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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

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ONE: INTRODUCTION

This report summarizes the findings and recommendations of a study on planning and budgeting in 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.

TWO: MYANMAR'S INSTITUTIONAL RESPONSE TO URBANIZATION AND URBAN AREAS – DEVELOPMENT AFFAIRS ORGANIZATIONS

Urban governance in Myanmar is atypical, and unsurprisingly so given the country's particular politico-administrative history. Myanmar has 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.

At the Union level, the Department of Urban and Housing Development (in the Ministry of Construction) takes the lead on urban development policies, urban/town planning, and urban infrastructure development. The department is in the process of redrafting a law on regional and urban planning, and has offices down to the states/regions. Other Union agencies 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 the General Administration Department (GAD), of the preeminent role played by township and district administrators. 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. The governments of states and regions are responsible for regulating development affairs – what is termed "municipal governance" in other countries – and have done so through the enactment of development affairs laws since 2012.

Myanmar's hybridized arrangements for urban governance and management – Development Affairs Organizations and Departments of Development Affairs: At the subnational level, the provision of urban public goods and services in Myanmar is largely in the hands of Development Affairs Organizations (DAOs) and their parent state/region Departments of

Development Affairs (DDAs). In general, DAO offices are located in the urban centers of townships and sub-townships,¹ and provide their respective urban areas with a variable range of "municipal" services such as solid waste management, construction and maintenance of urban roads and streets, water supply, business registration and regulation, and spatial and land use planning. In certain respects, a DAO office operates as if it were 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.

However, there are several key differences between DAOs and other township sector departments. For example, the DAO's parent institution, the DDA, is a purely state/region level public sector agency and is accountable only to the state/region cabinet. DAOs are formally accountable to their DDAs and thus to state/region governments. In addition, 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.

Finally, DAOs, by virtue of their 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. 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,² 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. Furthermore, DDAs are the only service delivery agency at state/region level that employ significant numbers of subnational civil servants.³ Financially, DDA budgets are largely reliant on revenues mobilized by DAO offices in the townships. Unlike other state/region agencies, DDAs are *not* dependent on Union transfers.

Within each state and region, the DAO/DDA system generally has two components. First, there are a varying number of DAO township and sub-township offices that collect a range of local revenues within their township jurisdictions and which they use 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. Second, there is 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

¹ Although sub-townships do not appear to be official administrative units, they are used by DAO/DDA systems in several states and regions (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.

² In Mon State, Shan State, and Magway Region.

constituent township and 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.

It is worth emphasizing that DAO/DDA systems are not part of the Union government and are the concern of state/region governments. In practice, state/region governments have been free to enact their own systems, and since late 2012, all 14 state and region governments have developed their own development affairs laws. All are largely based on SLORC Law No. 5/93, but since their introduction, they have begun to diverge in a number of ways.

THREE: MANAGEMENT, FUNCTION AND FINANCE

Who runs DAOs? Management and resources of development affairs departments and organizations.

State/region-level DDAs: At the apex of all state/region DAO/DDA systems are the ministers of Development Affairs. However, day-to-day responsibility for Development Affairs lies with the state/region DDA, headed up by its director, who also serves as the secretary of the Development Affairs Committee. As things now stand, the DDA director is the most senior civil servant in the DAO/DDA system, and holds the most senior position that any full-time DAO/DDA staff member can expect to occupy through regular promotion.

State/region DDAs typically have two main divisions. The administrative division generally consists of the department's administrative unit, the finance and budget sections, and the tax and legal sections. The administrative division 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 provides DAOs with technical support for roads and bridges and other sectors. The heads of each division effectively act as deputies to the DDA director. Staffing levels in state/region DDAs are modest, and although there is no comprehensive quantitative data, DDA offices appear to be under-equipped with information and communications technology (ICT).

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 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 principle, DAO offices are classified according to the quantum of revenues that they collect. In practice, however, this classification

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 larger complement of approved staff positions, actual staffing levels are a long way from the approved levels. Nonetheless, lower-order DAO offices typically have fewer staff than higher-order DAO offices.

