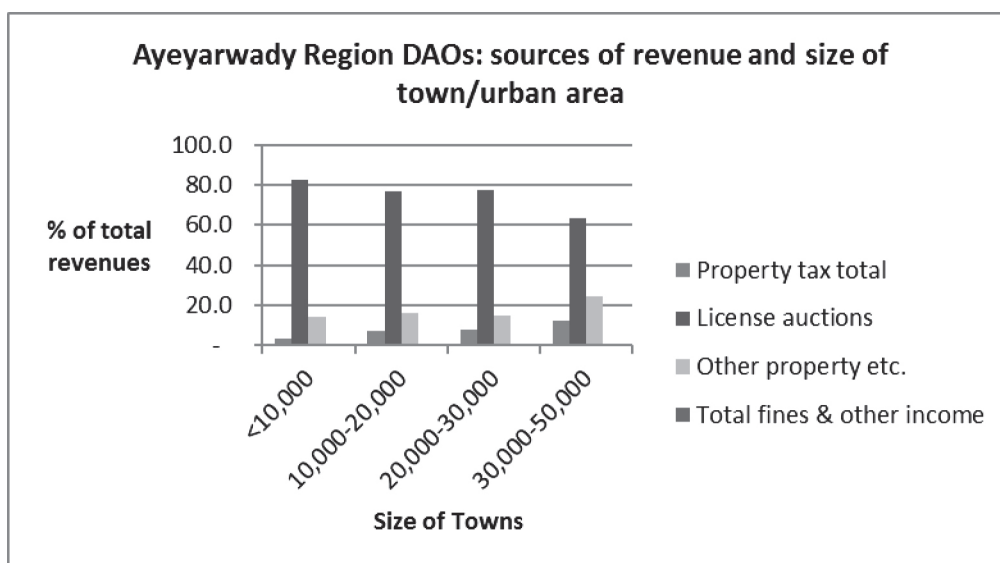
35-45% of total tax revenues.<sup>61</sup>

**Revenue sources in relation to total revenues: comparison across DAOs**

There do appear to be variations in the relative importance of different types of revenue across DAOs. The most significant variations appear to be with respect to:

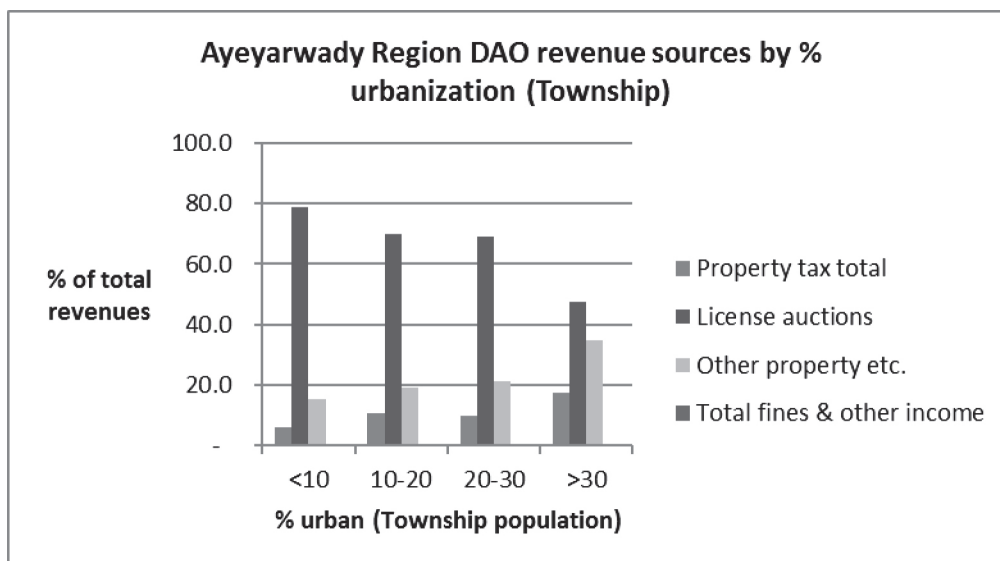
- The size of the urban areas (as measured by population): **the larger the urban area, the less dependent the DAO is on license auctions**, and the greater the proportion of total revenues that is accounted for by property rentals/sales/other and by taxes. This is illustrated in figure 11.

**Figure 11: Revenue sources and size of urban area (Ayeyarwady Region DAOs)**



- In a related way, **the less urbanized its township, the more dependent a DAO becomes on license auctions**. As townships become more urbanized, their DAOs rely less on license auctions and more on other sources of revenue. Figure 12 illustrates this tendency.

**Figure 12: Ayeyarwady Region DAO revenue sources and township urbanization**



<sup>61</sup> Or 6-7% of total DAO revenues (over the period 2014-17).

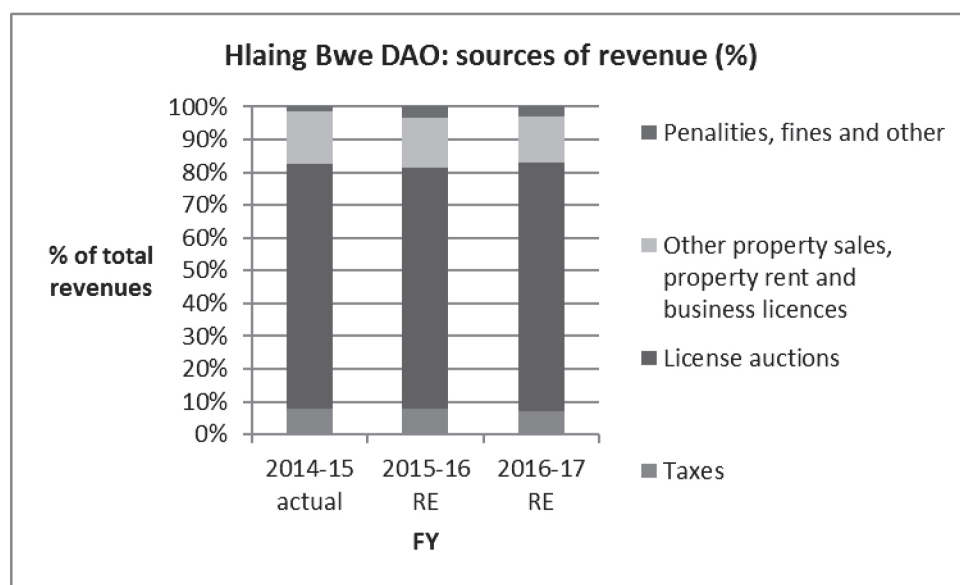
Figures on the next page provide a comparison between the revenues of DAO offices:

- Hlaing Bwe is a small township in Kayin State, with a total population of about 155,000 people, of whom a little over 11,500 live in the town’s urban wards. The urbanization rate is less than 7%. The DAO office is small (less than 10 staff, no equipment) and has annual revenues of less than MMK 80 million. Proceeds from license auctions account for roughly 75% of total DAO revenues.
- Dawei is the capital of Tanintharyi Region, with a total township population of just over 125,000 people, of whom some 64% live in the urban wards that make up Dawei town itself. The DAO office is large, has a staff of 52 full-time civil servants and an additional 40 daily wage workers, and owns several vehicles and pieces of equipment. DAO revenues in Dawei amount to almost MMK 800 million. The proceeds from license auctions account for less than half of total revenues, with taxes accounting for nearly 20%.

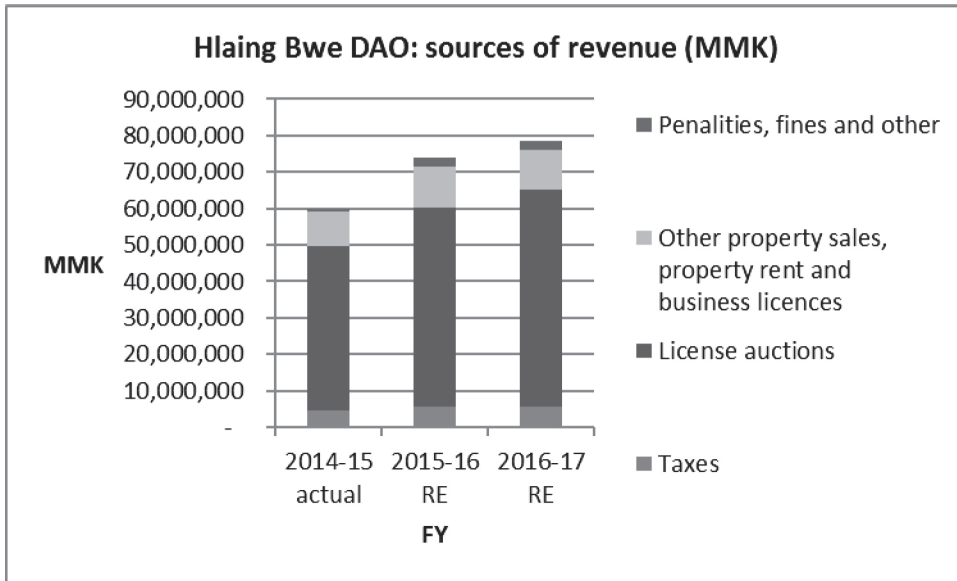
### 3.4.3. DAOs: local and not-so-local own-source revenues

DAOs are not as “fiscally self-reliant” as may appear to be the case. Earlier research on DAOs gives the impression that DAOs are almost entirely self-financing and largely reliant on own-source urban revenues.<sup>62</sup> This, however, needs to be qualified in two key respects.

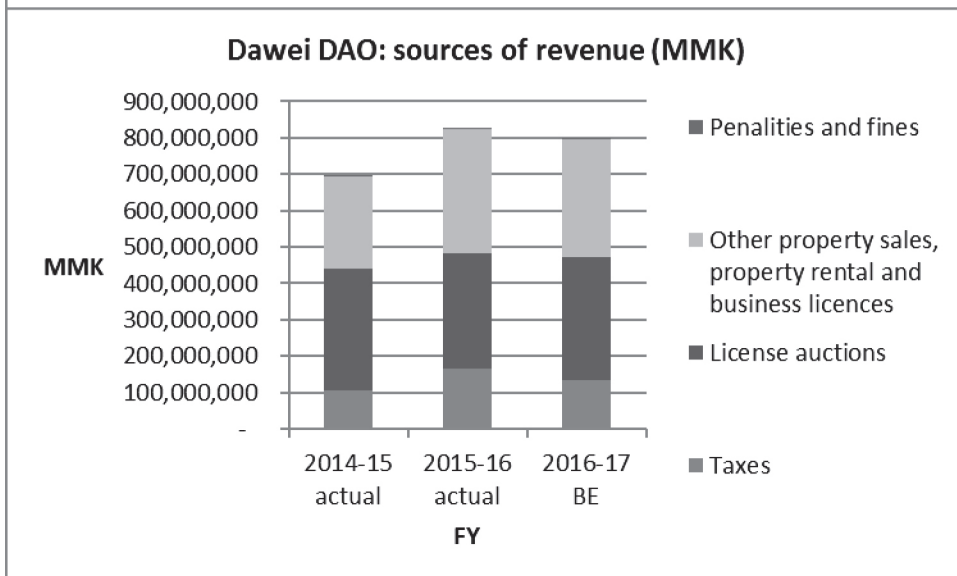
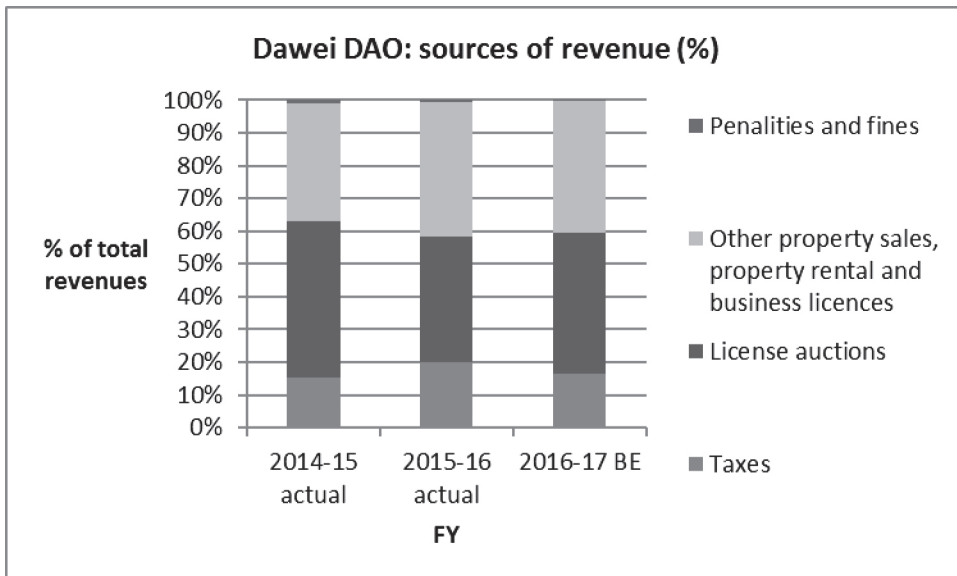
Figure 13: Hlaing Bwe DAO small town revenues



