

Final report

Where the rubber hits the road

A review of decentralisation in Myanmar and the roads sector

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Acronyms

ADB	Asian Development Bank
BOT	Build-Operate-Transfer
CDC	City Development Committee
CRRN	Core Rural Road Network
DAOs	Development Affairs Organizations
DRD	Department of Rural and Development
DRRD	Department of Rural Roads Development
DOB	Department of Bridges
DOH	Department of Highways
GAD	General Administration Department
IGC	International Growth Centre
GAD	General Administration Department
MCDC	Mandalay City Development Committee
MOALI	Ministry of Agriculture, Livestock and Irrigation
MOBA	Ministry of Border Affairs
MOC	Ministry of Construction
MOPF	Ministry of Planning and Finance
MPs	Members of Parliament
NCDDP	National Community Driven Development Project
NCDC	Nay Pyi Taw City Development Committee
PAPRD	Project Appraisal and Progress Reporting Department
SOE	State-Owned Enterprise
VIP	Very Important Person
YCDC	Yangon City Development Committee

Executive summary

Myanmar is in the midst of a historic shift towards more democratic and responsive government. In a radical departure from a highly centralised structure, the 2008 constitution established 14 sub-national governments (seven states and seven regions), with partially elected parliaments. In addition to their devolved political authority, a range of finance and administrative functions were ceded to this newly minted level of government. Decentralisation reforms are complex, impacting numerous interconnected and overlapping government functions and many stakeholders. Overall, the sub-national governments are playing an increasingly prominent role in the management and spending of public finance and the delivery of services.

This report examines these recent decentralisation reforms in Myanmar through the lens of the roads sector. It introduces an analytical framework to assess decentralisation reforms and builds an institutional map of the sub-national budgeting and decision-making process as it relates to road investment. The roads sector is the most fiscally decentralised sector in Myanmar and accounts for the largest share of sub-national budgets. Road spending therefore provides an important example of regular interactions between the Union and sub-national governments – providing a basis from which lessons can be drawn to guide future decentralisation reforms. The sector is also an interesting case study in itself, given the importance of road investments to Myanmar’s economic and social development. The timing of this study is also propitious as it coincides with some significant policy changes to rural roads, which are further decentralising road expenditures.

Generally, the rationale of decentralisation reforms is to improve the responsiveness of government and strengthen downward accountability. While traditional analytical frameworks have centered on improvements in the efficiency of resource allocations that potentially arise when decisions are made at the more local level, there is a growing understanding that local political economy factors are also integral to the success of decentralisation reforms. This includes the incentives of the individual government officials involved in decision-making processes and the mechanisms through which they are held accountable.

The accountability of decentralised governments is shaped considerably by the scope of local decision-making autonomy. Local governments require political, administrative and fiscal authority to capitalise on their informational advantage and adequately respond to citizens. However, these dimensions also need to be aligned – like segments of a pipe – if local governments are to be incentivised and able to be accountable to citizens. Without sufficient authority, local governments are unlikely to be able to respond to citizens’ demands – even if they are politically incentivised to do so – and citizens have less reason for political participation. It is, therefore, important to distinguish between the mere shifting of workloads to lower level offices and the appropriate balance of political, administrative, fiscal authority of local governments.

In Myanmar, the unstructured nature of decentralisation reforms means that these dimensions are only partly aligned so far. Imbalances exist across the political, fiscal and administrative dimensions of decentralisation, which create uncertainty and weaken local authority. In the roads sector, these misalignments are acute, resulting in ambiguous divisions

of responsibilities for roads between different levels of government, highly fragmented administration across different government agencies, blurred distinctions in administrative accountability and mixed financial responsibility for certain types of roads.

These uncertainties compound a weak budgeting process and contribute to an opaque and politicised decision-making process in the early parts of the project cycle. In the absence of systematised project selection and appraisal processes, space is created for individual “VIPs” to exercise their own authority, commensurate with their relative bargaining power in the local context. Whether good outcomes are achieved through this arrangement is debatable. Local authorities may well be better informed about balancing local needs in the specific context, particularly in conflict-sensitive areas. However, when project selection decisions are ceded to lower levels of government with fragmented authority, greater space is potentially created for elite capture than may have otherwise been the case if those decisions were made centrally. It also risks damaging the emergence of local democratic accountability, without which the benefits of decentralisation are likely to be lost.

Further reforms are currently underway in the roads sector that have the potential to reduce fragmentation and increase decentralisation, however there are some important unanswered questions. Some responsibility for funding works on rural roads is being shifted to sub-national governments. However, there is currently no expectation of a corresponding increase in sub-national revenue raising powers or intergovernmental fiscal transfers. This risks adding more fiscal pressure to relatively small state and region budgets. It is unclear how sub-national governments will fund rural roads, implement the centrally defined rural roads strategy, and whether this change is an effort in greater decentralisation or simply a shift of workloads to the lower level offices.

Drawing on the observations of this report, policy considerations are focused on building more sub-national autonomy and transparency in budgeting and the decision-making process. They include pursuing further decentralisation – to align decision-making authority – by experimenting with administrative models; introducing appraisal tools and data requirements in the budgeting process; formalising financial arrangements for national roads; earmarking revenue to finance rural roads; and strengthening accountability by bringing citizens closer to the decision-making process.

Chapter 1. Introduction

Myanmar is undergoing rapid transformations, which are reshaping the economy, society and politics. No more is this evident than in its effort to decentralise governance. The 2008 Constitution established fourteen state and region governments, as the only sub-national tier, with partially elected parliaments and the explicit authority to preside over a set of government functions.¹ It also provided these sub-national governments with resources, including their own budgets. This was a radical departure from the previous governance structure in Myanmar, which, for several decades, was run centrally and entirely by the military.

Decentralisation reforms have been celebrated as an important early step toward a more democratic and accountable system of governance in Myanmar (Nixon et al., 2013). They are also intertwined with the process of peacebuilding and regional development (Minoletti, 2016). Fundamentally, reforms are a small step toward more autonomous local government. The new institutional and organisational structures also offer an opportunity to promote more “people-centred development”, with improved provision of public goods and services and more responsive decision-making. It is an ongoing process, shaped by many prevailing forces, though has the potential to provide the foundations upon which a more inclusive, peaceful and prosperous Myanmar can be built.

Importantly, decentralisation itself cannot spontaneously translate to improved governance, and more downward accountability (Bardhan and Mookherjee, 2005; Mbate, 2017). Instead, these outcomes are also dependent on contextual factors, such as the nature of intergovernmental relations, central top-down processes as well as the local dynamics by which political, economic and social actors relate to each other. Crucially, they will also depend on whether the political, administrative and financial authority granted to sub-national governments is aligned. In other words, are local governments provided with both the authority and the clear decision-making space to respond to the needs of local populations, or is the intended scope of devolved responsibilities narrowed by misaligned institutions?

Whichever shape Myanmar’s decentralisation ultimately takes, achieving positive results will depend on building upon the structures, institutions and reforms that are currently in place. The starting point must therefore be to understand these features – how they relate to each other, and how they influence resource allocation decisions in practice. Understanding of the existing system can help identify strengths and weaknesses and lay the foundations of a stronger, and more sustainable, longer-term process (the nature and objectives of which are yet to be clarified).

Literature suggests that many of the benefits that might accrue from decentralisation are potentially weakened in Myanmar by limited government capacity and by uncertainties in legislative and institutional frameworks (Dickenson-Jones et al., 2016). While this may be true, little work has actually drilled down to examine how decentralisation is working in practice – how decisions on actual resource allocations are made, by whom and why. This report addresses this gap by examining how reforms have affected the decision-making process in the roads sector and how Myanmar’s new sub-national structures and institutions have

¹ States and regions form a second-tier government and are constitutionally equivalent. Regions have been historically populated by an ethnic Bamar majority. States are recognized for their ethnic minority dominated populations.

adapted to balance central and local preferences.

The focus on the roads sector owes to the fact that it is the most fiscally decentralised sector in Myanmar and accounts for the largest share of sub-national budgets. It thus provides an important context for explaining inter-governmental relations and for drawing lessons that can guide future decentralisation reforms. Doubtless, the roads sector is also an interesting case study in itself, given the importance of road investments to Myanmar's economic and social development – providing a short-term boost to demand, enhancing long-term productivity and improving connectivity.² The timing of this study is also propitious as it coincides with some significant policy changes to rural roads, which are further decentralising road decision-making and expenditures.