In much the same way as the state/region DDAs, DAOs are formally structured with two main divisions: the head of each DAO office, known as the executive officer (EO),⁴ is usually seconded by the DAO's senior administrative/finance and engineering officers. Staff in DAO offices can be broadly divided into two payroll categories; those receiving monthly salaries, and those receiving regular, daily pay. Most DAOs are officially understaffed. The actual number of DAO staff is almost always considerably lower than the number of approved or gazetted positions.

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, but DAO staff are clearly no longer seen as civil servants of the Union government. Promotion is now largely limited to the state/region DAO ladder, and transfers are limited to the state/region DAO/DDA system.

DAO functions and spending patterns

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 the following: 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. In general, it would be fair to say that DDAs play little more than an administrative/liason and back-office role with respect to DAOs and urban management – handling personnel issues, collating and reporting on budgets, and the like. They do not seem to play any discernible role in state/region policymaking.

DAOs have one obvious focus for their activities; they are expected to provide services in urban wards. 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 detailed in their respective state/region development affairs laws.⁵ In most cases, these amount to around 30 functional assignments, giving the impression of a sprawling and heterogeneous mandate. In practice, however, the principal functions of most DAOs are

³ As opposed to state/region publicly owned economic enterprises

⁴ This appears to be the case even in the smaller DAO offices, where the office head does not officially qualify as an EO.

⁵ Most of these simply reiterate the functions and tasks assigned to DAOs in SLORC Law 5/93.

limited to a few key infrastructure and service-delivery tasks and a set of regulatory and revenue-collection responsibilities.

Urban roads and transport infrastructure: Apart from any Union or state/region trunk roads or bridges located in cities and towns, DAOs are formally responsible for the construction and upkeep of all roads within their urban jurisdictions. In general, small cities and larger towns in Myanmar appear to have basic road networks in place. DAO activities in the road infrastructure sector are therefore largely limited to upgrades or repairs and maintenance. Wherever and whenever possible, DAOs tend to opt for “force-account” implementation of their road infrastructure projects. “Force-account” operations rely on DAO equipment, DAO engineers, and directly hired labor. This is the option preferred by larger DAOs, which have their own engineers and equipment/vehicle assets. No large DAOs appear to outsource road infrastructure projects to private-sector contractors through public tendering.

Solid waste management: Most DAOs collect waste in their urban areas using the same basic model, consisting of the direct sweeping up and collection of waste from public areas, relying on DAO equipment and directly hired labor, and the periodic collection of waste by DAO vehicles along main and readily accessible urban streets. To finance these activities, households and businesses pay for DAO waste management through annual property taxes. As with road infrastructure activities, DAOs mostly rely on their own vehicles and labor to collect domestic waste.

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 outsourced to franchised (or licensed) operators, who themselves charge any market fees, especially those paid by itinerant stall keepers.

Water supply: Compared to other countries, the supply of water in Myanmar’s urban areas is highly atypical. A remarkably small proportion of urban households in Myanmar obtain their water from networked supply systems. Not surprisingly, very few DAOs actually manage piped water systems, and where this does happen, it is quite limited. Most urban households rely on individual sources of water, such as wells and tube wells, or on small private networks. This, however, is about to change as development partners such as the Japanese International Cooperation Agency (JICA) and the Asian Development Bank (ADB) begin to finance and implement ambitious municipal water-supply schemes in many of Myanmar’s smaller urban areas.

Revenue assignments, sources of revenue, and revenue redistribution

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.⁶ These include business-registration license fees, license auctions, property taxes, wheel taxes (on vehicle registrations), building permits, property rental and sales for DAO properties, and fines for infraction of DAO regulations.

DAOs also receive a five percent (derivation) share of the income tax revenue and a two percent (derivation) share of the stamp duty,⁷ collected in their jurisdictions.⁸ Both are administered and collected by the Union government’s Internal Revenue Department (IRD). In DAO budget documents, they are registered in the same line item as property tax (or rates) and are often indistinguishable from other taxes.⁹

More explicit transfers to DAOs/DDAs from either state/region governments or the Union government are uncommon, but they do occur. 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 percent of their total own-source and shared revenues.

Borrowing: There are increasing instances of DAOs assuming 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 will soon be making loans to the Union government for investments in urban water-supply infrastructure (treatment plants, pumping stations, piped distribution networks). These loans are made to Union departments, but will be repaid using DAO revenues.