<sup>62</sup> See Arnold et al. (2015) and UNDP’s “State of Local Governance in Myanmar” study series. Bissinger (2016), however, notes that DAO revenues from license auctions are, in many cases, derived from rural-based licenses (such as ferry operators in the rural hinterland of towns) and not entirely from the urban areas serviced by DAOs.

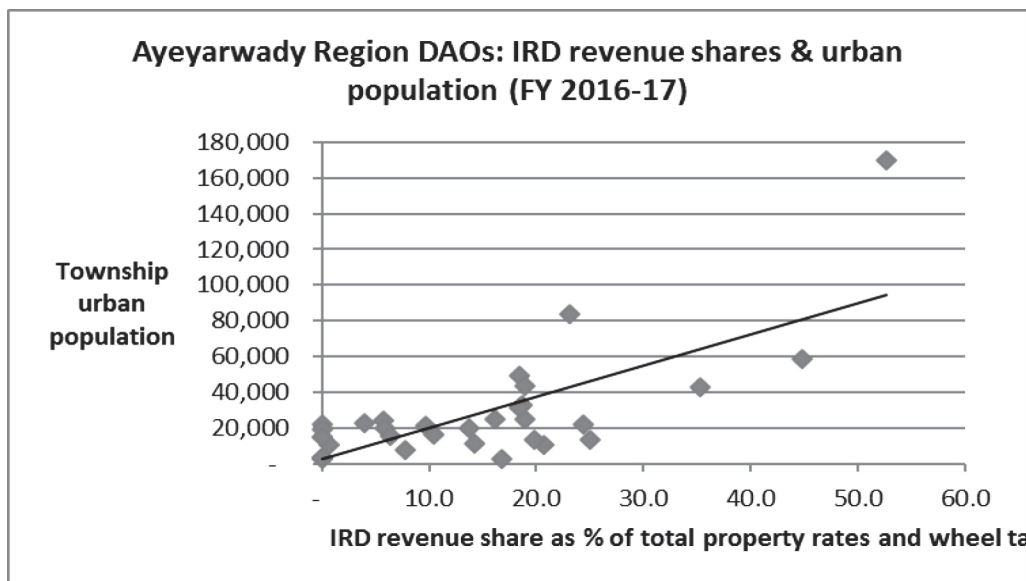


**Figure 14: Dawei DAO big town revenues**



Firstly, and as mentioned above, DAOs sometimes do receive substantial shares of income tax and stamp duty revenue collected by the IRD. These amount to fiscal transfers from the Union Government, and are not own-source. Indeed, the extent to which DAOs rely on such revenue shares appears to increase as cities/towns become larger (as shown in figure 15). This is unsurprising: the formal private sector is more developed in larger urban areas, with larger towns generating larger income tax and stamp duty revenues. In addition, larger towns tend to be where more government staff are located, thus generating more income tax. Secondly, and as described earlier, some DAO/DDA systems (such as that of Mon State) appear to be moving toward a greater reliance on fiscal transfers from their state/region governments.

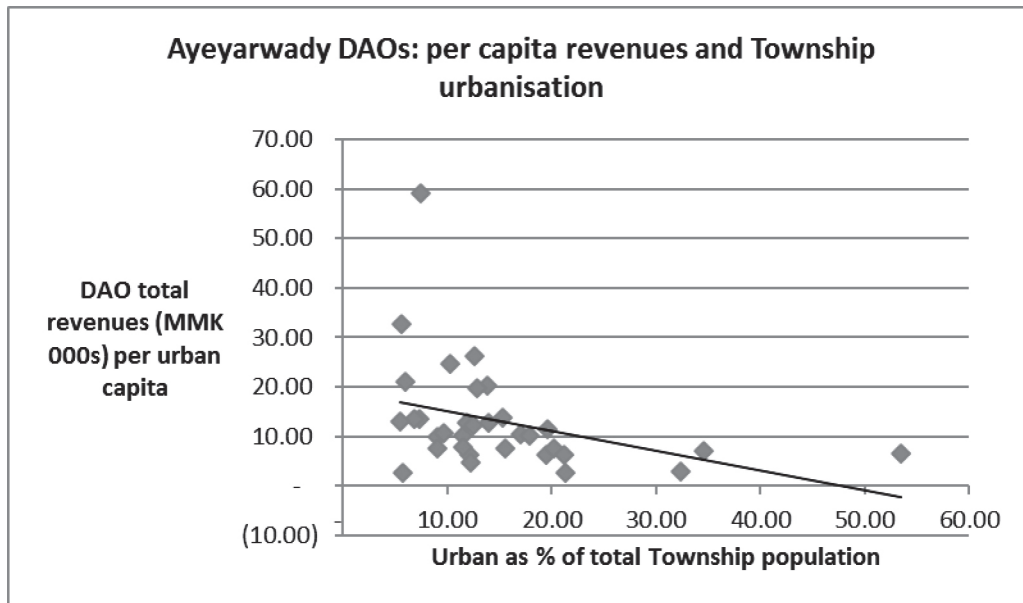
**Figure 15: IRD revenue shares, Ayeyarwady DAO revenues and town size**



DAOs also rely on significant amounts of revenue that are derived from their rural hinterlands, and not from the urban areas in which they provide public goods and services. Given: (a) that generally a large proportion of total DAO revenues are derived from license auctions, and (b) that many such licenses are issued for economic activities (such as ferry operations, slaughterhouses, etc.) in non-urban areas, it is not surprising that some DAO revenues are raised in rural areas, which are not serviced by DAOs. Nyaungdon DAO, for example, estimates that almost 80% of its total revenue is derived from license auctions, and that some 70% of license auctions are for economic activities located in rural areas of the township. In Ayeyarwady Region, as a whole, per capita DAO revenues (measured in terms of the urban population in each township) actually tend to increase in townships that are more rural (and less urban), as shown in figure 16. Large rural hinterlands provide township DAOs with significant amounts of revenue that are used to finance urban services.

To sum up: **DAOs, which provide public goods and services in urban areas, do rely partly on revenue shares from the Union Government, on some transfers from their respective state/region governments, and on some revenues that are not collected in their respective urban areas.** The extent to which this is the case clearly varies from state/region to state/region and from township to township, but these are important qualifiers to the popular perception that DAOs are nascent, fiscally self-reliant urban local governments.

Figure 16: Increasing per capita DAO revenues and declining rates of urbanization (Ayeyarwady)



## Section FOUR: Planning, budgeting, and service delivery

This section of the report examines DAO/DDA planning and budgeting processes in greater detail, as well as some related aspects of local infrastructure and service delivery.

### 4.1. Long-term, strategic and urban planning

Many local-level or municipal planning systems are notionally guided by a longer-term or strategic framework, coupled with spatial plans. These are intended to provide some kind of strategic guidance for annual planning and budgeting processes.

#### 4.1.1. Long-term state/region planning and urban development strategies

**There appears to be little long-term planning at the state/region level in Myanmar.** Unlike subnational units in many other countries, states/regions in Myanmar have not, so far, invested heavily in drawing up 5-year or other such medium- to long-term plans for development at the regional level. State/region DDAs themselves have therefore not engaged in any such strategic planning process.

**Nor have state/region DDAs, on their own initiative, undertaken any kind of long-term planning with respect to urban development.** In none of the states/regions visited during the course of this study, did any DDA refer to any kind of state- or region-wide planning for urban development or any type of urban development strategy. No DDA appears to have invested in strategic thinking or policymaking about the role of secondary cities and urban areas in regional socioeconomic development or the specific ways in which subnational urban networks might develop.

**Given that states/regions are relatively new politico-administrative units, the absence of such long-term plans is perhaps understandable.** State/region governments likely had more pressing priorities to address, as have DDAs.

#### 4.1.2. Long-term and spatial planning by DAOs

**The absence of long-term state/region plans and urban development strategies is mirrored at the local level by a lack of long- or medium-term planning for individual cities/towns or DAOs.** Most DAO officials insist that up until 2012-13, when TDACs were established and democracy reinstated, there were long-term, 5-year, investment plans for their urban areas. Since then, however, any such longer-term investment plans have been set aside and replaced by annual planning and budgeting. Few DAOs have updated 5-year investment plans or, indeed, any kind of formal investment pipelines. Nor do they make use of any medium-term budgetary or expenditure framework as a multi-year tool for investment planning. Some DAOs in Kayin State, on the other hand, have recently drafted 2016-20 plans at the request of the state DDA. But in describing their annual planning and budgeting process, DAO staff (including those in Kayin State) make no reference to a long-term planning framework of any kind. In sum, the investment decisions or choices made by DAOs do not seem to be guided by a longer-term set of priorities or longer-term strategies.

**Although state/region development affairs laws include town/urban planning as one of the many functions of DAOs, in practice, it is the Department of Urban and Housing Development (DUHD) in the Union Ministry of Construction which takes the lead on spatial planning for urban areas.** DUHD is currently in the process of drafting (or revising an earlier draft of) the Urban and Regional Development Planning Law, but has already undertaken town planning in some 56 cities and towns in the country.<sup>63</sup>

<sup>63</sup> See "New Urban Master Plans to be Introduced for 56 Locales": <http://www.mmbiztoday.com/articles/new-urban-master-plans-be-introduced-56-locales>.

Among Myanmar's development partners, JICA has provided substantial support for urban development (or master) planning.

**The Department for Urban and Housing Development (DUHD) does not have a significant presence outside of Nay Pyi Taw.** The department does have offices in each state/region, as well as some sub-offices at the district level, but only has twenty urban planners in total on its payroll. Its town planning activities necessarily rely on receiving support from other agencies, including GAD and the DAOs.

**The involvement of DAOs in DUHD's urban planning activities appears to have been limited to one of providing information and facilitation.** In towns like Nyaungdon or Hpa-An, where DUHD has undertaken urban planning, local DAO offices have played a strictly supporting role. Existing town plans are referred to by DAO staff as "belonging" to the Ministry of Construction, and are not seen as being key instruments for the DAO's own urban investments or activities.