The rest of this report is structured as follows. Chapter 2 provides a primer on decentralisation and develops an analytical framework for examining decentralisation, including the importance of aligning the different dimensions of decentralisation to enhance accountability. Chapter 3 provides an overview of decentralisation in Myanmar and how the roads sector fits into this landscape. Chapter 4 specifically focuses on decentralisation in practice, via the roads sector, showing how misalignments in the dimensions of decentralisation and other factors can obscure the budgeting process and create space for the politicisation of decision-making. It also explores reforms within the Department of Highways and the department responsible for rural roads. Chapter 5 proposes a series of policy considerations and Chapter 6 concludes.

Focus and approach

The Renaissance Institute in cooperation with the International Growth Centre (IGC) developed this report as part of their efforts to support Myanmar's public finance reforms. The research takes stock of previous work on sub-national finance and decentralisation in Myanmar and builds further evidence to support reform. Specifically, the analysis is motivated by the following questions:

1. How do state and region governments exercise discretion over sub-national budgeting process?
2. How much autonomy do states and regions have over sub-national spending?
3. Are reforms adequately aligned across fiscal, political and administrative dimensions of decentralisation?

This paper is based on more than a year of intensive and ongoing engagement with various Union and sub-national ministries and departments in Myanmar. Targeted fieldwork was carried out in Ayeyarwady, Bago, Kayin, Mandalay, Nay Pyi Taw, and Taunggyi plus desk reviews of relevant reports and budget data.

² The economic returns from public investments in roads in developing countries are estimated to be more than 200 percent - more than electricity generation and telecommunications (Lin, 2012).

Chapter 2. A primer on decentralisation

The World Bank defines decentralisation as “the transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations” (Litvack and Seddon, 1999). It involves three interrelated and interdependent dimensions: the transference of decision-making power and accountability (political decentralisation); the transference of functional and managerial responsibilities (administrative decentralisation); and the transference of financial responsibility (fiscal decentralisation).³ Each dimension can play out differently and have different reform implications, though there is also considerable overlap between them.⁴ What is ultimately important is the extent to which the dimensions work in harmony. In short, they should be seen as three legs supporting the same stool of decentralisation reform.

Table 1: Dimensions of Decentralisation

Description	Examples
Political: Involves the transfer of political accountability to local levels and aims to give citizens or their elected representatives more power in public decision-making	<ul style="list-style-type: none"> • selection of representatives from local electoral jurisdictions (open elections) • citizen engagement with political representatives • creation of local political units and development of pluralistic political process
Administrative: Distributes managerial and administrative responsibilities among different levels. There are three major forms of administrative decentralisation -- deconcentration, delegation, and devolution*	<ul style="list-style-type: none"> • human resource management – e.g. hiring and firing of staff • responsibility for the planning and management of certain public functions – e.g. preparing budget proposals
Fiscal: Describes the way financial resources are provided to sub-national levels as well as the authority to make decisions about expenditure	<ul style="list-style-type: none"> • self-financing – local revenues through taxes, user or indirect charges • co-financing or co-production arrangements • intergovernmental transfers that shift revenues from taxes collected by the central government to local governments for general or specific uses • authorisation of sub-national borrowing

***Deconcentration** – redistributes decision making authority and financial / management responsibilities to different levels of the central government. **Delegation** – transfers central government’s responsibility for decision-making and administration of public functions to semi-autonomous organisations not wholly controlled by the central government, but ultimately accountable to it. **Devolution** – transfers authority for decision-making, finance, and management to quasi-autonomous units of local government.

Sources: <http://www.who.int/health-laws/topics/governance-decentralisation/en/>; http://www.ciesin.org/decentralization/English/General/Different_forms.html; <http://www1.worldbank.org/publicsector/decentralization/admin.htm>

³ Market decentralisation is sometimes described as the 4th type of decentralisation. It’s less relevant to our discussion in the context of Myanmar and is hence excluded from the analysis.

⁴ For example, authority to make decisions on expenditure may be described as a fiscal component, but it may ultimately depend on appropriate levels of political and administrative decentralisation.

Decentralisation is clearly a popular concept. Since the 1970s, more than 80 percent of the world's countries, including many developing countries, have experimented with some kind of decentralisation reform. With decades of mixed results, it is difficult to identify, precisely, the contributing factors lead to good or bad outcomes. Instead, as Faguet (2012) notes "decentralisation in any context produces a range of responses that are heterogeneous and complex". The key questions, therefore, are not whether to decentralise or not, but rather how to decentralise? What factors shape the success, or otherwise, of decentralisation reforms and how can decentralisation best achieve the desired outcomes for a society?

There are some general principles in this regard. Traditional literature on fiscal federalism has focused on the role of economic efficiencies in environments where there are heterogeneous local demands and intergovernmental competition.⁵ Decentralisation can improve the allocative efficiency of government spending and strengthen downward accountability because lower-level governments have an informational advantage over a central government. Thus, bringing government closer to citizen means that the provision of essential services, such as health and education, can be better calibrated to meet local needs, and public infrastructure can be more responsive to citizens' preferences (Kubal, 2006; Oates, 2005; Ostrom et al., 1993; Seabright, 1996; World Bank 1994). Citizens, in turn, are then able to hold the decentralised government to account.

An efficiency benefit is said to derive from the principle of "subsidiarity", a rule regarding what to decentralise to which level. This holds that the lowest level of government should perform the functions if they can do so efficiently (Boex and Yilmaz, 2010; see Box 1 for a more detailed description). On the flipside, decentralisation runs up against the issue of scale economies; in particular, the inability of smaller jurisdictions to efficiently deliver public services (either due to low capacity, the presence of high fixed costs or large spillovers). There is also the inherent risk that as governance shifts further away from the centre, where technical human resource capabilities are more limited, it becomes more vulnerable to being captured by local elites (Crook and Sverrisson, 1999; Prud'homme, 1995).

There is an emerging understanding that, in addition to efficiency, local political economy considerations also influence the effectiveness of decentralisation reforms.⁶ The incentives of individual government officials involved in the process and the mechanisms through which they are held accountable, are therefore key (Faguet, 2012; World Bank, 2004). For instance, ordinarily the devolution of political authority combined with strong democratic processes can help strengthen the accountability of local government officials as the pressures of re-election incentivise local decision makers to respond to the demands of engaged citizens. However, in the absence of strong democratic foundations, the incentives of citizens and government officials will likely be misaligned and the hypothesised benefits of proximity can prove to be just an illusion.⁷

⁵ Often rationalised by the Tiebout (1956) model. See, Bardhan (2002) for a summary discussion of fiscal federalism literature.

⁶ For more on this literature see, Bardhan (2002), Oates (2005), Qian and Weingast (1997).

⁷ Local authority is an essential but not a sufficient element of ensuring accountability. Political participation by citizens could also depend on political awareness, literacy, socio-economic status and independent media. See, Bardhan (2002).

Box 1: Subsidiarity principle

A common economic argument for decentralisation rests on what is known as the “subsidiarity principle.” This is the principle that functions should be assigned to the lowest territorial level that can internalise their benefits. It is a trade-off between scale economies and flexibility and accountability. While local government have more local knowledge and flexibility, there are scale economies in the provision of government goods and services

It requires that the size of the local government jurisdiction be at least be equal to or greater than the “minimum efficient scale” and responsibility for the provision of goods and services be assigned to the smallest possible efficient “benefit area” associated with those goods and services (Martinez-Vazquez, 2015). Efficiency is enhanced if the consumption benefits of a good or service are aligned to the costs of provision via fees, service charges, or taxes in the benefit area (Tiebout, 1956). But it is recognised that there is rarely a level of government that can limit the provision of public goods solely to people within its jurisdictions without spillovers (Oates, 2005). For example, public goods like roads and even health care provide benefits for residents of other jurisdictions.