Revenue redistribution: As far as possible, most DAO/DDA systems are expected to finance all of their spending out of current revenues. Indeed, each township and sub-township office 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.

In order to finance “deficit” DAOs, most DAO/DDA systems include an element of revenue redistribution, with the more fiscally affluent 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 five to 10

⁶ For more detail on DAO revenue sources, see Matthew Arnold et al. *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations* (Yangon: The Asia Foundation and MDRI-CESD, 2015). <http://asiafoundation.org/publication/municipal-governance-in-myanmar/>. And Bissinger, Jared. *Local Economic Governance in Myanmar* (Yangon: The Asia Foundation, 2016). <http://asiafoundation.org/publication/local-economic-governance-in-myanmar/>.

⁷ This is sometimes mistakenly translated as “commercial tax.”

⁸ According to IRD officials in Nay Pyi Taw, this is a long-standing, tax-sharing arrangement that began with the 1920 Rangoon Development Trust Act, which mandated such sharing in the Rangoon municipal area, then was extended to Mandalay in 2009 and across all DAOs nationwide in 2014.

⁹ These IRD/DAO revenue-sharing arrangements are expected to be phased out. By the end of FY 2017-18, the shares will be allocated to state and region governments.

percent, depending on the state/region, and sometimes varies from year to year.

DAO/DDA systems also redistribute to the state/region government, ceding any end-of-year, unspent revenues. Given this, there are two curious “nonevents.” State/region governments do not appear to exert any significant pressure on DAO/DDAs to either maximize their revenues or minimize their expenditures, and DAO/DDAs themselves do actively work to minimize unspent balances.

DAOs: local and not-so-local own-source revenues

DAOs are not as “fiscally self-reliant” as they may appear.

Earlier research on DAOs gives the impression that they are almost entirely self-financing and largely reliant on own-source urban revenues.¹⁰ This, however, needs to be qualified in two key respects.

Firstly, some DAOs receive substantial shares of income-tax and stamp-duty revenue collected by the IRD. Secondly, and as described earlier, some DAO/DDA systems appear to be moving toward a greater reliance on fiscal transfers from their state/region governments.

DAOs also rely on revenue derived from their rural hinterlands. As a large proportion of total DAO revenues are derived from license auctions, and that many such licenses are issued for economic activities in non-urban areas, it is not surprising that some DAO revenues are raised in rural areas.

To sum up: **DAOs, which provide public goods and services in urban areas, rely on revenue shares from the Union government, on transfers from their respective state/region governments, and on revenues collected outside their respective urban areas.** The combination clearly varies among states/regions, but it is an important qualifier to the perception that DAOs are fiscally self-reliant, nascent urban governments.

FOUR: PLANNING, BUDGETING AND SERVICE DELIVERY

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.

Long-term state/region planning and urban development

strategies: There appears to be little long-term planning at the state/region level in Myanmar. States/regions in Myanmar have not, so far, invested heavily in medium- to long-term development plans. State/region DDAs themselves have not engaged in any such strategic planning, nor have they, 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 statewide or region-wide planning for urban development, or any type of urban-development strategy. Given that states/regions are relatively new politico-administrative units, the absence of such long-term plans is perhaps understandable. State/region governments likely have had more pressing priorities to address, as have DDAs.

Long-term and spatial planning by DAOs: There is a lack of long- or medium-term planning for individual cities/towns or DAOs. Few DAOs have updated five-year investment plans or formal investment pipelines, nor do they make use of any medium-term budgetary or expenditure framework as a multi-year tool for investment planning.

The Department of Urban and Housing Development (DUHD) is currently drafting the Urban and Regional Development Planning Law, but it has already undertaken town planning in some 56 cities and towns in the country.¹¹ **DUHD does not have a significant presence outside of Nay Pyi Taw, but it maintains offices in each state/region.** However, it only has twenty urban planners on its payroll.

Annual planning and budgeting

Planning and budgeting in state/region DAO/DDA systems is largely an annual exercise, focused on the drafting, submission, and execution of annual budgets. The major steps and processes in DAO annual planning and budgeting are shown in the following diagram.