**DDA and DAO officials are unequivocal about their very limited role in the implementation of town plans, for which they do not see themselves as being responsible.** Despite their legal mandate to undertake urban planning, DAO offices are unanimous in arguing that they are ill-equipped to oversee the implementation of spatial or land use planning in urban areas. This is simply because they (unlike GAD) exercise no control over land tenure or land administration. DDA/DAO staff insist that the responsibility for urban planning and its implementation lies not with them but with their state/region governments, GAD, and the Union Ministry of Construction. In brief, DAOs appear to play very little part in any urban planning exercises, and do not seem to view any DUHD-sponsored town plans as operational instruments or frameworks for their own purposes.

## 4.2. Annual planning and budgeting

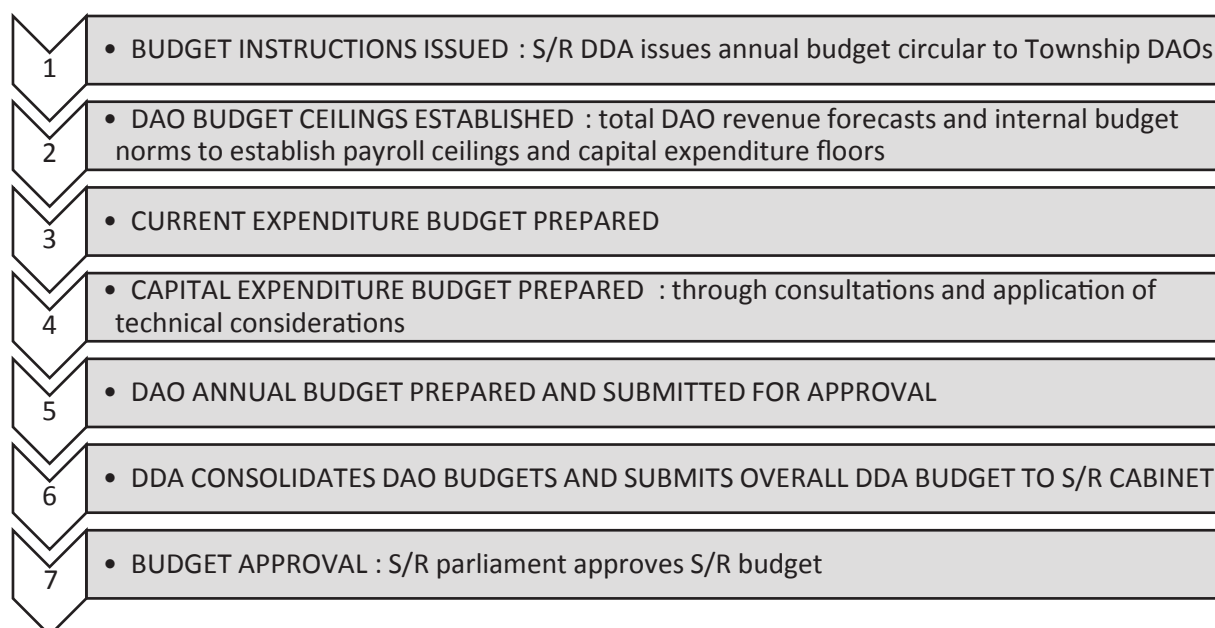
**In the absence of any meaningful long-term, strategic or town (and land use) plans, planning and budgeting in state/region DAO/DDA systems is very largely an annual exercise,** focused almost exclusively on the drafting, submission and execution of annual budgets. DAO planning, in practice, amounts to an annual budgeting exercise, in which annual priorities are expressed through budget allocations for current and capital expenditures.

This sub-section of the report examines the DAO/DDA annual planning and budgeting process, broken down into the following:

- Calendar: the budget calendar provides DAOs with a timeframe within which to undertake their annual planning and budgeting process.
- Determining revenue and expenditure ceilings: DAOs must establish hard budget ceilings within which to plan their annual expenditure priorities. These ceilings are determined on the basis of revenue forecasts and then budgeting norms.
- Determining priorities: DAOs identify priorities and then translate these into annual budgets.
- Budget submission and approval: DAOs submit their budgets to their DDAs; DDAs then submit composite budgets to their respective state/region government.

The major steps and processes in DAO annual planning and budgeting are shown in the following diagram.

**Figure 17: Steps in the DAO/DDA annual planning and budgeting process**



#### 4.2.1. Budget calendars

The annual planning and budgeting calendar followed by DAO/DDA systems does vary somewhat from state/region to state/region. Table 14 summarizes the (BE) budget calendars for DAO/DDA systems in four states/regions. Annual budget revisions (REs) for the current fiscal year take place according to roughly the same calendar as the preparation of BEs, with the difference that they are approved in December/January.

**Table 14: DAO/DDA budget calendars (BEs)**

Budget process	State/Region			
	Tanintharyi	Ayeyarwady	Mon	Kayin
1. DDA sends out BE budget submission circular to DAOs.	August	August	August/September	Early October
2. DAO offices prepare and submit annual BE budgets to DDA.	August/Sept	August/Sept	August/September	Early-mid October (DAO-DDA budget conference in early Oct)

3. DDA collates DAO budgets, prepares overall DDA budget and submits overall budget to state/region government.	September	September/ October	End of September	Late October
4. Budget approval by state/ region parliament.	December	December	February	November or December
5. Budget approval by Union Government and Parliament.	March/April	March/April	March/April	March/April

In general, the DAO/DDA budget calendar provides a relatively short period (1-2 months) for DAOs to prepare and submit their annual budgets. This, however, is not perceived as a constraint by DAOs—partly because DAO budget choices are not especially complex (see below) and partly because many DAOs appear to undertake budget preparations earlier, on an informal basis.

**Mid-year budget revisions (REs) are standard DAO/DDA procedure.** REs are generally used to update and adjust revenue forecasts, and the adjustments are always upwards. In line with these annual revenue updates, DAOs also adjust their spending budgets. For the most part, DAOs revise their spending budgets by adding to existing and ongoing activities, rather than adding new activities (for which there is usually not enough time to ensure implementation).

**As mentioned earlier, DAO budgets usually get approved without any modifications.** Neither DDAs nor state/region governments/parliaments meddle with the revenue forecasts or spending choices made by DAOs. In practice, then, the approved annual budgets are identical to those that are prepared and submitted by DAOs.

#### 4.2.2. Revenue forecasts and budget ceilings, caps, and floors

**Annual planning and budgeting by DAOs takes place within the framework of annual revenue estimates, which provide a hard budget ceiling within which annual current and capital spending is prioritized.** DAOs are acutely aware of the need to forecast annual revenue ceilings before identifying their planned expenditures. What they can spend is determined by what they can mobilize as revenues. What they budget as expenditures is ultimately determined by the overall level of revenues for which they budget.

**DAOs might therefore be expected to be assiduous revenue forecasters (see box 8). In practice, however, DAOs appear to forecast gross revenue levels as a function of an administrative norm. *Beginning estimate* (BE) revenue budgets are simply expected to be not less than and, if possible, 5% more than the *revised estimate* (RE) for revenues in the preceding fiscal year.**

## Box 8: Local government revenue forecasting

Fiscal forecasting is critical to good local financial management. At least in principle, local governments are required to ensure that expenditures do not exceed revenues. Therefore, realistic annual budgets require that revenues be forecasted as accurately as possible. If revenues are vastly overestimated, the locality will have to make unanticipated cutbacks in spending. Similarly, underestimates of revenues will lead to unexpected budget surpluses .... These undesirable outcomes imply that realistic and reasonably accurate revenue projections should be a primary objective of forecasts in the annual budget process.

Source: L. Schroeder, in A. Shah, ed. (2007).

DAOs prepare annual budget summaries (“balances” or “reconciliations”)<sup>64</sup> based on this administrative procedure for forecasting revenues. Table 15 summarizes the gross revenue forecasting estimates for Taunggyi DAO (in Shan State) and for Nyaungdon DAO (in Ayeyarwady Region).<sup>65</sup>

**Table 15: DAO revenue forecasts (2015-16 and 2016-17)**

Fiscal year	SHAN STATE Taunggyi DAO		AYEYARWADY REGION Nyaungdon DAO	
	BE/RE	Gross revenue budget MMK	BE/RE	Gross revenue budget MMK
FY 2015-16 revenue estimate	FY 2014-15 (BE)	1,330,000,000	FY 2014-15 (BE)	265,000,000
	FY 2014-15 (RE)	1,460,000,000	FY 2014-15 (RE)	360,000,000
	FY 2015-16 (BE)	1,500,000,000	FY 2015-16 (BE)	380,000,000
FY 2016-17 revenue estimate	FY 2015-16 (BE)	1,500,000,000	FY 2015-16 (BE)	380,000,000
	FY 2015-16 (RE)	1,970,000,000	FY 2015-16 (RE)	456,100,000
	FY 2016-17 (BE)	2,000,000,000	FY 2016-17 (BE)	480,000,000

Note: BE = beginning estimate (at start of FY); RE = revised estimate (mid-FY update)

The end result of this administrative norm is that DAO gross annual revenue budgets increase every year. In both cases (Taunggyi and Nyaungdon),<sup>66</sup> the DAO’s initial (BE) revenue estimates for the current fiscal year are (and were expected to be) greater than the updated (RE) revenue estimates for the previous FY. In the case of Nyaungdon, the revenue estimates for the two FYs are more than 5% bigger than the updated (RE) revenue estimates for the previous FY.

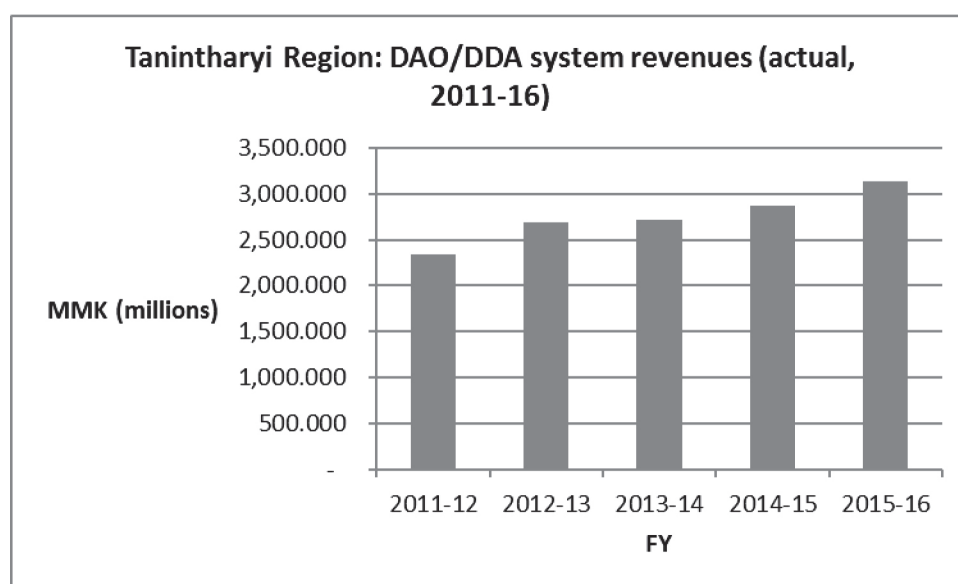
DAO/DDA systems do appear to achieve these annual increases in revenues. Figure 18 shows annual revenues for all the DAOs in Tanintharyi Region over the period 2011-2016, with total revenues increasing year-on-year.

<sup>64</sup> “Reconciliation” (or “balance”) is the common translation into English of the Myanmar word used in township DAO budget summaries.

<sup>65</sup> Transcribed **exactly** as they appear in DAO budget documents.

<sup>66</sup> This was also true in all the other cases examined during the course of this research.