The decision space

Seen in this light, the accountability of decentralised governments is also determined by what Bossert (1998) has coined the “decision space”; that is, the degree of overall autonomy that can be exercised by decentralised agencies. This autonomy, in turn, is determined by the amount of political, administrative and financial authority that is ceded, in addition to how well these dimensions are aligned.⁸ Faguet (2012) argues that in absence of a real devolution of both power and resources to local governments, a competitive dynamic between economic and civic actors cannot generate accountable and responsive government.⁹ It is therefore important to distinguish between the mere shifting of workloads to lower level offices and the appropriate balance of political, administrative, fiscal authority of local governments. In other words, “where local decision space is lacking [...] decentralisation is bound to fail because it has not really happened in the first place”.¹⁰

Put simply, local governments require autonomy over resource allocation decisions to capitalise on their informational advantages and be responsive and accountable to citizens. When the political, administrative and financial dimensions are aligned, local governments can capitalise on their intended devolved decision-making capabilities and maximise their downward accountability to local constituents – like water flowing through a pipe (Figure 1). However, just like a pipe with misaligned segments, if the dimensions are not aligned, then the intended scope for devolved decision-making can be narrowed considerably. Instances of such constrained accountability can occur when a sub-national level of government does

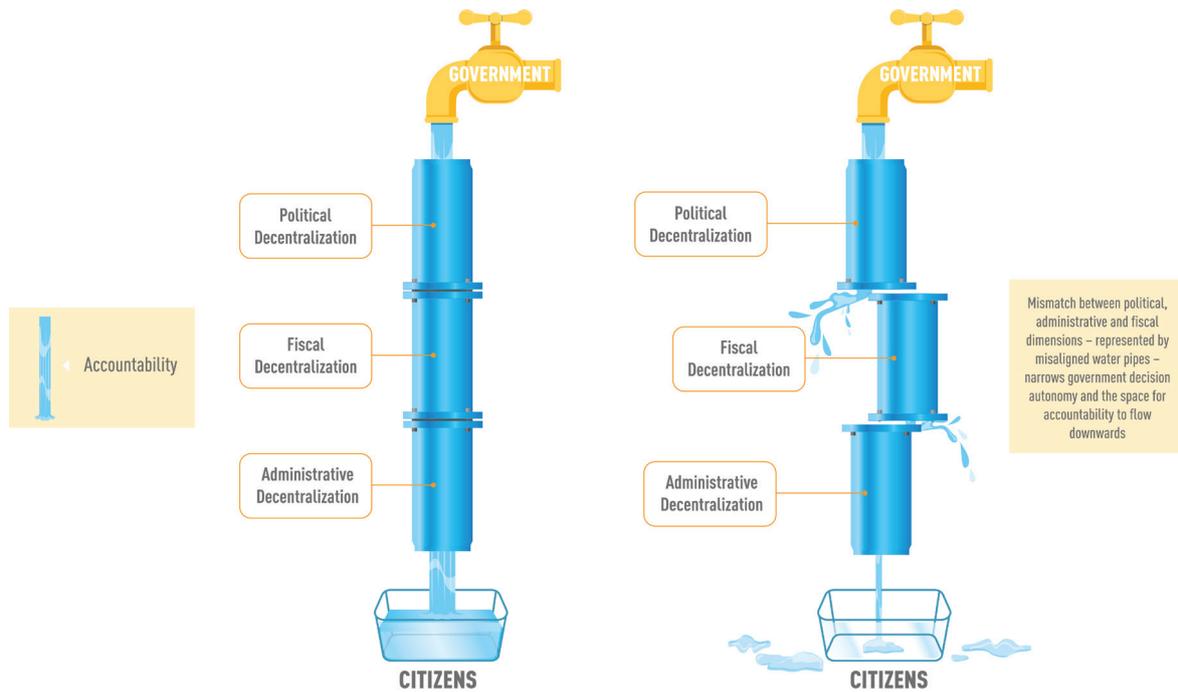
⁸ It is important to note the role of capacity in this picture. Many are quick to point out that the level of technical expertise at the local level is low and can result in poorly designed public policies. The relationship between decision space, accountability and capacity is not straightforward and requires deeper examination, however, there is suggestive evidence. In a number of his studies Bossert finds that where decision over health services was decentralised to local authorities, local capacity and accountability tended to be high. See, chapters 1 and 12 in Faguet and Pöschl (2015).

⁹ This model of a responsive government rests on the first-order condition of open, substantively competitive politics.

¹⁰ Faguet comment on “Decentralisation of health services in Fiji: a decision space analysis.” (2016).

not have control over the administrative level of a decentralised function or does not have the power to allocate resources in sectors that it nominally controls – even if individuals within government are incentivized to do so politically. Without sufficient authority, local governments are unlikely to be able to respond to citizens’ demands and citizens have less reason for political participation, thus weakening accountability.

Figure 1: (Mis)alignment and accountability



Chapter 3. Decentralisation in Myanmar

The overall decentralisation picture

Myanmar has taken some important steps on the path to decentralisation. Changes along **political decentralisation** have been among the most salient; the 2008 constitution established a new sub-national government apparatus, including 14 state and regional governments, with local legislatures (known as *Hluttaws*), defined responsibilities and elections. These changes grant some additional local autonomy, addressing a source of longstanding tensions in Myanmar, though the autonomy remains largely constrained; the respective Chief Minister positions are centrally appointed and one quarter of seats in the *Hluttaws* are appointed by the military.¹¹

The Constitution has also facilitated **fiscal decentralisation**, by equipping the newly minted state and regional governments with their own budgets, comprised of an assortment of small own-source revenue sources and fiscal transfers.¹² In the early years, the fiscal decentralisation process was uncoordinated and informal. The core policy focus was to increase the size of state and region budgets through intergovernmental transfers, without an accompanying emphasis on revenue or clarity of expenditure mandates. This was facilitated by a transfer system that focused on covering deficits of sub-national governments and where the latter are encouraged to bid for transfers to cover the gap between their proposed revenue and expenditure plans (Shotton et al., 2016, p.27). This arrangement is common in a number of countries, especially those emerging from socialist management systems. The rush to shift spending to the sub-national level and its general uncoordinated nature led to some ambiguity as to what these budgets could be used for.

Since 2015, greater emphasis has been given to implementing a more systematised approach to sub-national fiscal policy. The transfer system must now conform to a medium-term fiscal framework and allocations between locations are based on a predetermined formula that attempts to account for relative needs and fiscal capacity, and away from gap-filling. While challenges remain in near future, this a promising step towards better fiscal management and greater predictability.¹³ Amendments to the constitution in 2015 also added a list of taxes to Schedule 5, to be potentially collected by states and regions. While it had no immediate impact on fiscal decentralisation, the amendment acts as a placeholder for subsequent Union laws that could possibly lead to considerable changes. For example, the list includes taxes on natural resources and customs; decentralisation of which may have significant implications for horizontal equity between locations.¹⁴

¹¹ See, Nixon et al. (2013), for a more detailed review of political dimension of decentralisation.

¹² States/regions are allowed to collect their own revenue through a variety of taxes, however they currently make a small fraction of their available resources. Own-sourced revenues represent around 9 percent of sub-national governments' total resources for 2016-17 FY.

¹³ The largest grant transfer is now based on a formula administered by the Intergovernmental Fiscal Relations Department (IFRD) under the Union Ministry of Planning and Finance. This offers a degree of predictability over size of fiscal resources that was absent before 2015.

¹⁴ Section 3 of the Law Amending the Constitution of Republic of the Union of Myanmar, The Pyidaungsu Hluttaw Law No. 45, 22 July 2015.

Administrative decentralisation has, arguably, lagged behind the political and fiscal dimensions. Section 2 of the Constitution lists the responsibilities of the Union and sub-national governments, though, in practice, the assignments of management functions have been much less clear. Considerable ambiguities remain in the parameters that determine the assignment of sub-national responsibilities. These uncertainties are compounded by the general lack of supporting guidance, in legislation or elsewhere, of the official long-term vision of what decentralisation should look like.

Accordingly, many of the actual administrative responsibilities of sub-national governments are de facto positions, based on ongoing practice. Bissinger (2016) suggests that the decentralisation process in Myanmar is more deconcentration than devolution.¹⁵ Decision-making authority is evolving within existing structures; being shaped by contests and tension between the levels of government as well as the local political economy.

Further, sub-national governments do not form independent administrative units. Civil servants are guided to support sub-national governments, though ultimately all human resource management is handled by the corresponding Union ministry and the national civil service organisation. To paraphrase Nixon et al. (2013) this mismatch between sub-national governments and their administrative structures is akin to having Ministers, but no ministries. Municipal affairs are a clear exception to this, however, having clear lines of accountability as the only true sub-national ministry (see Box 2). The overall implication is that states and regions are limited in their scope for transparent and accountable political action – without their own departments and staff, elected officials have no credible way of formulating and implementing policy.

Box 2: The clear authorities of municipal governance

Within the highly centralised structure of governance in Myanmar, municipalities are unique. City development committees in Yangon, Mandalay and Naypyitaw, and Development Affairs Organisations (DAOs) in the rest of the country are responsible for urban governance, including construction of roads and solid waste disposal in the urban areas of each township. As the only government agency under the full control of the state/region governments, they are the purest example of decentralisation in Myanmar at present. Sub-national Hluttaws enact Development Affairs Laws and cities are largely self-financing due to their delegated revenue collection powers. While human resource management of municipalities must conform to Union-level guidelines and norms, in practice, municipalities control their own urban administration.