Steps in the DAO/DDA annual planning and budgeting process

Budget calendars

The annual planning and budgeting calendar followed by DAO/DDA systems does vary, but in general provides a relatively short period (one to two months) for DAOs to prepare annual budgets. This is not perceived as a constraint, however, partly because DAO budget choices are not especially complex, and partly because many DAOs appear to make budget preparations earlier, on an informal basis. Mid-year budget revisions are standard DAO/DDA procedure. As neither DDAs nor state/region governments/parliaments meddle with DAO choices, approved DAO annual budgets are in practice identical to the submitted budgets.

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. DAOs are acutely aware of the need to forecast

¹⁰ See Arnold et al. (2015) and UNDP's State of Local Governance in Myanmar study series, available at: <http://www.mm.undp.org/content/myanmar/en/home/library/poverty.html>. Bissinger (2016), however, notes that DAO revenues from license auctions are, in many cases, derived from rural-based licenses.

¹¹ See Tin Mg Oo, “New Urban Master Plans to be Introduced for 56 Locales,” Myanmar Business Today, Nov. 7, 2015, <http://www.mmbiztoday.com/articles/new-urban-master-plans-be-introduced-56-locales>.

annual revenue ceilings before identifying their planned expenditures. What they can spend is determined by what they can mobilize as revenues.

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 five to 10 percent) 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 subdivided through payroll expenditure capped at 30 percent of total expenditure; and capital expenditure is floored at 50 to 55 percent of total expenditure; and current expenditure is thus capped at 45 to 50 percent of total spending. Taken together, these various caps and floors define the limits within which DAOs undertake annual planning and budgeting.

Choices: options and priorities

Revenues: Because of the administrative norm that revenue volumes should be at least equal to the previous year's, DAOs have little choice but to increase revenue forecasts year-on-year. Exactly how DAOs choose to do this is unclear, but there appear to be two main options. First, the DAO can increase the base that is subject to taxes/fees/charges by, for example, expanding the number of businesses that pay for business licenses. Second, the DAO can increase the floor prices for annual license auctions (which generate a significant proportion of DAO revenues).

Expenditure: Prioritization of DAO expenditures is confined to a relatively narrow spectrum of choices, made even narrower by limited resource envelopes.

Current expenditure budgets: DAOs do not have many options when budgeting for current expenditure items. To begin with, total current expenditure is effectively capped at 50% of the total budget. A good portion of that is taken up by inflexible payroll spending and regular operating expenses. What limited flexibility remains leaves little room for choice and little fiscal space to expand some services or contract others. As a result, DAO current budgets tend to be much the same from year to year.

(a) Capital expenditure budgets

There are also few choices to be made when it comes to planning and budgeting for capital expenditure (or investments) by DAOs, as they are constrained by both institutional and financial factors. Institutionally, DAOs are constrained in their investment choices by their legal mandates. The range of 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,¹² DAOs must finance all their expenditures out of limited, current revenues. This does restrict the size (and thus the types) of investments that DAOs can undertake.

Therefore, 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 vehicles and equipment. Given this, the main choices open to DAOs concern which roads/bridges to construct, upgrade, repair, or maintain rather than 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.

First, local demands influence spending plans in the roads/bridges sector. DAO staff are adamant that, since 2011, the choice of which urban roads to work on has been strongly shaped by local citizens and communities. According to DAO staff, TDAC members bring forward community preferences. 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. Insofar as DAO planning and budgeting are participatory, this appears to be an informal process.

Secondly, technical considerations also determine the priority of investments in roads and bridges. DAO engineers do have a clear sense of which parts of the local urban road network are most in need of upgrades and repairs, which parts provide access to key service or economic facilities, and which roads are most heavily used. 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.

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 a force account as the predominant modality for most DAO service provision does appear to have implications for planning and budgeting.

The use of force-account modalities for roadwork makes it easier for DAOs to undertake piecemeal and small-scale investment projects. Outsourcing to private-sector road contractors through public procurement packages would require DAOs to consolidate projects to make them attractive to potential bidders. The force-account modality makes it easier to budget for a large number of small, piecemeal works projects. Force-account modalities are also amenable to community-financed initiatives. Through force-account budgets, DAOs are able to contribute technical expertise and equipment inputs to community-driven initiatives, which are largely off budget.