**Figure 18: Tanintharyi Region total DAO revenues (2011-2016)**



There are two unexplained oddities about DAO revenue forecasts. Firstly, there is no explicit rationale underlying the administrative norm that the initial revenue estimate for FY N should be equal to or greater than the revised revenue estimate for FY N-1.<sup>67</sup> No DDA or DAO official was able to provide any explanation other than that this was regular budgetary practice. Presumably, some of the obligatory increase in budgeted revenue can be explained by the need to take into account annual inflation. This, however, was not put forward by any DAO/DDA officials as an explanation for regular increases in annual revenue estimates by DAOs.

Secondly, the initial revenue estimates made by DAOs are usually (major) under-estimates and are almost always revised upwards, midway through the year. Taunggyi DAO, for example, underestimated its FY 2014-15 revenues by about 9% and its FY 2015-16 revenues by 31%. Nyaungdon DAO underestimated its revenues by between 20-35% in the same years. Again, no explanation is available or was provided by DAO officials for this tendency to substantially under-estimate annual revenues.<sup>68</sup>

Gross annual revenue forecasts or budgets provide DAOs with their first-cut budget ceiling. In most cases, this gross revenue estimate is then reduced by 5-10%,<sup>69</sup> depending on the state/region, township, and year in question. This can be called the “95/5” or “90/10” DAO budget norm. This is deducted in order to provide a gross DAO/DDA “surplus” out of which to finance the costs of the DDA office itself, and the “deficits” of smaller DAO offices (whose revenues are insufficient to cover current/investment spending). After this “redistributive” percentage is taken out, DAOs then calculate their net revenue budget, which provides them with a cap on their total budgeted expenditure.

This net upper ceiling to DAO budgets is then subject to two further caps/ceilings.

The first ceiling consists of a cap on payroll spending, set at a maximum of 30% of total expenditure.<sup>70</sup> It is unclear whether this payroll cap applies to all payments to personnel, or only to the salaries/

<sup>67</sup> N is a substitute for a given year.

<sup>68</sup> Township DAOs claim that revenue under-estimates can be explained by the unpredictability of revenues derived from license auctions and uncertainty about the size of their IRD tax shares. However, this explanation is less than convincing: (a) revenues from license auctions always appear to increase from year to year and might therefore be more accurately budgeted for by higher (and more optimistic) revenue forecasts; (b) the same applies to IRD tax shares. Why township DAO BEs systematically under-estimate revenues remains something of a mystery.

<sup>69</sup> In some cases, for example, Hlaing Bwe DAO (in Kayin State) and in some years, the DAO is entitled to retain 100% of its revenues. The percentage to be set aside for re-distribution to other “deficit” DAOs and to the DDA itself is spelled out in the annual budget circulars issued by DDAs to DAOs.

<sup>70</sup> The cap on payroll spending is provided in the state/region development affairs laws.

benefits of full-time staff paid on a monthly (rather than daily) basis. Most DAO budgets always comply with this cap on payroll spending, although FY 2014-15 appears to have been an exception due to the across-the-board pay increases for civil servants in Myanmar.

**The second budget ceiling results from another (universal) administrative norm.<sup>71</sup> Capital expenditure is “floored” and expected to account for at least 50% of total DAO expenditure.** In some state/region DAO/DDA systems, capital expenditure may even be set at a minimum floor of 55%. This correspondingly limits current expenditure (which includes payroll spending) to between 45-50% of total expenditure. Again, and as far as is known, DAOs scrupulously comply with this capital expenditure norm.

**The rationale for these two expenditure caps/floors is not clear.** But it is likely that they were originally justified as a way of avoiding over-staffing, and as a mechanism to ensure that DAO revenues are used for developmental expenditure (often seen as being capital, rather than current, spending).

**To sum up,** DAOs establish their budget ceilings every year based on a gross revenue estimate that is the same as, or more than, the previous year’s actual (or revised) revenues. A small percentage (varying from 5% to 10%) of gross budgeted revenue is then redistributed to finance deficit elements in the DAO/DDA system. The remaining amount (or net budget ceiling) is further sub-divided through capping or flooring. Payroll expenditure is capped at 30% of total expenditure, capital expenditure is “floored” at between 50-55% of total expenditure, and current expenditure is thus capped at 45-50% of total spending. Taken together, these various caps and floors define the limits within which DAOs undertake annual planning and budgeting.

#### **4.2.3. Choices: options and priorities**

In preparing their annual budgets, DAOs have a number of choices to make, both with respect to revenues and to expenditures. How those choices are made, and priorities are decided, is described in the next subsection of this report.

##### **Revenues**

In the case of revenue budgets, the choices open to DAOs appear to be limited. Because of the administrative norm that revenue volumes should be at least equal to, if not greater than those of the previous fiscal year (see previous), DAOs have little choice but to increase their revenue forecasts, year-on-year.

**Exactly how DAOs choose to increase their total revenue budgets is not clearly understood at this stage.** However, there appear to be two main options open to them:

- Increasing the overall base that is subject to taxes/fees/charges. This implies an expansion in, for example, the number of households subject to property rates, or the number of businesses that pay for business licenses.
- Increasing the “floor” prices for annual license auctions (which generate a significant proportion of DAO revenues).

**The actual rates set for various DAO taxes/fees/charges appear to be difficult to adjust upwards.** To increase the (low) rates charged as “property tax”, for example, is an onerous and transaction costly process, and one which DAO officials are understandably reluctant to take on.

##### **Expenditure**

<sup>71</sup> This budget norm is established through the DDA annual budget circular to DAOs. The annual budget circular provides DAOs with norms about the percentage of total expenditure that is to be allocated to capital spending. This can vary from year to year, depending on the state/region.

DAO annual planning and budgeting for expenditure takes place within the framework of a fairly limited or routine set of functional assignments. In practice, prioritization with respect to DAO expenditure is confined to a relatively narrow spectrum of choices, made even narrower by limited resource envelopes.

A basic budgetary choice that is not available to DAOs is the extent to which they can choose to prioritize (or not) current versus capital expenditure. As described earlier, DAO spending is regulated by an administrative norm whereby capital expenditure has to amount to at least 50% of total spending. This effectively means that townships are not able to expand their current spending to more than 50% of their total budget.

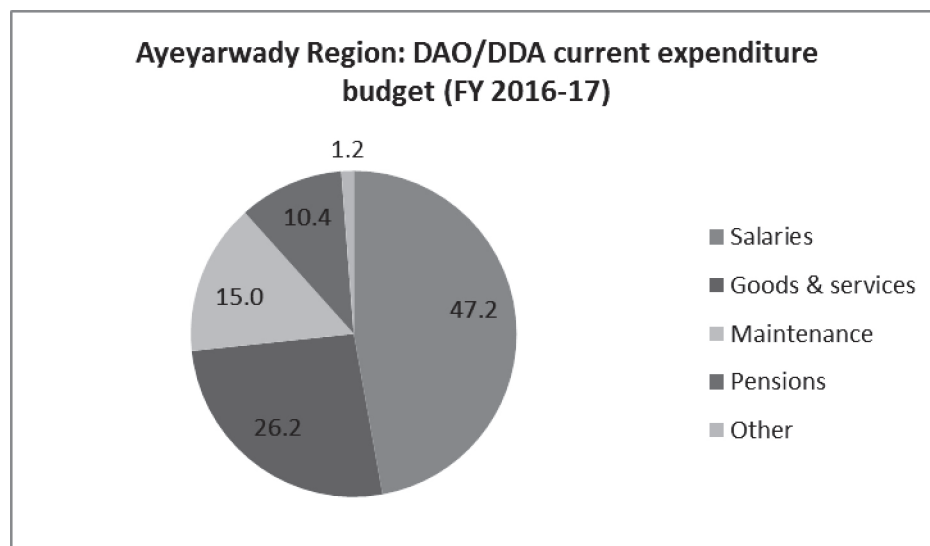
#### **(a) Current expenditure budgets**

Figure 19 shows the breakdown of the current expenditure budget (FY 2016-17) for all the DAOs, and the DDA office in Ayeyarwady Region.

The administrative and regulatory services that are provided by DAOs are delivered through regular staffing resources, and thus covered by the payroll component of the current budget. Given the administrative cap on payroll spending, there is limited scope for significant inter-annual increases in staffing, and, given the nature of any bureaucracy, limited scope for decreases in payroll budgets.

Pensions account for an unavoidable and steady proportion of DAO/DDA current expenditure budgets. This is a relatively inflexible budget item, and as a current liability, DAO/DDAs have little choice but to make room in their budgets for pensions.

**Figure 19: Ayeyarwady Region composition of the DAO/DDA current expenditure budget (FY 2016-17)**



Maintenance budgets (which appear to be for vehicles and equipment, and not for roads) are also probably fairly inflexible.

Budgeting for goods and services expenditure provides DAOs with a little more choice. As the authors understood, most goods and services budgets are intended to cover fuel costs (for DAO vehicles and equipment used for solid waste management and construction), office running costs, utilities, and other such expenses. The room to maneuver here is nonetheless likely to be constrained, given that many such costs are unavoidable, and not easily adjusted against other fixed current spending items (such as salaries and pensions).

**It is also worth underlining that DAOs cannot easily expand the total size of their current expenditure budgets.** As described earlier, DAO/DDA systems have a self-imposed norm for the ratio of current-to-capital expenditure, such that at least 50% of their total annual budget must be allocated to capital spending. Thus, even if DAOs wanted to dramatically heighten the priority they accord to activities (such as solid waste management), they would not be able to do so through significant increases in their budgets for goods and services.

**As is the case in most such institutions, DAO/DDAs have limited options in terms of how they plan and budget for current expenditure.** Roughly 60% of their current spending is committed to salaries and pensions, both of which are unlikely to vary much. Maintenance costs are also probably fairly fixed. And while there may be more choice with respect to spending on goods and services, some such costs are unlikely to be adjustable from year to year.

**To sum up, in practice, when it comes to annual planning and budgeting for current expenditure items, DAOs do not have many options open to them.** To begin with, total current expenditure is effectively capped at 50% of the total budget. A good portion of that is taken up by largely inflexible payroll spending, as well as regular operating expenses. What limited flexibility is left in the current budget leaves little room for choice and little fiscal space within which to expand some services or contract others. As a result, DAO current budgets tend to be much the same from year to year.

#### **(b) Capital expenditure budgets**

**There are also remarkably few choices to be made when it comes to planning and budgeting for capital expenditure (or investments) by DAOs.** Here, choices are constrained by both institutional and financial factors.

**Institutionally, DAOs are constrained in their investment choices by their legal mandates.** At first sight, the list of functions assigned to DAOs by state/region development affairs laws might seem to offer a plethora of spending options. A closer look, however, makes it clear that DAOs do not have a mandate to provide services or infrastructure in large social sectors such as education and health, which are both areas for which the Union Government is responsible. This inevitably cuts back on the potential range of infrastructure investments open to DAO intervention.

**The range of investment options open to DAOs is further reduced by financial constraints.** With very limited access to inter-governmental fiscal transfers and virtually no ability to borrow.<sup>72</sup> DAOs must finance all their expenditures out of limited current revenues. This does restrict the size (and thus types) of investments that DAOs can undertake. For all practical purposes, DAOs are therefore not able to make investments in costly water supply infrastructure, expensive modern waste disposal or sewerage facilities, major civic buildings (such as sports stadiums), or even major new roads or bridges. Limited financial resources effectively limit the available investment options.