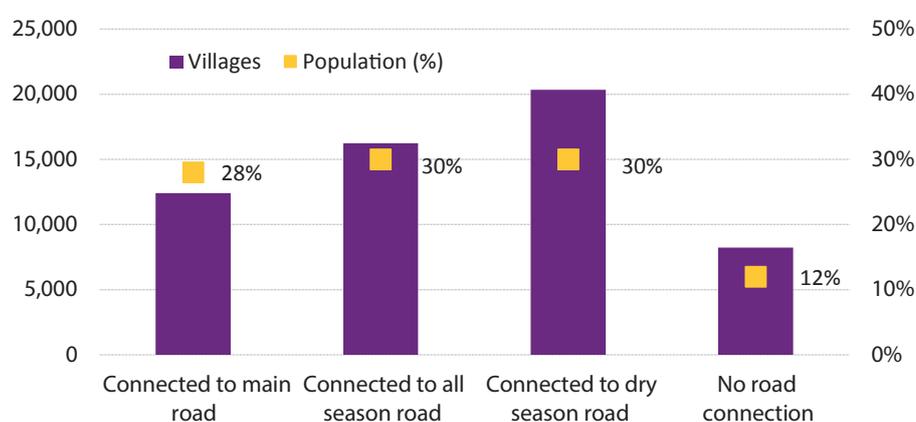
¹⁵ Bissinger (2016), p.5 - “It is a *process of decentralizing authority within the existing structure, instead of decentralisation of structures themselves*”.

Decentralisation in the roads sector

Roads are essential to Myanmar’s economic and social development, particular in rural and remote areas, where around two-thirds of the population reside. Roads are the primary mechanism for moving goods, people and information to places where it is needed. A good quality road network can help improve people’s quality of life; facilitating access to and participation in markets as well as expanding access to essential services, such as health care and education (Limi et al., 2015). It is also integral to Myanmar’s economic structural transformation, helping lift agricultural productivity and facilitate the shift from subsistence agriculture to diversified market-oriented farming and onto higher value-adding manufacturing and services (World Bank, 2017, p.46; Khandker R. Shahidur et al., 2009; Mu and Van De Walle, 2011).

At present, Myanmar’s road network is extensive but generally of poor-quality (ADB, 2016). There are many heterogeneous challenges. According to the Asian Development Bank (2016), only about half of the trunk road network is paved and, as of 2015, half of the paved trunk roads were in poor condition. About 40 percent of Myanmar’s population (over half of the rural population) still lives in areas without access to an all-season road (Figure 2). Current levels of road access reflect decades of general underinvestment plus the specific challenges of diverse geography. A recent landmark study by The Asia Foundation also revealed that community perceptions of roads in conflict areas can be mixed; as new, long-distance roads can lead to increased militarisation and land confiscation or forced displacement (Burke et al., 2017). This highlights the importance of community-based engagement in determining the nature of road infrastructure investment.

Figure 2: Rural road access in Myanmar



Source: Department of Rural Development, 2017

The roads sector presents a vivid case study of decentralisation in Myanmar. Road investment is a national policy priority for Myanmar, as reflected in the current Union Government’s twelve-point economic policy.¹⁶ As part of the broader decentralisation of expenditure responsibilities a considerable share of the responsibility for road spending is falling to state

¹⁶ Economic Policy of the Union of Myanmar
http://themimu.info/sites/themimu.info/files/documents/Statement_Economic_Policy_Aug2016.pdf

and region governments. However, the specific demarcation of roles, responsibilities and financing between levels of government in the roads sector is not always clear. Box 3 provides a frame of reference for considering the dimensions of decentralisation in the roads sector while the rest of the sector provides more details about each dimension and summarises.

Box 3: The dimensions of decentralisation of the roads sector

Establishing a boundary between decisions and their implications

Political: the constitutional assignment of “management” of roads to the sub-national level of government and associated accountable bodies, plus the political architecture that guides the process of through which decisions are made.

Administrative: the resultant administration of road responsibilities stemming from the legislative responsibilities outlined in the constitution (i.e. between national (or Union) roads vs. state and region roads); and the responsibilities for the management of human resources (salaries, contracts, civil service).

Fiscal: assignment of financial responsibilities, including the preparation of plans and budgets, sources of revenue and the execution of spending.

In practice, the borders between the different elements are sometimes blurry, which is also why relationship between the elements is important.

Politically, the right to manage some roads is assigned to sub-national governments through Schedule 2 of the constitution. The division of responsibilities between levels of government is generally described in the constitution under sectors with broad subcategories. Roads, for instance, is mentioned in the “Transport, Communication and Construction Sector” alongside a grab-bag of other responsibilities (Table 2). While this provides some basis for division of responsibilities between the Union and sub-national governments, by suggesting that “management” is to be assigned by broad distinction of road type and assigned rights, it does not articulate what specific responsibilities this entails in practice and how this distinction is to be made.¹⁷

¹⁷ Management may be interpreted along administrative lines – of human resources necessary to conduct works on sub-national roads – or along financial lines – managing contracts, budgeting priorities related to state and region designated roads.

Table 2: Constitutional framework for responsibilities in the transport, communication, and construction sector

Union responsibility (Schedule 1)	State and Region responsibility (Schedule 2)
(a) Inland water transport; (b) Maintenance of waterways; (c) Development of water resources and rivers and streams; (d) Carriage by sea; (e) Major ports; (f) Lighthouses, lightships and lighting plans; (g) Shipbuilding, repair and maintenance; (h) Air transport; (i) Air navigation, control and airfields construction; (j) Land transport; (k) Railways; (l) Major highways and bridges managed by the Union; (m) Posts, telegraphs, telephones, fax, e-mail, internet, intranet and similar means of communication; and (n) Television, satellite communication, transmission and reception, and similar means of communication and housing and buildings.	(a) Ports, jetties and pontoons having the right to be managed by the Region or State; (b) Roads and bridges having the right to be managed by the Region or State; and (c) Systematic running of private vehicles within the Region or State.

In addition, the 2008 constitution has provisions related to administrative decentralisation. Article 257 states that sub-national governments “may form Civil Services organizations” and “appoint the required number of Civil Services personnel” in co-ordination with the Union Government.¹⁸ To the authors’ knowledge, outside of DAOs, no sub-national government has taken steps towards creating own civil service structures – in essence creating their own ministries. In other words, the range of decentralisation offered by the constitution has not been fully explored.

States and regions generally do not have a designated minister responsible for roads.¹⁹ While some local ministers are nominally responsible for road transportation, which may appear to be a focal point for coordination, this relationship is rather informal without a legal mandate. In practice, Chief Ministers are responsible for approving final sub-national projects/budgets, and are expected to do so with support from the sub-national cabinets.

¹⁸ Civil Service Law (5/2013) appears to be consistent with the Constitution. Sections 2b and 4 of the law allow for formation of civil service structures and recruitment of necessary civil servants by state/region governments.

¹⁹ The only exception known to authors is Mon State, which has a Minister of Municipal Affairs and Construction – see, <http://www.president-office.gov.mm/?q=cabinet%2Fregion-and-state-government%2Fid-10183>

Administration of the road network is highly fragmented across different government agencies (Table 3).²⁰ Different types of road construction are managed by numerous departments across multiple ministries. Some of these ministries operate across layers of government, though the administration is centralised within line ministry structures. Disaggregating management responsibilities by road type:

- **Highways and trunk roads** are managed by the Department of Highways (DOH) – a partly deconcentrated organ of the Union-level Ministry of Construction (MOC) – with offices in states and regions managing expenditure under both Union and sub-national budgets.
- **Rural roads** are managed by the military operated Ministry of Border Affairs and (previously) the Department of Rural Development (DRD) in the Union-level Ministry of Agriculture, Livestock and Irrigation (MOALI). As this report was being written, the Roads and Bridges Division of DRD was moved to the MOC. It now operates as a newly formed Department of Rural Roads Development (DRRD). It is nominally undergoing fiscal decentralisation by gradually shifting financing responsibility to states and region governments.
- **Urban roads** management is a fully devolved responsibility of Myanmar’s municipal bodies, including city development committees in Yangon (YCDC), Mandalay (MCDC) and Naypyitaw (NCDC), plus Development Affairs Organizations (DAOs) in other parts of the country. These bodies report entirely to state and region governments.

Table 3: Road network in Myanmar

Ministry	Department	Financed by budgets		Estimated road network (kms)	Type of road responsibility
		Union	State/Region		
Ministry of Construction	Department of Highways (DOH)	Yes	Yes	40,000+ ^b	Highways and trunk roads
	Department of Rural Roads Development (DRRD) [*]	Yes	Yes	76,000 ^a	
Ministry of Border Affairs	Department of Progress of Border Areas and National Races Development (DPBANRD)	Yes	No	19,800 ^a	Rural roads
	YCDC	No	Yes	4500 ^c	Urban roads
	MCDC			1200 ^c	
	NCDC			1800 ^c	
	DAOs			11,500 ^d	

CDC = city development committee; DAOs = Development Affairs Organizations.

