LEARNING LESSONS FROM COVID-19 : MAKING MYANMAR'S CITIES FINANCIALLY RESILIENT

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1. INTRODUCTION

The city's finances have been hit hard by COVID-19. Income from fees, business taxation, and commercial investments has dropped quickly. At the same time, the cost of protecting the vulnerable, protecting staff, and delivering everyday urban services has increased. The pain looks set to continue; many high street stores remain closed and tourists have been slow to return while the infection rate remains high. Without support, the city currently faces a revenue shortfall of £133 million (223 billion kyat—around 10 percent of the annual budget—and may soon have to file for effective bankruptcy. "We are on the edge of a financial precipice," the council leader told reporters.[1]

The description above comes not from Myanmar but from the city of Manchester in the United Kingdom (UK). Manchester, which is home to around 550,000 people and two world-famous football clubs, is a prosperous and dynamic city. However, it has struggled to deal financially with the sudden impact of COVID-19.

COVID-19 has placed large pressure on municipal budgets around the world. To protect residents, municipalities have introduced a range of unprecedented policies, ranging from compulsory mask wearing to direct financial support to households. The result has been a double pressure on municipal finances. On one hand, revenue collection has been made more challenging by economic difficulties and social distancing regulations. On the other hand, the need for revenue has increased as the range and urgency of municipal spending commitments has proliferated. Many cities have struggled as a result.

Fortunately, cities in Myanmar have been less affected by COVID-19 than Manchester. Relatively few deaths have been reported and many Development Affairs Organizations/City Development Committees (DAOs/CDCs) have been returning to work as usual. Although municipal revenues are likely to fall during this financial year, most revenue collection activities have been able to continue in some form (Renaissance Institute and The Asia Foundation, 2020).

Although municipal budgets in Myanmar have so far been fortunate to escape the worst impacts of COVID-19, the current pandemic is far from over. A resurgence of COVID-19 cases has already hit cities in Viet Nam, New Zealand and South Korea,[2] and the rising number of cases in Myanmar during August and September 2020 indicates that Myanmar has started to experience its own increase in the rate of infection. Given the challenging circumstances, it is vital that cities learn from the early experience of COVID-19 and act fast to prepare for future challenges.

This policy note explores options for building greater financial resilience among DAOs and CDCs. Financial resilience describes the ability to anticipate, absorb, and react to financial shocks. The analysis argues that the COVID-19 crisis has highlighted a lack of financial resilience in many municipalities and outlines a two-step process for strengthening resilience, which cities hoping to insure themselves against future crises can consider.

2. FINANCIAL RESILIENCE

WHAT IS FINANCIAL RESILIENCE AND WHY DOES IT MATTER?

Resilience describes the ability to anticipate, absorb and react to shocks. For example, over time, cities across Myanmar have become more resilient to the effects of the monsoon season; a combination of planning changes, behavior changes, and a busy market for umbrellas, allows cities and their residents to anticipate, absorb, and react to the rains which arrive in May each year. Several townships have already developed dedicated disaster management plans to prepare for extreme events.[3]

Financial resilience describes the ability to anticipate, absorb and react to financial shocks.[4] Financial resilience is vital for weathering short-term shocks (e.g. flash flooding) which require a fast (and sometimes expensive) municipal response. Financial resilience also enables more reliable planning based on a consistent stream of revenue. Below are five aspects of financial resilience which are important to consider:[5]

- **The Types of Shock the City Faces.** Financial resilience depends on the types of shocks municipalities expect to face. For example, cities in Ayeyarwady Region face the risk of flooding, or disruption in the fishing industry, while cities in northern Shan State face a high risk from armed conflict. Forecasting shocks is difficult—indeed, the most dangerous shocks may be those which are unpredictable—however, thinking broadly about the likelihood and cost of different shocks hitting the city can be a useful starting point for managing risk.

- **Exposure to Shocks.** A municipality's exposure to financial shocks is determined by a range of factors, including the composition of municipal revenues, the weight of long-standing financial commitments, and the level of financial reserves. For example, during the current COVID-19 pandemic, the Yangon City Development Committee (YCDC) has found itself financially exposed due to its reliance on hotels and factories for local revenue. By contrast, smaller cities such as Taunggyi and Pathein which rely instead on revenue from slaughterhouse licenses and building inspection fees have been less financially exposed to the impact of COVID-19.