**In practice, the investment choices open to the majority of DAOs are whittled down to two main types of spending: modest, road-related infrastructure items, and the purchase of equipment/vehicles.** Firstly, DAOs can choose to finance the construction, upgrading, repair or maintenance of road/bridge-related infrastructure, including drainage and pavements. Even here, budgetary constraints usually mean that any road/bridge works are of limited scope and size. DAOs are not in a position to finance the construction of major new roads or undertake the upgrading of long stretches of main roads. Secondly, DAOs can choose to spend capital funds on the purchase of equipment or vehicles, to be used either for road works or for purposes of waste collection. There are obviously other choices, but these are often particular to specific townships. For example, in cases where DAOs

---

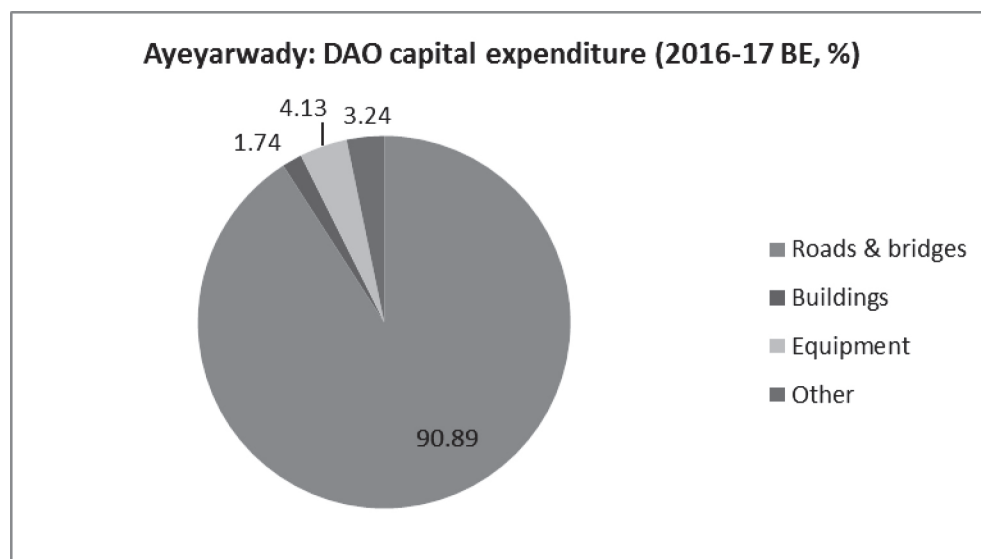
<sup>72</sup> Although DAOs are legally allowed to borrow with permission from their respective state/region governments (see Arnold et al. 2015), in practice they do not do so.

have inherited some form of piped water supply infrastructure (as in Dawei or Taunggyi) or when DAOs need to rehabilitate their office or other buildings.

**This assessment of limited DAO capital expenditure choices corresponds both to what DAO staff describe as “what they do” (almost invariably described as being roads and bridges) and to what overall DAO budget data show** (see figure 20). Any discussions about planning and budgeting with DAO officials and staff are inevitably about works related to roads/bridges, which are seen, in practice, as their most important developmental activities.

**Given this, the main choices open to DAOs are about which roads/bridges to construct, upgrade, repair or maintain, rather than about which sectors to invest in.** In prioritizing road/bridge activities for inclusion in their annual capital budgets, DAO choices appear to be influenced by two main considerations.

**Figure 20: Ayeyarwady Region composition of DAO/DDA planned/budgeted capital expenditure (FY 2016-17)**



**Firstly, spending plans in the roads/bridges sector are influenced by local demands and priorities.** DAO staff are adamant that since 2011—the start of the Union Government’s “people-centered” approach to development, and especially since 2013, when TDACs were first established<sup>73</sup>—the choice of which urban roads to work on has been strongly shaped by local citizens and communities. According to DAO staff (and themselves), locally (s)elected TDAC members are instrumental in giving voice to citizen and community preferences through informal consultations and interactions with town residents. To a certain extent, **taking citizen and community priorities into account translates into a dispersal and proliferation of road/bridge projects, as DAOs seek to satisfy as many local demands as possible.** Spreading out capital expenditure is clearly one way of being (or being seen to be) responsive. Box 9 provides an example of how “responsive” planning results in a large number of small works projects.

<sup>73</sup> See Gerhard van ‘t Land (2016) for an overview of these wider reforms.

## Box 9: Capital investment planning in Nyaungdon DAO

Nyaungdon town, in Ayeyarwady Region, is a small urban settlement with a population of around 23,500 in 10 wards. In its FY 2016-17 budget, Nyaungdon's township DAO has set aside MMK 277 million for capital spending (out of a total budget of about MMK 470 million). In order to meet numerous local priorities, this has been earmarked to finance:

- the upgrading (to concrete) of 12 stretches of road in the town and the installation of one box culvert on an existing road (MMK 186 million);
- maintenance of, and repairs to, several roads/streets (MMK 81 million); and
- the purchase of a new (light) truck for garbage collection (MMK 10 million).

On average, each individual road upgrading and culvert construction project is budgeted at about MMK 14 million (roughly USD 13,000), which implies a very limited scope of work.

Source: fieldwork, June 2016

**The influence of (s)lected TDAC members in identifying investment priorities appears to vary from one DAO to another.** In some DAOs, (s)lected TDAC members can, and do, play a significant role in shaping DAO investment planning and budgeting. How far this is done on the basis of widespread or bottom-up consultations is unclear—but the general impression obtained is that (s)lected TDAC representatives undertake informal consultations through their personal networks, rather than through any formal mechanism.

**Insofar as DAO planning and budgeting are participatory, this appears to be an informal process,** based either on the personal networks of (s)lected TDAC representatives or on a perceived need to involve local neighborhoods. Indeed, there are very few cases of neighborhood- or ward-based committees operating as planning bodies at the sub-DAO level.<sup>74</sup>

**Secondly, prioritization of roads/bridges investment projects is also determined by more technical considerations.** DAO engineers do have a clear sense of which parts of the local urban road network are the most in need of upgrading and repairs, which parts provide access to key service or economic facilities, and which roads are the most heavily used. Such considerations appear to be used as a filter against which to appraise local priorities and demand. Technical considerations do seem to be prominent in deciding on the larger works projects that are financed by DAOs.

**While there are clearly good grounds for deciding which parts of the urban road network need upgrading, repair, or maintenance, annual budgeting does not seem to be informed by any strategic or long-term planning.** As discussed earlier, town plans are not seen by DAOs as “their” instruments, and are apparently not used to guide investment decisions. Nor do DAOs have medium-term investment pipelines for their road networks, so that priorities are sequenced over time. In short, DAO investment planning and budgeting is largely an annual and piecemeal process, informed by local priorities, and some sense of technical need and socioeconomic rationalization.

**In addition, DAOs undertake their capital planning and budgeting with little or no reference to the plans/budgets of other government departments** and, conversely, their proposed plans appear not to be subject to any “inter-departmental review” by Township Plan Formulation & Implementation Committees. Indeed, DAO staff insist that they do not coordinate their road investments with either the township as a whole, or with state/region roads departments.

<sup>74</sup> Some of the recently elected TDACs in Kayin State, for example, are exceptional in their initiatives to establish ward-based committees as an institutional mechanism for ensuring local participation in DAO planning and as a framework for local consultations.

### ***Force account modalities***

The ways in which DAOs deliver public goods and services would normally be thought of as implementation arrangements, which would therefore not be expected to have any bearing on planning or budgeting. However, the use of force account as the predominant modality for most DAO investments and service provision does appear to influence or have implications for planning and budgeting.<sup>75</sup>

**The use of force account modalities for road works does make it easier for DAOs to undertake piecemeal and small-scale investment projects.** Out-sourcing to private sector road contractors through public procurement packages would probably require DAOs to group together larger construction/upgrading projects in order to make them attractive to potential bidders. Local firms are unlikely to bid on very small and dispersed road projects, which drive up costs and reduce profitability. The force account modality, on the other hand, makes it easier to plan and budget for a large number of small, piecemeal works projects, and thus to avoid larger and perhaps more strategic investments in the local road network. At the same time, force account implementation makes it easier for DAOs to adjust their capital budgets at mid-term. A revised and increased DAO revenue budget is easily accommodated through incremental increases in spending on force account road projects by adjusting the scope of work and increasing input quantities (labor, materials, and equipment use). This, however, is more complicated in the case of works that have been contracted out through public procurement processes.

**Force account modalities are also amenable to community-financed initiatives.** In many cases, small residential streets in Myanmar's towns are upgraded through community-level financing. Neighborhoods often get together to finance upgrades to their streets, using local labor and directly purchasing materials. Through force account budgets, DAOs are able to contribute technical expertise and equipment inputs to these kinds of community-driven initiatives, which are largely off-budget.

#### **4.2.4. Budget submission and approval**

**Annual DAO budgets are formally submitted to, and approved by, their respective TDACs. However, this does not seem to be seen as a major step in the budget submission or approval process, and appears to be something of a formality.** This is probably due to the extent to which (s)electd TDAC representatives are involved in budget preparations for capital expenditure, as well as in the regular day-to-day management of DAO activities. Having been actively involved in budget preparation (especially for investment spending), (s)electd TDAC representatives are unlikely to play much of a role in scrutinizing budget submissions.

**It is important to underline that while DAOs undertake much of their annual planning and budgeting in a semi-autonomous manner, their annual plans and budgets have no official status outside of the composite and approved budget of the state/region DDA.** It is the annual budget of the state/region DDA that is submitted for approval to the state/region cabinet,<sup>76</sup> and then to the state/region parliament.<sup>77</sup> The individual annual budgets of DAOs are not submitted. This is in marked contrast to municipal systems in most other countries, where individual municipal governments have their own "stand-alone" annual plans/budgets, submitted by their executive branches to local municipal councils for approval. State/region DDAs, then, are ultimately responsible for combining the collective annual plans/budgets of the state/region departments offices, and of all the constituent DAOs, into a single budget submission.

<sup>75</sup> For a definition of force accounts, see Box 5.

<sup>76</sup> In the few states/regions (Mon, Shan and Magway) in which there are State/Region Development Affairs Committees, their role in DAO/DDA budget approval is not known.

<sup>77</sup> And, ultimately, to the Union Government and Parliament.

**Given this, state/region DDAs are responsible for a number of actions related to the overall annual planning/budgeting process, *inter alia*:**

- Drawing up the operating budget for the state/region DDA office.
- Providing DAOs with guidance/instructions as to budgetary targets, ceilings, and earmarks.
- Redistributing and balancing revenues across all DAO offices, in order to ensure that any “surplus revenues” are used to finance the “deficits” of both the state/region DDA office itself and the less “fiscally affluent” DAOs.
- Collating all DAO/DDA budgets into a single and composite annual budget, to be submitted to the state/region cabinet and parliament.
- Receiving and monitoring reports on budget execution by each DAO office, and then combining all DDA/DAO financial reports into a single departmental report, submitted to the state/region government.

**Despite being in overall charge of the departmental budget (and its constituent DAO budgets), the state/region DDA appears to play a limited role with respect to the actual scrutiny and approval of individual DAO budgets.** Aside from ensuring that DAO offices comply with budget ceilings and norms, DDAs do not appear to adjust or modify detailed elements of the annual budgets submitted by DAOs. The actual composition of individual DAO budgets is almost entirely left to the discretion of individual DAOs, which are thus largely autonomous in terms of deciding on the relative importance of specific revenue items, and in identifying local expenditure priorities. To the extent that DAO/DDA systems in the states/regions can be conceptualized as subnational “Ministries of Municipal Services”, they are highly de-concentrated departments.