Sources: a) *National Strategy for Rural Roads and Access, 2017*; b) *Ministry of Construction and Myanmar transport sector policy note: Trunk roads (Asian Development Bank, 2016)* – the figure is an approximation as it varies across sources; c) *Ministry of Construction public presentations dated 2016; figures differ from other sectorial reports*; d) *Myanmar transport sector policy note: Rural roads and access (Asian Development Bank, 2016)*

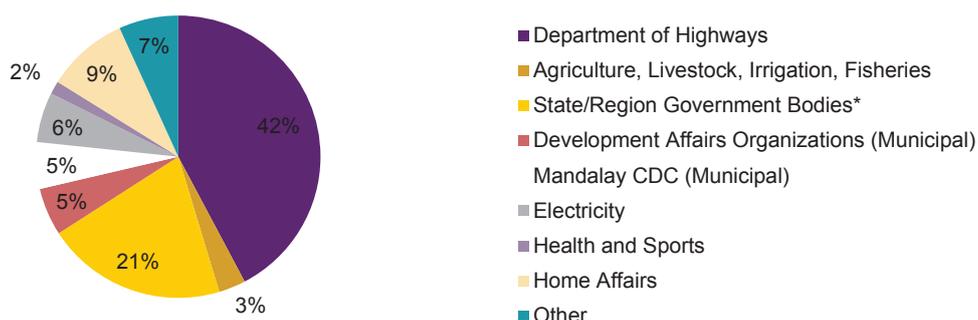
^{*}Previously, roads and bridges division in Department of Rural Development (DRD) under Ministry of Agriculture, Livestock and Irrigation.

²⁰ Table 3 does not provide a complete picture of the roads sector. It excludes roads managed by the Ministry of Defense (estimated around 11,000 km), Ministry of Electricity and Energy (estimated over 1,000 km), and possibly other agencies.

Expenditure on roads tends to dominate sub-national government budgets. In a sample of nine states and regions, road spending, via the state and region DOH, accounted for nearly half of all government expenditure, and up to 60 percent in Tanintharyi Region (Figure 3). Indeed, 19,000 kyats was budgeted per person on DOH expenditure across these nine states and regions in 2016-17 FY, compared with only slightly more than 1,000 kyats per person on the Agriculture, Livestock and Irrigation sector, and about 2,500 kyats per person on the electricity sector. Sub-national road budgets are primarily financed out of the unconditional block grants from the Union to state and region governments. It is important to note that while the Constitution assigns management of sub-national roads to state/region governments, and considerable financing of these roads is placed under sub-national budgets, the administration of financial management – preparation of medium- and long-term plans, aggregation of budget proposals, budget execution – takes place within central structures of Union ministries, and not state/region governments.²¹

Yet, DOH spending is not the entirety of sub-national spending on roads. A sizable share of municipal capital spending, via municipalities, is also spent on construction, upgrading and maintenance of urban roads and bridges (Winter and Nandar, 2015).²² In 2016/17 the MCDC and the 28 DAOs in Bago Region cumulatively allocated 40 percent of their total budgets on roads, while in 2017/18, the DAO in Taunggyi, the capital of Shan State, allocated 44 percent of its budget on roads and bridges. Further, field interviews revealed some expenditure items for rural roads under DRD (now DRRD) have also been shifted to several state and region budgets, with more expected to follow (see Chapter 4). It’s worth mentioning DRD led off-budget expenditure of donor-funded programmes (like the World Bank-funded National Community Driven Development Program). NCDDP road projects expenditure in 2016/17 are estimated at 37,000 million kyat, around 57 percent of total NCDDP expenditure for the year.

Figure 3: Expenditure Breakdown
By sector/department for 9 states and regions, 2016-17 BE



Source: Ministry of Planning and Finance, Open Myanmar Initiative; RI/IGC staff estimates. Note: States and Regions include: Kayah, Kayin, Sagaing, Tanintharyi, Bago, Mandalay, Mon, Shan and Ayeyarwaddy.

* State/Region government bodies refer to government administrative agencies: (1) State/Region Cabinet Office (2) Parliament/Hluttaw (3) Courts (4) Attorney General’s Office and (5) Auditor’s Office.

CDC = city development committee

²¹ In the roads sector, some attention by central line ministries has been directed toward introducing bottom-up planning processes and soliciting inputs from township level offices, Members of Parliament and of sub-national government cabinets.

²² Winter and Nandar (2015) suggest that capital expenditure makes around half of DAO’s budgets.

Summary

Given Myanmar's history of highly centralised governance, the progress that has been made with respect to decentralisation in recent years is a significant achievement. However, Myanmar remains highly centralised: sub-national expenditure as a share of overall public sector expenditure is low relative to international benchmarks (World Bank, 2015, p.83; Minoletti, 2016, p.10); much of the formal administrative power remains concentrated at the Union; and states and regions' are considerably constrained in their autonomy. This in turn could be related to the limited space for political action in states and regions.

Table 4 summarises the decision-making autonomy of sub-national governments in the roads sector across the three dimensions. While sub-national governments have moderate-to-wide legislative authority over local budgets, their autonomy over of management of financial functions is narrow. The sub-national level has almost no control over human resource management – they have no dedicated civil service, nor the autonomy to hire and manage their own staff (Table 4). Such fragmentation, as will be shown in the next chapter, poses a number of challenges. It means that it is not entirely clear how state and region cabinets and parliaments exercise their discretion over roads through the planning and investment cycle and it is also not clear how decision-making aligns with Union generated medium- and long-term sectorial plans and the needs of the local communities.²³

The relevance of these issues extends beyond management of sub-national roads and constitutes important lessons to any further decentralisation of budgeting responsibilities in the future. Existing institutions, bureaucracies, lines of communication, and regulations are being pressured to change and adapt to accommodate the new reforms, [for which they are ill prepared]. Importantly, it is not immediately obvious whether decentralisation is helping to promote accountability and responsiveness. Moving forward, it is important to identify how these responsibilities are being determined and consider whether any imbalances in the depth of decentralisation across the three dimensions are impacting upon the quality of resource allocation decisions. This also raises important questions about the long-term vision, policy objectives, and ultimately the desired balance between the three elements of decentralisation.

²³ Practically speaking, fragmentation of road spending information between different levels of government blurs the overview of sector finances. It is difficult to precisely determine the aggregate level of spending on roads in Myanmar, on what it is spent, and what level of government spends it. Such difficulties in access to complete and comparable budget information are common refrain among analysts.

Table 4: Decision autonomy of Myanmar’s sub-national governments in roads sector

Dimension / function	Range and clarity of decision authority (none, narrow, moderate, or wide)
Political	
Elected representative	<i>Moderate</i> – Chief Ministers approve final budgetary decisions under sub-national budgets. Elected MPs are given room to cut proposed budgets, and sometimes participate in the planning process by lobbying for preferred projects. Sub-national governments don’t have an elected Minister for roads, or construction more broadly. Municipal DAOs are an exception with a local Minister fully responsible for management of urban roads.
Legislative responsibility	<i>Moderate to wide</i> – Schedule 2 assigns management of state/region roads to sub-national governments. Although, the functional interpretation of management could be subject to interpretation. Equally, parameters determining a state/region status of a road could be potentially altered.
Finance	
Source of revenue	<i>Narrow</i> – major sources of revenue determined by central MOPF. The Schedule 5 of the Constitution lists 19 categories of taxes and fees controlled by state/region governments. However, very little income is collected through these instruments and it remains to be seen whether they can independently set rates and manage policy over these taxes.
Income from fees	<i>Narrow</i> – The Constitution gives states/regions the right to collect fees for usage of roads managed by state/region. To our knowledge, no such fees are yet imposed by sub-national governments, and the effective authority to do so is likely to be limited. Without a dedicated sub-national agency, it would require coordination with the central administration.
Allocation of expenditure	<i>Narrow to moderate</i> – although local governments have legislative powers to approve final budgets, the degree of influence varies according to local context and informal dynamics.
Planning / budgeting – policy	<i>Narrow</i> – in theory, nothing is stopping local governments from articulating investment plans and strategic goals. However, without a dedicated sub-national implementing agency, the incentives to do so are low. The credibility of any policy statements would depend on the relationship with and influence within the line ministries.
Administrative	
Human resources	<i>None</i> – salary grades and contract structures are defined by the Union Government. There is no significant sub-national autonomy in hiring and firing of staff. With the exception of DAO, sub-national Ministers have no dedicated civil service.
Planning / budgeting – managerial functions	<i>None</i> – Managerial functions behind planning and budgeting are performed by central administrative bodies.