- **Current Performance.** Financial resilience is partly determined by the current level of performance in a city; this includes both financial and non-financial aspects of performance. For example, a municipality which balances its budget each year and runs sustainable urban services (i.e. municipal services which are not making unsustainable losses), is more financially resilient than a municipality which does neither of these things.

- **Capacity to Anticipate Shocks.** Forecasting shocks is difficult; the timing of shocks is often impossible to predict. However, data analysis, information exchange between municipalities, and project monitoring can help municipalities anticipate shocks to a certain extent. For example, up-to-date data on local revenues can help DAOs/CDCs determine whether they are over-reliant on a single revenue source and whether that is likely to pose a financial risk to the municipality in future.

- **Capacity to React to Shocks.** Some shocks are impossible to avoid and so municipalities must be prepared to react to them when they hit. Municipalities' capacity to react to shocks depends on factors such as the flexibility to make policy changes, the level of trust with the public, and the strength of partnerships with other public, private, and community sector organizations. For example, to cope with the financial pressure of COVID-19, many municipalities around the world have used policy flexibility to delay or cancel tax payments for residents (CIAT/IOTA/OECD, 2020).

DISCUSSION POINTS:

- What are the key shocks that your city is financially exposed to?
- Which revenue sources are most vulnerable?
- And which aspect of financial resilience is strongest in your city?

3. MUNICIPALITIES IN MYANMAR

HOW FINANCIALLY RESILIENT ARE MYANMAR'S CITIES?

Each municipality in Myanmar faces its own unique situation; cities face different shocks and have different ways of dealing with them. Nonetheless, there are common characteristics which illustrate a pattern of low financial resilience across Myanmar's cities.

The **type of shocks cities face in Myanmar** varies depending on the local context. Many cities face the possibility of natural disaster, economic crisis, and/or flaring conflict on an annual basis. In the last year alone, towns in southern Chin State have been rocked by heavy conflict and households in Kachin State have been displaced by major flooding. COVID-19, which has inflicted both health and economic damage on cities, represents the latest in a long series of shocks.

Many cities in Myanmar are **highly exposed to financial shocks** due to a combination of low revenues, burdensome administration, and limited support from state/regional governments, amongst other factors (Box 1). Specific challenges include:

- ***An over-reliance on individual members of staff to collect revenue.*** For example, most municipalities do not keep up-to-date cadastral maps for organizing tax collection; instead, tax collectors learn where properties are through experience. This can mean delays when it is needed to replace tax collectors who fall ill or retire. The lack of formal records, and the fact that most are stored on paper instead of on computers, also makes it difficult for municipalities to estimate the impact of a shock on local revenue.

- ***Labor-intensive revenue collection.*** Many municipalities are still reliant on door-to-door revenue collection, rather than a more efficient system of online payments. Door-to-door collection is labor intensive and fraught with practical difficulties. Many municipal revenue departments spend a large share of their time on collection, which limits financial resilience by reducing the time that staff can spend preparing for and managing shocks. The COVID-19 pandemic has illustrated a second problem with labor-intensive revenue collection; at the height of the pandemic, tax collectors moving from house to house were putting both themselves and others at risk of infection.

- ***An overreliance on individual sources of revenue.*** Most municipalities are heavily reliant on local businesses for revenue. A large share of municipal revenue typically comes from business licenses and shop rental fees, while more sustainable sources of revenue such as the property tax[6] and wheel tax are underutilized (McDonald and Hein, 2017). This overreliance on individual sources of revenue leaves municipalities exposed to sudden economic shocks.

BOX 1:
EXPOSURE TO FINANCIAL SHOCKS

During the ongoing COVID-19 pandemic, many DAOs and CDCs in Myanmar have found themselves exposed to the health and economic impacts of the virus. Several DAOs have been forced to record a deficit with their respective state/region government for the first time.

In **Magway**, the DAO has requested permission from the regional government to record a budget deficit of around 70 million MMK after COVID-19 forced the closure of local markets and reduced municipal revenue from shop rental fees.