**It is also striking that state/region governments appear to be almost completely passive with respect to the overall DAO/DDA planning and budgeting process.** As far as is understood by the authors, DAO/DDA budgets are submitted to respective state/region governments by DDAs with the full (and empirically justified) expectation that these will be approved without amendment. This is partly the case because of the degree to which DAO/DDA systems are (or are perceived to be) self-financing,<sup>78</sup> and thus “left to their own devices” when it comes to budgeting. It may also be the case that state/region governments see DAOs/DDAs as semi-autonomous public enterprises, whose plans/budgets are considered “off-limits” to regular oversight and/or meddling. The apparent indifference of state/region governments to DAO/DDA budgets is nonetheless surprising, given that DAOs are not fully-fledged municipalities, raise a significant proportion of subnational revenues, and provide services in politically important urban areas.

---

<sup>78</sup> Although this appears to be changing in places like Mon State (where the Mon State Government is now explicitly allocating its own budgetary resources to DAOs through the topping up of DAO/DDA revenues with fiscal transfers) or Kayin State (where the Kayin State Government has now begun to provide DAOs with in-kind resources, financed out of the state budget). Whether this will then change the extent to which DAO/DDAs have almost complete discretion over their budgets remains to be seen.

## Section FIVE: Findings, discussion, and recommendations

This section of the report summarizes and discusses some of the key findings of the study and then provides a few recommendations for the government and for Myanmar’s development partners.

### 5.1. Findings & discussion

A number of findings about DAO/DDA planning and budgeting, and DAO/DDA systems in general, merit highlighting and some discussion. Before turning to these, box 10 provides a summary of the context to, and processes of, DAO/DDA planning and budgeting.

#### Box 10: DAO/DDAs’ overall context to and process of planning & budgeting

In Myanmar’s states and regions, a range of urban public goods and services are provided by DAO/DDA systems. These DAO/DDA systems are respective to state/region governments and operate, for most intents and purposes, independently of the Union Government. DAO/DDA systems are governed by development affairs laws, respective to each state/region, but very similar to each other. Although DAO/DDA systems do benefit from shares of Union-collected revenues and some transfers from their state/region governments, generally they finance a large proportion of their activities through own-source revenues, the most important of which are the proceeds of license auctions.

At the state/region level, DAO/DDA systems operate like ministries or publicly-owned economic enterprises. As a whole, they are accountable to state government cabinets and parliaments. Their budgets are part of the overall budget of their respective state/region. If conceptualized as a state/region ministry, DDAs operate as highly deconcentrated departments, in which DAO offices are largely free to plan and budget as they see fit, provided that their spending is matched by their revenues.

DAOs, in line with their legal mandate, provide services to the urban wards within their respective township jurisdictions. In all cases, DAOs are structured into two components: (a) the Township Development Affairs Committee (TDAC), which includes a number of (s)elected community representatives (one of whom is the TDAC Chair); and (b) the DAO office itself, staffed by full-time civil servants.

Although their mandate appears to be wide-ranging, in practice, however, DAOs deliver a fairly limited set of urban public goods and services. The construction/maintenance of road-related infrastructure, and the provision of solid waste management services, are the most important public goods that are delivered by DAOs. A few DAOs provide municipal water supply services. In addition, all DAOs regulate (and levy fees on) local businesses.

For all intents and purposes, DAOs plan and budget on a purely annual basis. Multi-year or spatial/land use planning are rare, and are certainly not of any operational significance. Annual planning and budgeting by DAOs include both revenue forecasting (which is largely mechanical) and current/capital expenditure. Revenue projections provide a first “ceiling” under which expenditure planning/budgeting takes place. Further procedural “ceilings” and “floors” establish other finance parameters. Budgeting for current expenditure is relatively straightforward and fairly constrained. Payroll, pensions, and other fixed overheads leave limited room for other current spending. Planning and budgeting for capital expenditure is, in practice, limited to piecemeal and small-scale road works. This prioritization takes place through a combination of “bottom-up” and technical processes.

### 5.1.1. Bureaucratic discipline and procedures

**Given their origins as part of a Union ministry, DAO/DDA systems unsurprisingly demonstrate a high degree of bureaucratic discipline.** Annual budgets are drawn up and submitted on a timely basis, budgets are balanced, financial reporting is systematic and formal, standardized formats are used year-on-year. Compared to orthodox and self-governed municipalities in other countries, Myanmar's DAOs are models of procedural standardization and bureaucratic practice. They also appear to be well-managed. These are important attributes which lend themselves to sound planning and budgeting.

### 5.1.2. Financing issues

#### *Limited resources and limited scope for urban public goods and services*

**DAO/DDA systems are constrained in their planning and budgeting by limited financial resources.** Although they have the virtue of being able to finance themselves, and of being largely free to spend as they see fit, the revenues on which they depend are inevitably limited. This, of course, is common to all public institutions. In the case of DAOs, however, their reliance on mostly local revenues does mean that planning and budgeting are of limited scope. DAOs are unable to finance the (necessarily) large and “lumpy” investments that would be needed for them to meet some elements of their mandate. This is especially true of the connective infrastructure (such as piped water supply and treatment or sewerage) that is required in urban areas. It is also true of major additions to urban road networks, which require significant levels of finance.

**Municipal authorities (or governments) in other countries face the same problem of not being able to fund investments out of their own-source revenues. Unlike DAOs, municipal authorities elsewhere can also rely on transfers or grants from higher levels of their inter-governmental system.** In Myanmar, however, DAOs only benefit from relatively small transfers. **In other countries, moreover, municipal authorities are often able to borrow in order to finance infrastructure investments**—this not only allows such municipal institutions to mobilize resources, but also to do so in an equitable manner, by spreading out the cost of paying for investments through multi-year repayments. This financing option is not open to DAOs, and not even those which serve smaller cities or larger towns. As a result, key urban services such as piped water supply and sewerage are likely to be under-delivered in many of Myanmar's urban areas.

#### *Sources of revenue*

**There is a mismatch here between DAO revenue assignments and DAO functional assignments.** Although DAOs rely largely on local revenues to finance their provision of urban public goods and services, it is clear that license auctions, the single largest part of total DAO/DDA revenues, yield revenues from both rural hinterlands and urban areas. This goes far beyond the level of townships and raises issues that require discussion and policymaking at the state/region level. Indeed, DAO/DDA systems alone account for a very large proportion of total subnational revenues, although some of these revenues, particularly from license auctions, should be properly levied by state/region governments (or by any future rural local governments) and then used to finance state/region expenditures. As it is, DAOs are financing their urban service delivery functions, which benefit urban populations, by extracting revenues from rural citizens.<sup>79</sup> Thus, a good deal of rethinking needs to be done about DAO revenue sources as an element in overall state/region revenue assignments.

**DAOs effectively under-charge for key urban services, and use the proceeds of license auctions to subsidize urban expenditures.** DAO property taxes (or rates) are explicitly intended as a user fee, paid

<sup>79</sup> Although this does not call into question license auctions as a method of business regulation or local economic governance, see Bissinger 2016 for a discussion of how license auctions distort local markets, have negative consequences for consumption or disincentivize business development.

by the residents of urban areas in return for services such as waste collection. Property taxes (or rates), however, are set well below the true cost of the services which they are expected to finance. DAO staff and officials point to two underlying factors here: (a) citizens' reluctance to pay increased property rates; and (b) the bureaucratic and procedural complexities of increasing property rates. But at some point, property rates will need to increase, in order to cover the costs of service delivery, and if/when states/regions reform subnational revenue frameworks.

### 5.1.3. Norms and practice

**DAO/DDA systems currently undertake planning and budgeting within the framework of a few key budgeting norms that affect budget outcomes.** The standard norm, whereby at least 50% of DAO budgets is allocated to capital expenditure, has the effect of skewing expenditure away from services (such as solid waste management), which are often reliant on current expenditure (goods & services, wage labor, etc.), and towards expenditure on road network infrastructure—one of the only affordable infrastructure investment choices open to DAOs. However, this is not always the best way of addressing local urban needs. Indeed, it could be argued that DAO/DDA systems, compared to municipal management systems in many other countries, under-spend on solid waste management.<sup>80</sup>

**Another deeply rooted DAO/DDA practice (that is almost a norm) is the reliance on force account modalities.** This applies both to works and services. The construction, upgrading, and maintenance of road-related infrastructure is invariably carried out directly by DAOs; they rely on their own engineers, directly hired labor, equipment, and materials—rather than out-source works' activities to private sector contractors. Waste collection is also usually undertaken by using DAO vehicles and labor, rather than through out-sourcing or franchising. In both cases, out-sourcing might be a more effective and efficient option, but is rarely considered.

### 5.1.4. Longer-term, strategic, and spatial planning

**DAO/DDA systems do not appear to engage in any operationally relevant, longer-term, strategic, or spatial planning.** At the state/region level, DDAs do not engage in any policy thinking about urban development and the role of cities/towns in wider regional development. At this level, DAOs do not plan investments or activities on the basis of medium- or long-term plans, or on the basis of any spatial (or land use) plans. Nor do DAOs rely on investment pipelines as a basis for prioritizing investments over more than a 1-year period.<sup>81</sup> This absence of any wider planning framework means that DAO/DDA planning has become entirely focused on the annual budget cycle. This is fine up to a point, but results in investment decisions that are relatively ad hoc, piecemeal, and incremental in nature, rather than being informed by more strategic or longer-term considerations. As a result, investments and activities run the risk of being incoherent and inefficient.

**In a related manner, DAO planning is also conducted with little reference to planning by other public sector agencies.** Annual planning and budgeting by DAOs are not coordinated with other township or state/region departments (such as State/Region Roads Departments or DRDs). This runs the risk of duplication, fragmentation, and missing opportunities for connectivity, etc.

<sup>80</sup> "Municipal solid waste (MSW) management is the most important service a city provides; in low-income countries as well as many middle-income countries, MSW is the largest single budget item for cities and one of the largest employers. Solid waste is usually the one service that falls completely within the local government's purview. A city that cannot effectively manage its waste is rarely able to manage more complex services ..." See Hoornweg, and Bhada-Tata (2012).

<sup>81</sup> An investment pipeline is commonly understood to be a year-by-year and sequential wait-listing of the investment projects that a given agency intends to implement over a multi-year period. As investment projects are taken up and implemented, the next-in-line projects are integrated into annual budgets.

### 5.1.5. Participation, accountability, and autonomy

There are two main ways in which citizens can participate in DAO planning and budgeting processes: either directly participating in the consultations, or through their representatives on TDACs.<sup>82</sup>

**Firstly, citizens are able to participate directly, through consultations on annual planning priorities.** This is largely informal and is not rooted in any systematic ward-based consultation.<sup>83</sup> TDAC (s)elected members appear to have taken the lead on this. How far this form of participation is genuinely open is of course debatable given that informal consultations are likely to be ad hoc and shaped by the personal networks of TDAC members. It is nonetheless clear that DAO plans and budgets are informed by consultations with citizens.

**Secondly, citizens participate in DAO planning and budgeting through their representation in TDACs.** TDAC (s)elected members ensure some degree of citizen participation in DAO planning and budgeting activities. The extent to which current TDAC members are representative is probably limited, not only in terms of age/gender (almost all citizen members of TDACs are older men), but also in terms of how far they were genuinely elected. Moreover, in larger urban areas, (s)elected TDAC members may represent very large numbers of people, diluting the extent to which they are genuinely able to put forward local priorities.

**DAO accountability can only be described as “blurred”.** TDACs have clearly injected a degree of formal downward accountability into DAOs. However, this becomes somewhat blurred because (s)elected TDAC members tend to become operationally involved in “upstream” planning and budgeting processes. Thus, they are actively involved in drawing up plans and budgets, rather than in scrutinizing or approving plans, budgets, and activities, which make any checks and balances fairly ineffective. (S) elected TDAC members are unlikely to call into question DAO planning and budgeting decisions which they themselves were actively involved in making. At the same time, DAOs must submit their plans and budgets to their respective DDA for approval, and the DDA then submit a full DAO/DDA budget for approval to their state/region. This implies a degree of upward accountability.