Chapter 4. The roads sector in Myanmar: Institutions and decision-making

This rest of this paper focuses on the institutional and budgeting landscape brought about by decentralisation and its effect on investment decisions within the roads sector – specifically, the decentralised agencies within MOC: DOH and DRRD. The focus is on the early stages of the investment cycle; road project appraisal, prioritisation and selection, which play key roles influencing the responsiveness and efficiency of road spending.²⁴

Department of Highways

DOH, formally under the MOC, is responsible for development, maintenance and operation of the entire trunk road network – with offices at the Union level and across states/regions. Before April 2015, this responsibility was held in a consolidated body, called Public Works, whose expenditures were recorded in both department and state owned enterprise (SOE) categories (Dickenson-Jones et al., 2015, p. 39). The government has since split Public Works into separate government departments: DOH, Department of Bridges, and a Department of Buildings and Construction Management.²⁵ Roads were always the dominant share of Public Works' spending and prior to the reorganisation Public Works accounted for 54 percent of all sub-national spending in 2013/14 (Dickenson-Jones et al., 2015, p. 34).

Nominally, budgeting responsibility for the various DOH functions is defined by the administrative classifications in the constitution (see above). The Union Government is responsible for financing expenses on National Union roads (expressways and highways that connect multiple states and regions) while state and region governments are responsible for financing works on roads within their respective jurisdictions.²⁶ On the surface, this offers a degree of clarity of the responsibility that is absent in some other areas of sub-national budgeting, like agriculture. In practice, however, the lines determining financial responsibility for trunk roads and highways are blurrier and administrative responsibilities remain centralised. Sub-national governments co-finance a share of the works on national roads. Indeed, roughly half of the DOH road network is classified as Union (Figure 4A), but most of the financing for works is recorded on state/region budgets (Figure 4B). In aggregate, state and region budget expenditure allocated for works on Union-classified highways varies across the country; from around 60 percent of total DOH expenditure in Tanintharyi, to 15 percent in Bago and under 2 percent in Ayeyarwady (Shotton et al., 2016, p.9; Interviews, 2017).²⁷ Around 30 percent of the Union highway network is managed under Build-Operate-Transfer (BOT) contracts, easing the immediate burden on Union budgets.

Moreover, there is a blurred distinction in administrative accountability. Sub-national governments are responsible for the salaries of local DOH staff that work on both Union-level projects and sub-national-level projects (ADB, 2016, p.55; Interviews, 2017). Although paid

²⁴ Though ambiguities are also likely to be present in the latter stages, including implementation, operation, maintenance and evaluation.

²⁵ Under Ministry Resolution #21/2015 issued on 31 March 2015.

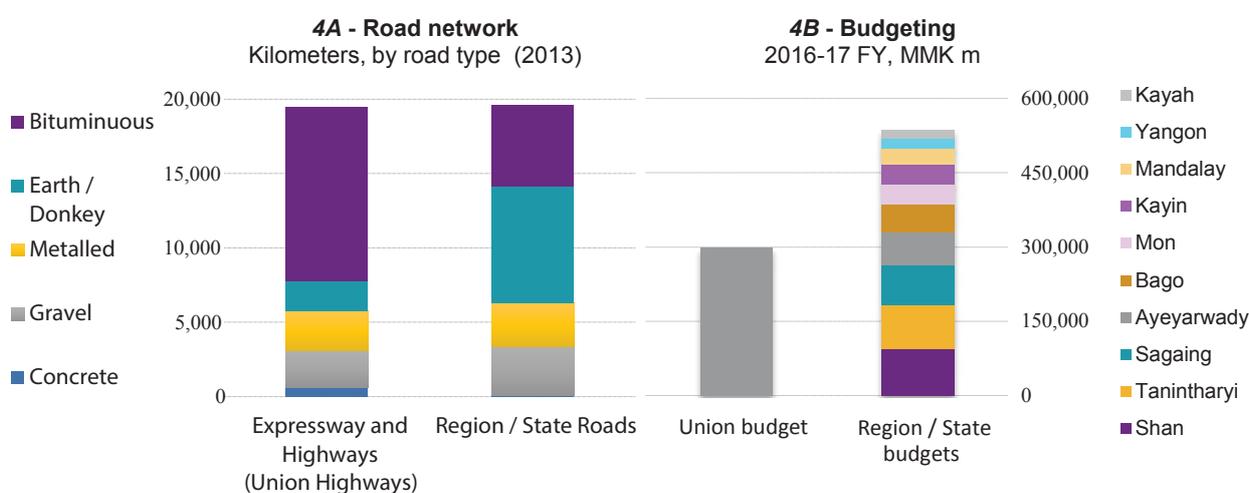
²⁶ Roads designated as having the right to be managed by a region/state are also referred to as sub-national or state/region roads. Roads managed by the Union are referred to as National or Union roads.

²⁷ Interviews conducted with DOH staff at state/region offices.

by sub-national budgets, DOH staff working in state/region offices is part of the centralised administration that is responsible for managing expenditure under both Union and sub-national budgets.²⁸

Moreover, there is a blurred distinction in administrative accountability. Sub-national governments are responsible for the salaries of local DOH staff that work on both Union-level projects and sub-national-level projects (ADB, 2016, p.55; Interviews, 2017).²⁹ Although paid by sub-national budgets, DOH staff working in state/region offices is part of the centralised administration that is responsible for managing expenditure under both Union and sub-national budgets.

Figure 4: Department of Highways



Source: Road network – Ministry of Construction public presentation; Budgets – state/region Ministries of Planning and Finance, Open Myanmar Initiative; RI/IGC staff estimates. Financing data unavailable for Chin, Kachin, Rakhine States and Magway Region.

While co-sharing arrangements for road works are not uncommon internationally, in Myanmar the approach is not systematised and is instead left to negotiation on an individual project basis. It may suggest a practical solution to financing – indeed interviews with DOH officials revealed that state and region governments are willing to allocate resources to National roads, as it is in the interest of their development needs. However, it risks blurring responsibilities, and hence complicating clear estimation of expenditure needs at each level, design of appropriate finance mechanisms as well as leading to avoidance of managerial or political accountability (Shotton et al., 2016).

Previous work has shown that Union-level construction budgets tend to be evenly allocated across states and regions (ADB, 2016, p.31). The even geographic spread of resources suggests limited consideration towards allocative efficiency, equity, and prioritisation of investment in

²⁸ BOT contracts cover around 6,000 kms of the National road network. BOT operated roads are tolled and add another layer of fragmentation that is beyond the scope of this report. For more detail on BOT contracts, see, Asian Development Bank (2016), p.94.

²⁹ Interviews with state/region DOH staff; anecdotal evidence suggests that DOH staff also works on projects for municipal agencies.

key areas. At first glance, the picture looks different for DOH expenditure under sub-national budgets (Figure 5). There is a considerable variation in expenditure, as share of local budget – on per capita basis – as well as in the distribution between capital and current spending (Figures 5 – 7). Data limitations make it difficult to precisely determine whether these expenditure variations are in response to local infrastructure needs, facilitated by decentralised budgeting, or the result of some other technical factors.³⁰ It could also be a reflection of the relative strength of project lobbying across sub-national political actors. To explore this latter possibility, the next section examines the institutional environment of sub-national budgeting for trunk roads expenditure and how it influences resource allocation decisions.

Figure 5: Department of Highways expenditure
Share of total state/region budget, 2016-17 BE