In **Monywa**, the DAO was expecting to face a shortfall in wheel tax payments of around 400 million MMK (around 40 percent of annual wheel tax revenue) as a result of COVID-19. As in Magway, the Monywa DAO has been unable to absorb this shock and has been forced to record a deficit with the Sagaing Regional Government.

In **Taunggyi**, door-to-door tax collection has been significantly delayed by the COVID-19 virus. Property tax collection has been delayed by several months and may not be completed, despite staff working overtime. The closure of local Road Transport Administration Department offices means that the DAO wheel tax is also now being collected door-to-door, placing further pressure upon the already stretched DAO revenue collection team.

The **current performance of Myanmar's cities** makes it difficult to respond quickly to shocks. A combination of limited resources and long administrative processes mean that many municipal staff must work overtime to deliver urban services even in ordinary times, making it very difficult for DAOs/CDCs to respond effectively to shocks. In many municipalities a culture of *"ma lote ma shote ma pyote"*[7] among staff discourages initiative and creative thinking, making it even more difficult to adapt during a crisis.

Most municipalities in Myanmar have a **limited capacity to anticipate shocks**. Municipal staff are typically focused on the challenges of day-to-day service delivery and do not have time to prepare for challenges ahead. Municipalities' ability to anticipate shocks is also restricted by the low quality of financial data available and limited information sharing between departments.

The recent COVID-19 pandemic has forced municipalities to **react to a large, unprecedented shock**. The response to the COVID-19 pandemic has already placed huge pressure on municipal staff, and municipalities across Myanmar are now being tested again by a rise in the rate of infection. The response to COVID-19 has varied widely across cities (Box 2). In cities where revenue collection is well-planned and digitized, municipal staff have been able to focus on new priorities (such as COVID-safe market management) without creating major problems for municipal finances. However, in townships where revenue is collected manually at the end of the year, staff have been forced to work incredibly long hours and it is still uncertain whether revenue collection will be completed.

BOX 2:
EXPERIENCE OF COVID-19 - COPING WITH SHOCKS

The COVID-19 pandemic has revealed both strengths and weaknesses in municipalities' ability to cope with shocks:

In **Magway**, a counter system of water bill collection has allowed the DAO to sustain water bill revenues throughout the pandemic. The deadline for bill payments was extended from 10 to 20 days to allow residents more time to arrange payment at their local township office.

Monywa DAO has also been able to sustain water fee revenue through a pre-paid card system. Pre-paid cards have allowed residents to continue paying for their water supply without visiting the DAO office.

In **Taunggyi**, smooth communication from the DAO helped preserve tax revenues during the pandemic. At the start of the pandemic, residents were sent a letter explaining that some taxes/fees would be postponed until it was safe to resume collection. This fast, clear communication meant that residents were largely understanding when the DAO began back-dated collection in July 2020.

Despite these examples of smart actions taken by DAOs to reduce the pressure on municipal finances, the COVID-19 pandemic has been very challenging for many DAO staff. In order to compensate for a lack of financial resilience in some areas, staff have reported working 17.5-hour days and having to sew their own face masks because the municipal budget was not flexible enough to purchase protective equipment for staff.

This pattern of low financial resilience across Myanmar's cities is not surprising. DAOs and CDCs across Myanmar face a constant battle to meet competing needs with limited financial resources. At the same time, municipalities are given relatively limited space to experiment with policy changes as most decisions must be reviewed and approved by the local state/region government.[8] Nonetheless, there are steps which DAOs and CDCs can take to build greater resilience, which are discussed in Section 4.

DISCUSSION POINTS:

- Does this analysis describe the situation in your city?

4. BUILDING FINANCIAL RESILIENCE

WHAT POLICY OPTIONS ARE AVAILABLE TO STRENGTHEN FINANCIAL RESILIENCE?

Building greater financial resilience is an important though tough task. In the short term, greater financial resilience will give cities some protection against future shocks, whatever they may be. In the long term, financial resilience can reduce the fluctuations in municipal revenue and allow cities to develop sustainably. Financial resilience will be especially important if Myanmar's decentralization process continues and increasing autonomy and responsibility is handed to DAOs and CDCs.