**Thus, irrespective of formal accountability arrangements, DAOs enjoy a high degree of planning and budgeting autonomy.** As in all local-level public sector systems, there are top-down procedures and norms that DAOs/DDAs follow<sup>84</sup>—but as long as they comply with those norms, DAOs are given a good deal of discretion as to what they spend their revenues on and how they raise fiscal resources. The annual budgets submitted by DAOs are invariably approved, with no meddling from senior tiers of government. This is in marked contrast to what happens in other government departments.

## 5.2. Recommendations

This sub-section of the report provides the Union and state/region governments, as well as Myanmar’s development partners, with a few key recommendations. Most are related to the financing, planning/ budgeting, and infrastructure and service delivery functions of DAO/DDA systems. Some of these are inevitably related to the overall policy and institutional framework within which DAO/DDA planning and budgeting takes place. Others are more specific to planning and budgeting processes. The time-frame (short/immediate, medium/long) for these recommendations is specified on an indicative basis.

<sup>82</sup> This paper does not consider “community” or neighborhood financial contributions as participation in the DAO planning & budgeting process. There are clearly many cases of local “communities” either contributing (in kind or in cash) to DAO investments, or even fully funding individual urban investments.

<sup>83</sup> Although some of the recently (s)elected TDACs in Kayin State appear to have taken the initiative to establish a formal ward-based consultation process for the purposes of planning.

<sup>84</sup> DAO/DDA budget norms such as the cap on payroll spending or the floor on levels of capital expenditure are very similar (in nature) to the norms that are often provided for in municipal or local government laws in other countries.

### 5.2.1. DAO/DDA finance, planning/budgeting, and infrastructure/service delivery

#### *DAO resources and subnational revenues*

**DAOs plan and budget within the limits of their resources, which derive largely (but not entirely), from their own-source revenues.** Increasing the level of resources available to DAOs would not only allow more investment and/or developmental spending, but might also enable DAOs to make larger-scale investments in more strategic (and costly) urban infrastructure. There are a number of ways in which DAOs might expand their budgetary resources in order to increase their spending on urban public goods and services.

**In the short term, the revenue administration systems of DAOs could be strengthened, enabling them to collect more taxes and fees.** This would be especially appropriate for the administration of property rates, which are levied on urban households that directly benefit from DAO municipal services (such as waste collection). There is a wealth of international experience<sup>85</sup> in strengthening property rate (or tax) administration, and this could be drawn on and adapted for DAO/DDA systems. However, improving revenue administration will only go some way towards increasing DAO revenues and, indeed, needs to be nuanced so as to avoid compromising other measures and reforms (see below).

**In the medium term, the own-source revenues assigned to DAOs need to be thought through more coherently.** As mentioned earlier, revenues from license auctions make up a very large proportion of DAO revenues. Quite apart from the economic distortions introduced by such licensing systems,<sup>86</sup> they are also unfair in the sense that while they impact on both urban and rural consumers, they only finance services for urban households. Such revenues should, in fact, be assigned to larger tax jurisdictions, and then redistributed for spending on a more equitable basis. License auctions are only one example of the need to rethink DAO revenue assignments within a wider state/region perspective: IRD tax sharing is another, as are some of the business licenses and the wheel tax. DAOs account for a very high proportion of total subnational revenues—partly because they collect revenues that (in other countries) would be assigned to higher tiers in the subnational system. **Rethinking DAO revenue assignments would require working on the overall structure of revenues at the subnational level.**

**Medium term rethinking about subnational revenue assignments might (and should) actually result in some revenues being re-assigned away from DAOs, which would lead to fewer resources available for DAOs. This points to another medium-term need: rethinking subnational fiscal frameworks as a whole (including expenditure assignments, revenue assignments, and inter-governmental fiscal transfers).** This would include state/region transfers to DAOs (which would compensate for any loss of own-source revenues). DAOs already rely on small transfers from their respective states/regions, but in a fairly ad hoc and unpredictable way. Rethinking subnational fiscal frameworks at the state/region level would require providing technical support to Union and state/region governments.

#### *DAO infrastructure and service delivery: more strategic perspectives and improved annual planning/budgeting processes*

**For all intents and purposes, DAOs plan and budget on a purely annual basis. Multi-year planning or spatial/land use planning is rare and is certainly not of any operational significance.** Annual DAO planning and budgeting thus becomes more “reactive”—a response to immediate needs and priorities, rather than contributing to a more purposive approach to urban development. This is fine up to a point, but results in investment decisions being relatively ad hoc, piecemeal, and incremental in nature, rather than being informed by more strategic or longer-term considerations. Nor is this to say that international experience with 5-year planning or the like has been particularly positive. But DAO

<sup>85</sup> See, for example, Mikesell (2003), Bahl & Bird (2008), and Kelly (2013).

<sup>86</sup> See Bissinger (2016).

planning would certainly benefit (with few costs) from a longer-term or more strategic perspective.

**In the immediate term, national and subnational planning agencies (these include the departments of planning and finance, sector ministries, and the DUHD) and DAO/DDAs need to be brought together.** This might help in developing a longer-term and more strategic framework for urban areas and identifying an appropriate role for DAOs. For spatial (or “town”) planning, there is clearly a need to more clearly define the roles of DAOs and the Department of Urban and Housing Development. This will involve thinking about the form and content of spatial or town plans,<sup>87</sup> clarifying responsibilities between different institutional stakeholders (e.g. DUHD, GAD, line ministries, DAO/DDA systems, etc.), and making sure that plans are implementable and useful.

**In addition, short-term capacity building support could be provided to DAOs to equip them with the tools, knowledge, and skills needed to draw up meaningful long-term plans for their respective urban areas.** A particularly useful tool would be rolling 3-year investment planning, which would provide DAOs with a “pipeline” of investments to guide their annual planning and budgeting process.

**Another short-term option would be to assist DAO/DDAs in making their annual planning and budgeting process somewhat more open and more flexible.** Currently, DAO capital spending is floored at a minimum of 50% of total spending. This effectively crowds out spending on the operating costs which underpin key municipal services such as waste collection and skews DAO spending toward road infrastructure. This kind of budget norm is not helpful and should be rethought. In addition, DAOs are fixated on road infrastructure—partly out of a lack of choice (see previous) but also partly because they have not been provided with advice on innovative or more effective ways of providing municipal services (such as solid waste management). DAOs need to be provided with this kind of advice as a means to expand their real planning and budgeting options.

#### ***DAO infrastructure and service delivery: strengthening participation and accountability***

**As discussed above, there are two main ways in which citizens can, and do, participate in DAO planning and budgeting processes.** Firstly, citizens are able to participate directly through consultations on annual planning priorities. This is largely informal, often shaped by the personal networks of TDAC members, and is not rooted in any systematic ward-based consultation.<sup>88</sup> Secondly, citizens participate in DAO planning and budgeting through their representation in TDACs. TDAC (s)elected members ensure some degree of citizen participation in DAO planning and budgeting activities. The extent to which TDAC members are representative is probably limited, not only in terms of age/gender (almost all citizen members of TDACs are older men), but also in terms of how far they were elected on a transparent basis. Moreover, there are only four (s)elected TDAC members, which in the larger towns means that each (s)elected member represents a large number of people.

**Also as discussed above, DAO accountability can only be described as blurred.** TDACs have clearly injected a degree of formal downward accountability into DAOs. But this becomes somewhat blurred because (s)elected TDAC members have invariably become actively involved in drawing up plans and budgets, rather than in scrutinizing or approving plans, budgets and activities, which makes any checks and balances fairly ineffective. (S)elected TDAC members are unlikely to call into question DAO planning and budgeting decisions which they themselves have been actively involved in making.

**In the short term, DAO/DDAs can be encouraged to establish a more institutional framework for citizen engagement.** This could be done through ward development committees which formally feed into the DAO planning and budgeting process, rather than relying on informal and ad hoc mechanisms for such consultations and engagement. This would be a helpful and simple way of fostering greater

<sup>87</sup> This avoids some of the pitfalls of long-term and spatial planning processes that have been encountered in other developing countries.

<sup>88</sup> Although some of the recently (s)elected TDACs in Kayin State appear to have taken the initiative to establish a formal ward-based consultation process for the purposes of planning.

participation.

**In the longer term, there is a need to rethink TDACs:** their membership, the way in which members are (s)elected, and their roles. The role of TDACs merits particular attention.<sup>89</sup> It would probably be more appropriate (and more effective) if TDACs were to become much less active in regular DAO processes, leaving this to DAO offices, and much more focused on oversight and scrutiny of plans, budgets, and implementation issues.

### ***DAO infrastructure and service delivery: urban development perspectives***

**In practice, and as described above, DAO planning and budgeting for infrastructure and service delivery is largely confined to decisions about small-scale, incremental and piecemeal investments in road networks.** In that sense, DAOs operate a little like urban road agencies, and not as city or town managers. This is reinforced by the fact that DAOs do not engage in any genuine form of spatial or longer-term planning. This is not an ideal situation, given that urbanization is increasingly important, and that urban areas have a key role to play in overall economic development.

**In the short and medium terms, the Union and state/region governments need to think more seriously about the role of the country's secondary cities and larger towns in socioeconomic development as a whole, and the particular developmental needs of urban areas.** Urbanization is inevitable. How well it is managed will make a big difference to how much it contributes, and the extent to which it enables an increasing proportion of the population to benefit from it. At the moment, there is little in the way of policy guidance on urban development outside of Yangon, Mandalay, and Nay Pyi Taw. There is a great deal that can be done to boost knowledge about urbanization, urban services, urban challenges (such as housing, connectivity, planning, etc.), and urban management. Managing Myanmar's secondary cities and towns is not just a matter of upgrading roads.

### **5.2.2. DAOs, local governance and wider institutional frameworks**

**Inevitably, any assessment of planning and budgeting by DAOs raises wider issues about governance in Myanmar. For the purposes of this report, the most relevant wider issues concern local governance, in general, and municipal governance, in particular.** DAOs already operate in ways that are similar to municipal governments in other countries. DAOs enjoy a de facto high degree of planning and budgeting autonomy. DAOs are given a good deal of discretion as to what they spend their revenues on, and how they raise fiscal resources. The annual budgets submitted by DAOs are invariably approved, with very little (if any) meddling from senior tiers of government. But DAOs are not municipalities in the sense that is commonly understood. DAOs are part of a larger state/region department, with deconcentrated (and not devolved) authority, subject to state/region control, and operating on the basis of blurred accountabilities.

**A medium- to long-term recommendation, then, is that the Union/state/region governments engage in a substantive policy dialogue about local governance, in general, and about urban governance and management, in particular.** At the moment, DAO/DDA systems are hybrid institutions—a “half-way house” between municipal government and a more centralized mode of governance. In a sense, DAO/DDA systems, as they currently operate, are a reform compromise. To that extent, they embody unresolved contradictions and tensions. Is this acceptable to the Union and state/region governments? Are politicians and policymakers satisfied with this kind of half-way house? Does Myanmar want to establish a third and local government tier? Does the Union Constitution provide for some kind of local government, in general, and urban local government, in particular? These are all “big” (and sovereign) policy issues which need to be thought through. Once decided on, it will become clearer how the

---

<sup>89</sup> If only because the “democratic” mechanics of representation are likely to be the first port of call in contemporary Myanmar, rather than the role of democratically chosen representatives.

country may want to then think through the challenge of urban governance and management.