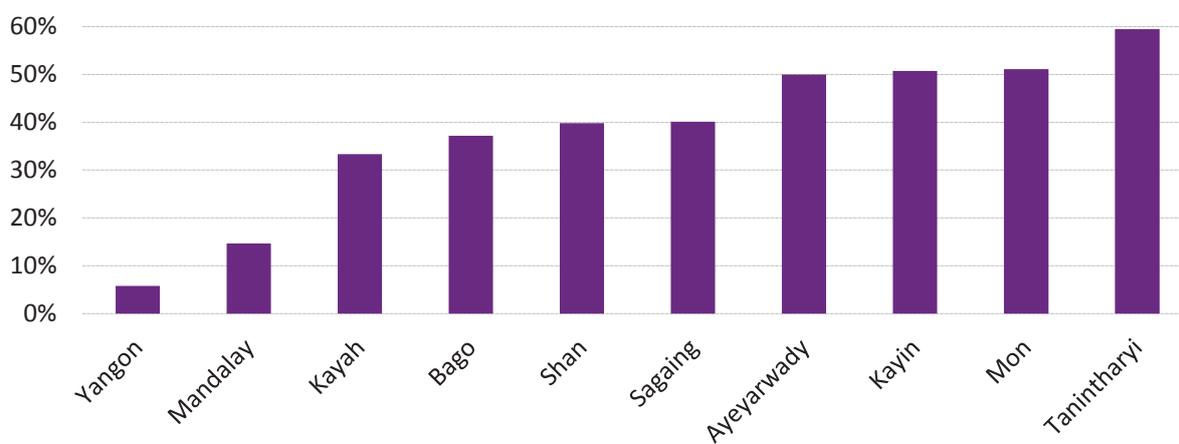


Figure 6: DOH per capita expenditure
By state/region, 2016-17 FY in million kyat

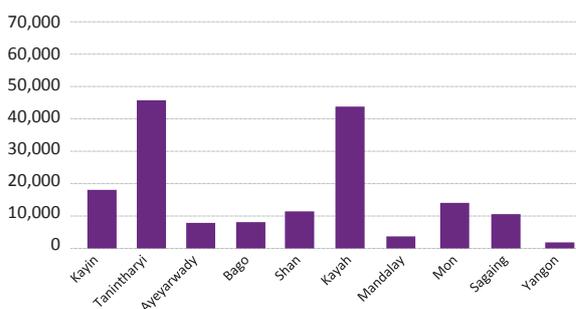
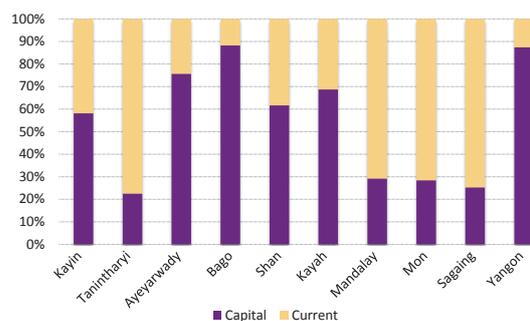


Figure 7: DOH capital vs. current expenditure
Share of total DOH expenditure, 2016-17 BE



Source: Ministry of Planning and Finance and RI/IGC staff estimates

³⁰ For example, variation between capital and current expenditure ratios illustrated shown in Figure 7 could be at least partly driven by ambiguity in accounting definitions. Sometimes the distinctions are inconsistently made based on project value or the nature of expenditure (Shotton et al., 2016, p.62). In other instances it was suggested that capital investments are purposely classified under current accounts, to avoid the legally mandated oversight of capital investments by Hluttaw members (Remark from Pyithu Hluttaw MP).

The institutional environment and impact on decision-making

The planning and budgeting process in DOH bears a similar resemblance to that of many other departments in Myanmar and is plagued with similar challenges. Budgeting combines bottom-up planning with a top-down approach to project selection.³¹ Budgets are only considered on an annual basis, and projects start when budgets are disbursed, without an accurate indication of total cost, and terminate when funds are exhausted, even if the project is incomplete. Unused project funds cannot be rolled over to following years. This hinders effective planning process for multi-year investment projects. It also means that some projects need to be halted at the end of the budget cycle and await further funding from future budget(s), which contributes to significant cost increases and delays.³² While there are long-term planning documents, there appears to be a weak connection overall between these strategic plans, and short-term prioritisation of projects (ADB, 2016, p.72).

Figure 8 illustrates the sub-national budgeting process in the roads sector. It focuses on the different government agencies involved, reporting flows, decision-making points, and the various consultations (both formal and informal). Formally, the bottom-up planning process for both investment and maintenance proposals follows the purple shaded area; lists of projects are aggregated at the township level, reviewed and sometimes expanded at the district level and then state/region level offices.³³ This includes plans for national roads as well as state and region roads. Projects are ranked according to first, second and third priority by different levels of DOH. First-projects are considered highest priority and are most likely to get funded. Upper-tier offices can re-rank (i.e. reprioritise) these lists. While input is seemingly generated across all levels, ultimately prioritisation and decision-making occurs at the upper layers of the decision-making process.

Once the state/region DOH compiles its budget proposals (which often include funding for state/region roads and some national roads) it is sent to the respective state and region budget department, which consolidates proposals from all line departments into a single combined budget proposal.³⁴ In the areas surveyed for this study, the state and region budget departments usually act as a coordinating body, ensuring the adherence with budgeting norms and checking for duplicate proposals. The combined budget proposal is then negotiated between sub-national ministers, department heads (of Union line ministries with expenditure listed in state/region budgets), and in some states/regions MPs or Hluttaw public account committees. The negotiated budget proposal is then submitted to the respective cabinet for review, with responsibility for final selection and approval of projects held by the Chief Minister

³¹ It is important to note that while there is an approximate budget ceiling for sub-national spending, there isn't a predetermined top-down budget ceiling for the roads sector, or for specific departments.

³² World Bank estimates that over two-thirds of large projects at Ministry of Agriculture and Ministry of Energy are currently stalled; see, Myanmar Public Expenditure Review (World Bank, 2017).

³³ Bottom-up planning often involves input from planning committees. In some states/regions such committees at a township level include officials from DOH, planning department, GAD and Hluttaw members. In practice, generated investment proposals have to fit in within the provisions of multi-year sectorial plans. Deviations from these plans require approvals by the planning department.

³⁴ The respective budget department evaluates budget proposals for current accounts from all departments and estimates how much is left for capital investments. There appears some variation across the country in how budget departments classify current and capital expenditure. In some states/regions the budget department trims or lobbies to amend certain proposals if they are judged to be excessi

– who holds the right to change priorities on the list.³⁵ The cabinet must seek approval from their respective state/region Hluttaw. Afterwards, the sub-national budget proposals are sent on to the Union level agencies for further reviews and approvals.³⁶

It is essential at this point to highlight two interrelated decisions that are made during the budgeting process and examine how the institutional environment – including informal processes and relationships – influences the actual range of choices available to local actors.

The first decision is the distribution of the budget pie across line departments and sectors. In principle, the process is driven by a combination of the available fiscal resources – the top down overall budget ceiling – which, in turn, is determined by locally raised revenues and fiscal transfers from the Union Government, and the policy priorities of the locally elected governments – the bottom-up planning process just described.

The second decision is the selection of specific projects. This should be framed by the budget constraint established in the first decision as well as a technical sound and transparent appraisal system (Miller and Mustapha, 2016). However, the dynamics of project selection are less formal and transparent. Interviews revealed that the actual decision-making process instead tends to hinge on little-understood negotiations between the key individuals within the state and region government and Union line ministries (green box in Figure 8).³⁷ Literature on Myanmar’s public finance highlights the reliance of sub-national governments on central executive and administrative structures, and local budgetary decisions are heavily informed by the Union-led planning process (Nixon et al., 2013, p.iv; Dickenson-Jones et al., 2016, p.7). While this is certainly true, this study confirms the observations of Shotton et al., (2016) that there is also a considerable degree of influence from local “VIPs” in the selection process. Respected Hluttaw MPs, the respective Chief Minister, cabinet members and department staff within Union line ministries submit their own proposals, provide feedback and lobby throughout the selection process. The projects submitted by these “VIPs” tend to be given the highest level of prioritisation.

The upshot is that the combination of weak budgeting processes and misalignments in local authority opens space for the politicisation of road project selection in Myanmar. The balance between influence of local governments and central administrative structures is a function of the bargaining power and status of different local actors. With decentralisation, political economy factors now play a role at the local level, and within the sub-national political architecture, thus adding to any politicisation that may have already occur (or have previously occurred) at higher levels.³⁸

The balance appears to vary across states/regions with some actors assuming narrower/wider decision autonomy with respect to prioritisation input and budgeting decisions. Field interviews suggest that in states with strong presence of non-government armed groups,