This section outlines a **two-step process for building greater financial resilience**. The aim of this policy note is not to prescribe specific solutions, as each township has its own unique circumstances. Instead, the goal is to outline a possible process for municipalities to follow, and to provide some inspiration on the kind of changes which could help strengthen financial resilience.

STEP 1: CONDUCT A FINANCIAL RESILIENCE ASSESSMENT

A practical starting point for building financial resilience is to understand the types of shocks a municipality faces, and how exposed the municipality is to those different types of shock. Once the risks facing the municipality are better understood, it will be clearer which improvements are needed to strengthen the city's capacity to anticipate and cope with shocks.

A Financial Resilience Assessment—i.e. an analysis of municipal finances, processes, and risks—could be led by a city's revenue department and could focus on the five factors outlined in Section 2: types of shock, exposure to shocks, current performance, capacity to anticipate shocks, and capacity to react to shocks. A template for a financial resilience assessment is available on request from the Renaissance Institute and The Asia Foundation. An effective financial resilience assessment takes a 'big picture' perspective on a city's finances; it provides an opportunity to weigh up different risks, review the overall composition of municipal revenues, and plan changes to improve resilience.

STEP 2: FORMULATE A STRATEGY TO IMPROVE FINANCIAL RESILIENCE

To build on a Financial Resilience Assessment, municipalities will need a **strategy for boosting resilience**. Based on the analysis of a Financial Resilience Assessment, municipalities must decide which changes to prioritize, how to target resources, and who should take responsibility for making changes.

A strategy for improving financial resilience will look different in every municipality. For example, policymakers may wish to focus on improving the administration of existing revenue sources, on finding new revenue sources, or on ensuring that flexible funding is quickly available during a crisis.

Below are four possible elements of a strategy for improving financial resilience. These ideas are suggested as a starting point; they are far from exhaustive:

- **Embracing e-government** can bring a wide range of benefits, one of which is greater financial resilience. E-government can strengthen resilience through multiple channels:
  - ***Digitizing municipal administration*** can improve the physical resilience of the system; unlike paper records, digital records are unlikely to be accidently torn, misspelt, or affected by humidity or insects. Digitization can also build resilience by making revenue collection more flexible. For example, in cities where tax records are digitized it is easier to start or stop collection faster to forecast revenue changes, and easier for tax collectors to work remotely in response to COVID-19 restrictions.
  - ***Introducing digital payment*** is one of the most effective steps municipalities can take to build financial resilience. If residents can pay taxes and fees online, this protects the systems against a wide range of shocks. For example, digital payment technologies could allow municipalities to continue collection during a resurgence of COVID-19; digital payment technology also makes revenue collection more resil-

ient to a growing, changing tax base by allowing the DAO/CDC to expand collection to new households at low cost. Cities including Magway, Yangon, and Hpa-An have introduced digitization reforms which make the revenue collection faster and more efficient (Box 3).

- ***Improved data management and sharing*** using e-government tools can help cities understand and anticipate the risks they face. Many problems cities face, such as flooding, cannot be solved by one department and yet government data is typically not shared between departments. In response to this challenge, the Township Management Committees of Taunggyi, Hpa-An and Hlaingtharyar are trialling The Township GIS tool (*Myo Nae A Lwa A Mya*), developed by The Asia Foundation. This tool brings government data together and visualizes it in a way that allows municipalities and local officials to better understand the challenges and opportunities facing their city, improving resilience.

BOX 3:
ADAPTING TO COVID-19 IN AYEYARWADY REGION

The Ayeyarwady regional government was quick to adapt revenue collection in response to COVID-19. For example, the Ayeyarwady Regional Director of Development Affairs opened a new Facebook page to communicate with citizens about revenue collection.

Before COVID-19, DAOs in Ayeyarwady region had already been investing in digitization of their tax system to improve resilience. For example, Pathein DAO partnered with Yangon-based technology company Global Wave to digitize its collection operation.[9] The regional government is now supporting the rollout of digital payment software across all 33 townships, which will help build resilience against future waves of COVID-19. The switch towards electronic payment in Pathein illustrates that such changes are possible within the existing rules and regulations.