**In the medium to long term, development partners can assist the Union Government and state/region governments in thinking through these “big” local governance issues**, with a specific focus on municipal or urban governance. Thinking about municipal governance is likely to be a good starting point, if only because urban services (in the form of “development affairs”) are already seen as being a state/region responsibility, and because DAOs already enjoy a good deal of de facto autonomy when it comes to the delivery of urban public goods and services.

**Once there is a greater clarity on how Myanmar intends to handle local governance issues, the Union and state/region governments will probably need to think hard about making decentralization work effectively as a framework for local planning and budgeting in urban areas.** This will be true whatever decision is made about how local governance is to be handled, either through elected local governments, or through a blend of deconcentrated or devolved arrangements. Whichever, there is a need to clarify/revise arrangements and to make them more consistent and coherent. In the specific case of urban areas and DAOs, there is much that needs to be done in working through functional responsibilities: Are current assignments adequate? Should some functions/services that are currently assigned to DAOs be re-assigned to another entity? Water supply, for example, might be a function that is assigned to separate utilities, rather than to DAOs. After clarifying functional responsibilities, revenue assignments and arrangements will require re-thinking. Currently, DAO/DDA systems rely on revenues that may not be appropriate, or which are better assigned to other subnational authorities. Some DAO revenues (such as property taxes or rates) probably need to be reformed, and some revenue-sharing arrangements may need to be re-visited. In the light of any revisions to expenditure and revenue assignments, the Union Government and state/region governments will also need to re-visit how to manage inter-governmental fiscal transfers. Finally, some thought will need to be given to how borrowing can be used as an instrument for financing urban infrastructure investments. In short, it is recommended that the Union and state/region governments engage in a thorough rethinking on the overall institutional framework within which infrastructure and service delivery take place.

## Bibliography

- Arnold, Matthew, Ye Thu Aung, Susanne Kempel, and Kyi Pyar Chit Saw. *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*. Discussion Paper No. 7. Yangon: The Asia Foundation and MDRI-CESD. 2015. <http://asiafoundation.org/resources/pdfs/MunicipalGovernanceinMyanmarENG.pdf>.
- Bahl, Roy & Richard Bird. "Subnational Taxes in Developing Countries: The Way Forward". *Public Budgeting & Finance*. Vol. 28, Issue 4. Winter 2008. pp 1-25. <http://onlinelibrary.wiley.com/doi/10.1111/j.1540-5850.2008.00914.x/pdf>.
- Bissinger, Jared. *Local Economic Governance in Myanmar*. Yangon: The Asia Foundation. 2016. <http://asiafoundation.org/resources/pdfs/LocalEconomicGovernanceinMyanmarENG.pdf>
- Glaeser, Edward and Abha Joshi-Ghani. *Rethinking Cities: Toward Shared Prosperity*. Economic Premise. Number 126. October 2013. Washington, DC: World Bank. <http://siteresources.worldbank.org/EXTPREMNET/Resources/EP126.pdf>.
- Hoorweg, Daniel and Perinaz Bhada-Tata. *What a Waste – A Global Review of Solid Waste Management*. Urban Development Series, Knowledge Paper 15. Washington, DC: World Bank. 2012. [http://siteresources.worldbank.org/INTURBANDEVELOPMENT/Resources/336387-1334852610766/What\\_a\\_Waste2012\\_Final.pdf](http://siteresources.worldbank.org/INTURBANDEVELOPMENT/Resources/336387-1334852610766/What_a_Waste2012_Final.pdf).
- International Growth Centre (Myanmar), 31 March 2016, Twitter, [https://twitter.com/igc\\_myanmar](https://twitter.com/igc_myanmar).
- Kelly, Roy. *Making the Property Tax Work*. Working Paper 13-11. International Center for Public Policy. Atlanta: Andrew Young School of Policy Studies. Georgia State University. April 2013. <http://scholarworks.gsu.edu/cgi/viewcontent.cgi?article=1041&context=icepp>.
- Mikesell, John. "Developing Options for the Administration of Local Taxes: An International Review", *Public Budgeting and Finance*. Vol. 27. Issue 1. Spring 2007. pp 41-68.
- Tin MG Oo. "New Urban Master Plans to be Introduced for 56 Locales". *Myanmar Business Today*. Vol 3. Issue 43. November 7, 2015. <http://www.mmbiztoday.com/articles/new-urban-master-plans-be-introduced-56-locales>.
- Schroeder, Larry. "Forecasting Local Revenues and Expenditures", in Anwar Shah, Ed. *Local Budgeting*. Public Sector Governance and Accountability Series. Washington, DC: World Bank.

2007. pp. 53-76. <http://siteresources.worldbank.org/PSGLP/Resources/LocalBudgeting.pdf>.

UNCDF. *Procurement for Local Development: A Guide to Best Practice in Local Government Procurement*

*in Least Developed Countries*. New York, NY: United Nations Capital Development Fund. <http://www.uncdf.org/sites/default/files/Download/procurement.pdf>.

UNDP. *State of Local Governance: Trends in Myanmar: A Synthesis of People's Perspectives Across all*

*States and Regions*. Yangon: United Nations Development Programme. 2015. [http://www.mm.undp.org/content/dam/myanmar/docs/Publications/PovRedu/Local%20Governance%20Mapping/UNDP\\_MM%20State%20of%20Local%20Governance%20-%20Synthesis%20Report.pdf](http://www.mm.undp.org/content/dam/myanmar/docs/Publications/PovRedu/Local%20Governance%20Mapping/UNDP_MM%20State%20of%20Local%20Governance%20-%20Synthesis%20Report.pdf).

UNICEF and WHO. *Progress on Sanitation and Drinking Water – 2015 Update and MDG Assessment*.

Joint Monitoring Programme for Water and Sanitation. Geneva: World Health Organization. 2015. [http://www.wssinfo.org/fileadmin/user\\_upload/resources/JMP-Update-report-2015\\_English.pdf](http://www.wssinfo.org/fileadmin/user_upload/resources/JMP-Update-report-2015_English.pdf).

Van't Land, Gerhard. "Institutional Assessment of Local Governance in Myanmar". Discussion paper.

National Community Driven Development Project (NCDDP), World Bank.

World Bank. "Bank-Financed Procurement Manual". Draft July 2001. Washington. DC: World Bank.

<http://siteresources.worldbank.org/PROCUREMENT/Resources/pm7-3-01.pdf>.

## Annex ONE: Urbanization in Myanmar

### 1-A: Urban population by state/region

State/ Region	Total Population	Urban Population	% Urban
KACHIN	1,642,841	592,368	36.1
KAYAH	286,627	72,418	25.3
KAYIN	1,504,326	329,166	21.9
CHIN	478,801	99,809	20.8
SAGAING	5,325,347	911,335	17.1
TANINTHARYI	1,408,401	338,419	24.0
BAGO	4,867,373	1,072,336	22.0
MAGWAY	3,917,055	588,031	15.0
MANDALAY	6,165,723	2,143,436	34.8
MON	2,054,393	572,189	27.9
RAKHINE	2,098,807	354,288	16.9
YANGON	7,360,703	5,160,512	70.1
SHAN	5,824,432	1,395,847	24.0
AYEYAWADY	6,184,829	872,600	14.1
NAY PYI TAW	1,160,242	375,189	32.3
<b>TOTAL</b>	<b>50,279,900</b>	<b>14,877,943</b>	<b>29.6</b>

## Annex TWO: State and Region Government Structures

### 1-B: Cities and towns (with a population over 20,000) in Myanmar

No.	City/town	Population	No.	City/town	Population	No.	City/town	Population	No.	City/town	Population
1	Yangon	4,728,524	31	Shwebo	69,036	61	Kyaukme	39,930	91	Hakha	24,926
2	Mandalay	1,225,546	32	Phyu	63,880	62	Minbu	39,559	92	Letpadan	24,792
3	Naypyitaw	333,506	33	Hpakant	60,123	63	Daik-U	38,477	93	Shwegyin	24,579
4	Taunggyi	264,804	34	Nyaunglebin	59,244	64	Mrauk-U	36,139	94	KyaiKiat	24,479
5	Bago	254,424	35	Myaungmya	58,698	65	Thayarwady	35,815	95	Nyaungdon	24,455
6	Mawlamyine	253,734	36	Bhamo	58,696	66	Kyaikto	35,224	96	Yedashhe	24,420
7	Myitkyina	243,031	37	Kawthoung	57,949	67	Ye	34,430	97	Madaya	24,234
8	Monywa	207,489	38	Kalaw	57,797	68	Tangyan	33,603	98	Kyonpyaw	23,966
9	Lashio	174,335	39	Thanbyuzayat	57,208	69	Mohnyin	33,290	99	Nansang	23,792
10	Patheingyi	169,773	40	Thaton	55,047	70	Kayan	32,977	100	Laukaing	23,435
11	Pyin Oo Lwin	158,783	41	Mudon	52,514	71	Mawlamyinegyun	32,915	101	Hopin	23,352
12	Pyaw	134,861	42	Myede	52,487	72	Wundwin	32,558	102	Yesagyio	23,329
13	Kale	130,506	43	Tachileik	51,553	73	Pyawbwe	32,214	103	Waw	23,143
14	Myeik	115,141	44	Loikaw	51,349	74	Tanai	31,998	104	Gyobingauk	22,947
15	Myawaddy	113,155	45	Pyapon	49,128	75	Kyauktaga	31,656	105	Minhya	22,944
16	Meiktila	111,522	46	Nyaung-U	48,528	76	Labutta	31,174	106	Hopong	22,840
17	Taungoo	108,589	47	Taungdwingyi	46,023	77	Nanhkan	30,269	107	Myanaung	22,550
18	Sittwe	100,748	48	Yenangyaung	45,120	78	Lawksawk	29,533	108	Wakema	22,181
19	Magway	94,038	49	Chauk	45,076	79	Paung	29,434	109	Waingmaw	21,969
20	Pakokku	90,842	50	Kengtung	44,289	80	Toungup	28,652	110	Chaung-U	21,929
21	Taikkyi	88,000	51	Tamu	43,737	81	Thongwa	28,018	111	Danubyu	21,762
22	Myingyan	87,708	52	Bogale	43,224	82	Yamethin	27,698	112	Kawlin	21,431
23	Thanlyin	86,065	53	Maubin	43,111	83	Hpyarthonesu	27,311	113	Zalun	21,254
24	Hinthada	83,762	54	Twantay	43,092	84	Panglong	27,115	114	Homalin	21,220
25	Sagaing	81,432	55	Kawkareik	42,950	85	Katha	26,732	115	Hsipaw	20,897
26	Amarapura	80,824	56	Kyaukpadaung	42,817	86	Hmawbi	25,960	116	Kyaukpyu	20,866
27	Dawei	80,117	57	Kyauktan	42,778	87	Paungde	25,455	117	Mongla	20,745
28	Mogoke	77,609	58	Tatkon	41,683	88	Kanbalu	25,022	118	Thazi	20,561
29	Hpa-an	75,141	59	Kyaukse	41,482	89	Mogaung	25,012	119	Ye-U	20,458
30	Muse	74,313	60	Hlegu	40,078	90	Kutkai	24,963	120	Thayet	20,251

Source: Matthew Arnold et al. *Municipal Governance in Myanmar: an overview of Development Affairs Organizations* (Yangon: The Asia Foundation and MDRI-CESD, 2015),



**RENAISSANCE INSTITUTE**



**The Asia Foundation**

Improving Lives, Expanding Opportunities

No.17, Thu Khi Tar Street, Pyi Thar Yar Residence Lane 1, 15 Ward, Bauk Htaw, Yankin Township, Yangon, Myanmar

Photography by: xxxxxxxxxxxxxxx