Budget submission and approval: Annual DAO budgets are formally approved by their respective TDACs, but this appears to be something of a formality. Having been actively involved in budget preparation (especially for investment spending), (s)

¹² 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.

¹³ Although this does not address the question of 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.

¹⁴ See Bissinger (2016).

elected TDAC representatives are unlikely to play much of a role in scrutinizing the budget when it is submitted.

While DAOs undertake much of their annual budgeting in a semiautonomous 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, and then to the state/region parliament. 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 are responsible for a number of actions related to the overall annual planning/budgeting process, including drafting the state/region DDA office budget; providing DAOs with guidance on targets, ceilings, and earmarks; redistributing revenues among “surplus” and “deficit” DAOs; and monitoring budget execution and compiling financial reports. 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. To the extent that DAO/DDA systems can be conceptualized as subnational “ministries of municipal services,” they are highly deconcentrated departments.

FIVE: FINDINGS AND DISCUSSION

Bureaucratic discipline and procedures

Unsurprisingly, given their origins as part of a Union ministry, DAO/DDA systems demonstrate a high degree of administrative discipline. Annual budgets are drawn up and submitted on a timely basis; budgets are balanced; financial reporting is formal and systematic; standard 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 administrative practice.

Financing issues: 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, the revenues on which they depend are inevitably limited. Their reliance on mostly local revenues means that they are unable to finance the 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 supplies and sewage treatment.

Sources of revenue: There is a mismatch between DAO revenue assignments and DAO functional assignments. DAOs are financing their urban service-delivery functions, which benefit urban populations, with revenues extracted from rural citizens – particularly through license auctions, which account for the single largest part of DAO/DDA revenues.¹³ Property taxes are set well below the true cost of the services 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.

Norms and practice: DAO/DDA systems currently undertake planning and budgeting within the framework of a few key budgeting norms that affect budget outcomes. These skew expenditures away from services, which are often reliant on current expenditure, 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.

Longer-term, strategic, and spatial planning: DAO/DDA systems do not engage in any operationally relevant longer-term, strategic, or spatial planning. This absence of any wider planning framework means that DAO/DDA planning has become entirely focused on the annual budget cycle. This results in investment decisions that are relatively ad hoc, piecemeal, and incremental, and activities that run the risk of being inefficient. In a related manner, DAO planning is also conducted with little reference to planning by other public-sector agencies.

Participation, accountability, and autonomy: There are two ways for citizens to participate in DAO planning and budgeting processes. First, they 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. Second, citizens participate in DAO planning and budgeting through their representation in TDACs. The extent to which current TDAC members are representative is limited however, both by age and gender, and by the nature of their election.

TDACs have clearly injected a degree of formal downward accountability into DAOs. This becomes somewhat blurred, however, because (s)elected TDAC members tend to become operationally involved in “upstream” planning and budgeting processes.

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, but as long as they comply with them, DAOs are given a good deal of discretion. This is in marked contrast to other government departments.

SIX: RECOMMENDATIONS

DAO/DDA finance, planning and budgeting, and infrastructure and service delivery

DAO resources and subnational revenues: In the *short term*, the revenue administration systems of DAOs could be strengthened, enabling them to collect more taxes and fees. In the *medium term*, the own-source revenues assigned to DAOs need to be thought through more coherently. Quite apart from the economic distortions introduced by the licensing systems,¹⁴ they are also unfair in that they only finance services for urban households.

Medium-term rethinking about subnational revenue assignments might result in some revenues being reassigned away from DAOs, leaving them with fewer available resources. This points to *another medium-term need*: rethinking subnational fiscal frameworks as a whole (including expenditure assignments, revenue assignments, and intergovernmental fiscal transfers).

DAO infrastructure and service delivery – more strategic perspectives and improved annual planning/budgeting processes: In the *immediate term*, national and subnational planning agencies¹⁵ and DAOs/DDAs need to be brought together. For spatial (or “town”) planning, there is clearly a need to better define the roles of DAOs and the DUHD. In addition, *short-term* capacity-building support could be provided to DAOs to equip them with the tools to draw up meaningful long-term plans for their respective urban areas. A particularly useful tool would be rolling, three-year investment planning, which would provide DAOs with a “pipeline” of investments to guide their annual planning and budgeting process.