- **Diversifying the municipal revenue mix** can increase resilience. During a crisis, revenue sources will be affected differently. For example, during the current COVID-19 pandemic, regular revenues from transport were significantly reduced due to stay-at-home public health measures, while revenue from auction licenses was likely to be less severely affected (Renaissance Institute and The Asia Foundation, 2020). By diversifying local revenues across a range of sources, DAOs/CDCs can build their resilience against future shocks.

- **Communicating more actively with residents** to build trust can help improve resilience. With minimum financial support from the union or subnational governments, municipalities must rely on their residents for financial support during and after a crisis. Regular communication explaining the role of the DAO/CDC and the importance of municipal revenues may lead to more willing support from residents during future crises. The most effective way to build trust is through two-way communication, with an emphasis on listening to residents and demonstrating empathy for their situation.

- **Supporting DAO/CDC staff to work flexibly** could also increase resilience. The COVID-19 pandemic has highlighted the importance of providing a safe, convenient working environment for staff. Municipalities' financial resilience depends on the ability of staff to switch between roles and adapt their working style to fit the circumstances. In several cities it has been necessary to reallocate staff to new roles and to cut back the number of staff on duty to slow the spread of the virus.[10] DAOs/CDCs could also consider contingency planning[11] and training to prepare staff for future crises and could more actively support staff who are entitled to claim expenses from the union government's Social Welfare Fund.[12]

DISCUSSION POINTS:

- Is this two-step approach realistic in your city?

5. CONCLUSION

Fortunately, the impact of COVID-19 in Myanmar has so far been less severe than in many other countries. However, the threat from COVID-19 remains, as evidenced by the recent surge in cases. For DAOs/CDCs across Myanmar there is a chance to learn from the early experience of COVID-19 and build greater financial resilience ahead of future challenges. Building greater financial resilience will help protect cities from the impact of COVID-19 and other unknown shocks.

This policy note has outlined a two-step process for municipalities looking to strengthen financial resilience. The first step is to conduct a Financial Resilience Assessment tto understand the risks each city faces. The second step is to develop a strategy for building resilience which targets resources to where they are most needed.

Ultimately, strong financial resilience allows cities to develop sustainably in the long term. Cities in Myanmar will inevitably face shocks. COVID-19 is the latest addition to the long list of challenges. While it is impossible to predict the future, it is possible to plan for it; by strengthening financial resilience municipalities can minimize the impact of shocks and give their cities the best possible chance of success.

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ENDNOTES

1 Based on reports in the UK media (BBC News, 2020b; Williams, 2020). Budget shortfall converted from pounds sterling to kyat using www.XE.com. In August, some lockdown measures were re-imposed in Manchester as the rate of infections in the city continued to rise.

2 COVID-19 restrictions have been re-imposed in several Vietnamese and South Korean cities after months without any cases (Al Jazeera, 2020; BBC News, 2020a). Until a COVID-19 vaccine is readily available, further waves could remain a high risk.

3 See themimu.info/sector/resilience for a sample of these plans.

4 A financial shock in this context is any event which puts pressure on municipal finances.

5 Based on work published by Barbera *et al*. (2017) and Steccolini et al. (2018).

6 Annual property tax payments in many cities are still as low as the cost of a cup of tea (Renaissance Institute, 2020a).

7 *Don't speak out, don't get fired*.

8 Relative to DAOs, the YCDC and the MCDC have much greater flexibility to design and implement policy changes; however, they too are restricted by many of the challenges outlined in Section 3.

9 Recent work by the Renaissance Institute and The Asia Foundation suggests multiple ways to improve the efficiency of tax collection (Renaissance Institute, 2020b).

10 For example, DAO staff in Kengtung were shifted from tax collection to market management during the height of the pandemic and waste collection staff in Ayeyarwady region were reduced to 50 percent capacity in line with union government guidance.

11 Extensive advice on disaster preparedness for municipalities is available in Burmese and English on request from myanmar.general@asiafoundation.org.

12 Anecdotally, many staff are reluctant to claim from the social welfare fund because of the bureaucracy involved. DAOs/CDCs could help their staff to manage this process.

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To request copies of the report, please contact Renaissance@RIMyanmar.org or myanmar.general@asiafoundation.org.
We also welcome your feedback on the report.