DAO infrastructure and service delivery – strengthening participation and accountability: In the *short term*, DAOs/DDAs can be encouraged to establish a more institutional framework for citizen engagement, rather than relying on informal and ad hoc mechanisms. This could be done through ward development committees. In the *longer term*, rethink TDACs including their membership, the way members are (s) elected, and their roles. It would probably be more appropriate (and more effective) if TDACs were less active in regular DAO processes and much more focused on oversight.

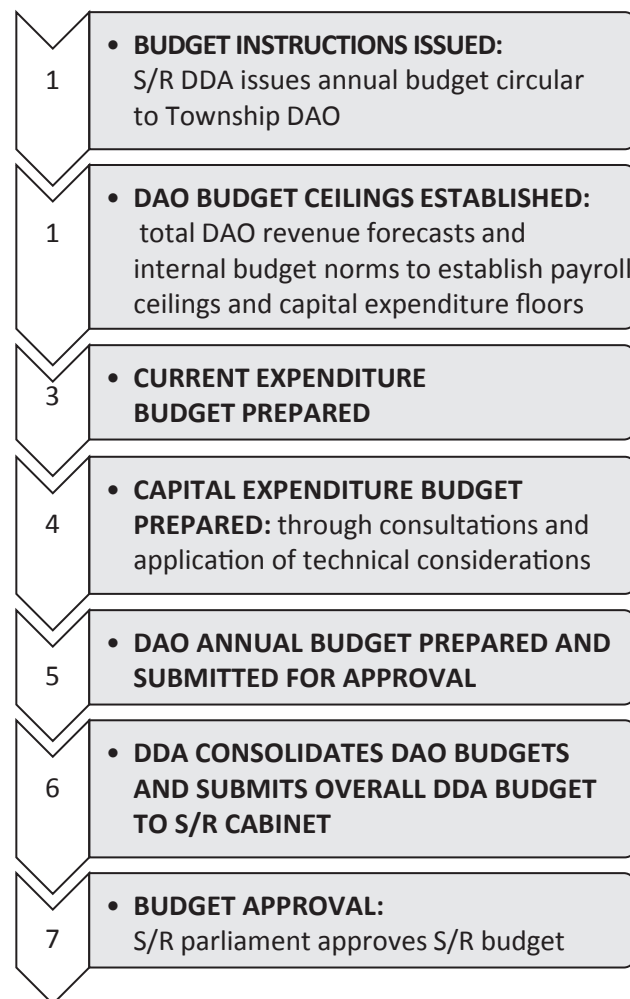
DAO infrastructure and service delivery – urban development perspectives: In the *short and medium terms*, the Union and state/region governments need to think more seriously about the role of the country’s secondary cities and larger towns in socioeconomic development as a whole, and the particular developmental needs of urban areas.

DAOs, local governance, and wider institutional frameworks

One *medium- to long-term* recommendation is for the Union/state/region governments to 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 “halfway 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.

Further, 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 are

already seen as being a state/region responsibility, and because DAOs already enjoy a good deal of autonomy when it comes to the delivery of urban public goods and services. Once there is greater clarity on how Myanmar intends to handle



local governance issues, the Union and state/region governments will need to think hard about making decentralization work effectively as a framework for local planning and budgeting. In the specific case of urban areas and DAOs, there is much that needs to be done in working through functional responsibilities.

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. In the light of any revisions, the Union government and state/region governments will need to revisit intergovernmental fiscal transfers. Finally, some thought will need to be given to how borrowing can be used to finance 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.

¹⁴ See Bissinger (2016).

¹⁵ These include departments of planning and finance, sector ministries, and the DUHD.

SEVEN: DISCUSSION QUESTIONS AND FURTHER READING

Discussion Questions

- Is the current role of DAO/DDA systems as a compromise system appropriate for the development of Myanmar's urban areas in the future?
- Does the Myanmar Constitution as currently written provide for some form of urban local government? If so, how should such governance structures be developed?
- What lessons can be drawn from the experiences of City Development Committees in Yangon, Mandalay, and Nay Pyi Taw to improve urban governance in other towns and small cities?
- As Myanmar's urbanization expands, what are the services its towns and centers must provide, and what are the mechanisms by which they should plan, budget, and fund these services?

Further Reading

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