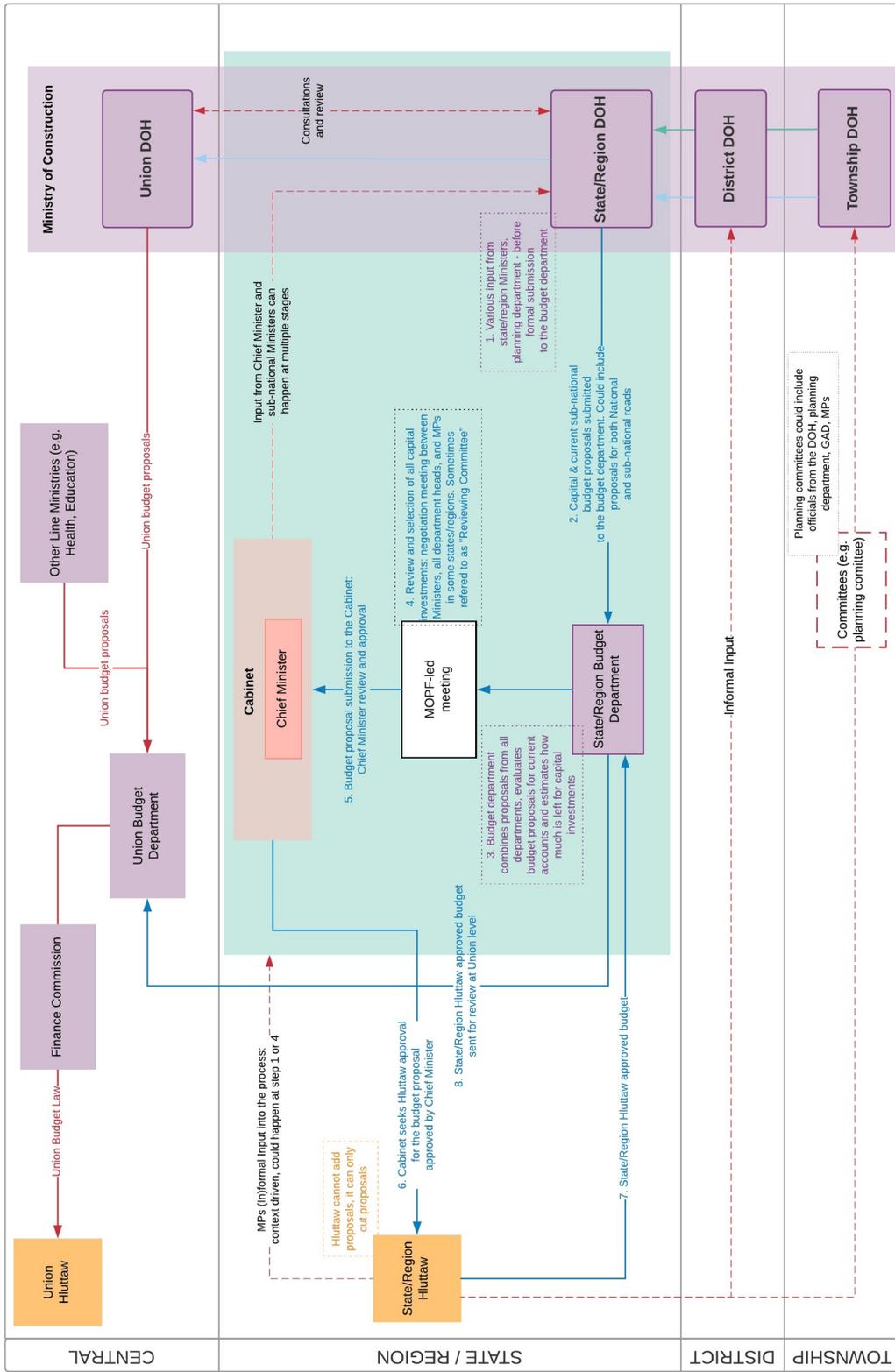
³⁵ According to interviews, Chief Ministers in Bago and Ayeyarwady rarely change final priorities.

³⁶ The Union Finance Commission must approve the sub-national budget proposals, after which the Union Government drafts the Union budget law (with annex of proposed fiscal transfers to finance sub-national budgets). The Law is to be approved by the Union Hluttaw, followed by state/region governments submitting their own budget laws for approval in their Hluttaws; see, Shotton et al. (2016).

³⁷ Figure 8 focuses on selection of projects, not the distribution of the budget pie. However, the latter may be influenced by the process of project selection and involve negotiations across the same actors.

³⁸ There is considerable uncertainty in how priorities were previously determined. It is likely, that decisions were also made through VIP and private lobbying.

Figure 8: Institutional map for sub-national budgeting

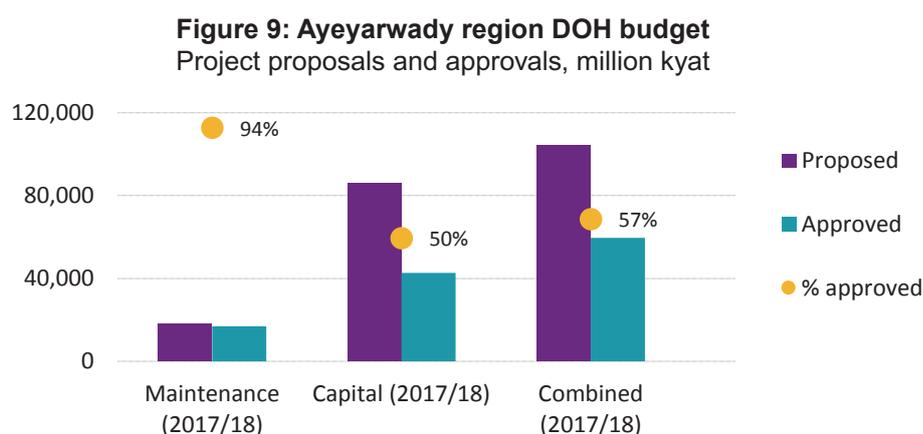


DOH - Department of Highways
 GAD - General Administration Department
 MOPF - Ministry of Planning and Finance
 MP - Members of Parliament (Hlutaw)

Chief Ministers tend to assume more influence and decision autonomy to manage the delicate balance between central and local non-state influence. In Mandalay Region, the Union Government has significant influence in putting forward its central priorities as the technical approval from MOC is required for Mandalay regional roads' proposals above 100 million kyats. However, local actors still exercise their limited powers to put forward their priorities. Interviews reveal that MPs have, on occasion, rejected all of the proposals submitted by GAD.

Whether good outcomes are achieved through local actors is debatable. The DOH staff who were interviewed suggested that local officers and MPs are better informed about local needs and can therefore make decisions to best suit the local context. Equally, in conflict-affected states like Kayin such politicisation allows for space to maintain a delicate status quo balance between state and non-state actors. On the flipside, decisions can be ad hoc, opaque and subjective. When project selection decisions are ceded to lower levels of government with fragmented authority (hence narrow local autonomy) and few resources, even wider space is potentially created for elite capture than if the decisions were made centrally. It is difficult to assess whether central or local governments would be more vulnerable to elite capture, as there are a number of factors pulling in different directions that are likely to differ across regions (Bardhan & Mookherjee, 2000).³⁹ Importantly, this risks unravelling the legitimacy of state and region governments and the newly developing social contract in Myanmar.

The lack of an objective appraisal process highlights a further weakness in the budgeting process – it is not effective at prioritising projects and reinforces process politicisation. Appraisal of projects does not take place at the earlier stages of the planning process; even with a reasonable expectation of the overall budget ceiling value, proposals are considerably higher than available resources and total budgets from the previous years. This leads to poor prioritisation (more than 80 percent of proposals observed in Ayeyarwaddy Region were marked as “first priority”) as well as drastic cut-backs later in the project selection process.⁴⁰ In Ayeyarwaddy Region only 50 percent of proposed capital investment plans were ultimately approved in 2017/18 (Figure 9). That such large rationalisations of project lists are made so late in the process, and without objective rules to influence selection, reinforces the influence of VIPs and political criteria in project selection.



Source: Ayeyarwaddy DOH; RI/IGC staff estimates. Includes expenditure on bridges

³⁹ Elite capture would likely depend on the extent of political competition; patterns of political awareness, participation, and literacy; and local poverty and inequality.

⁴⁰ Shotton et al. (2016) visually illustrate this point and conclude that the cutting process and selection of final projects are sometimes undertaken in a matter of days; field interviews revealed that in Ayeyarwaddy nearly half of the proposals had to be cut in a day.

Department of Rural Road Development – What happens next?

Before July 2017 responsibility for constructing most rural/village roads and bridges sat with the Roads and Bridges division of DRD in the Union-level Ministry of Agriculture, Livestock and Irrigation (MOALI) with funding recorded on the Union budget.⁴¹ Since then, responsibility has been shifted to the MOC, under a newly created Department of Rural Roads Development (DRRD).⁴² Around half of DRD's 1,100 strong workforce was expected to merge into the new DRRD. DRD's mission and strategy were articulated in the 2017 *National Strategy for Rural Roads and Access*, which targeted the connection of at least 80 percent of all registered villages in each state/region with an all-season road by 2030. It is expected that these objectives will remain in place following the move to MOC.

Integrating the departments responsible for both rural roads and trunk roads under the same ministerial umbrella indicates a significant policy shift towards a less fragmented roads sector in Myanmar. Also significant is that it followed a move towards decentralising financing of rural roads. Most recently, for the 2017-18 financial year, some expenditure for rural roads has shifted to sub-national budgets. To explore the context of resource allocation decisions of this policy shift, the rest of the section examines the planning and financing environment leading to the reorganisation of rural roads.

Project planning for rural roads

Despite its central administration, the former DRD's planning process and institutional arrangements were comparable to the more fiscally decentralised DOH. Shotton et al. (2016, p.54) observed that DRD promoted local consultations and sought proposals from lower administrative levels. Interviews for this study revealed that there is variation in the extent of this participation in bottom-up planning. Several DRD officials described a formal process driven by a 7-member committee at a township level, made up of 4 elected civilian Members of Parliament (*2 from Union Hluttaw and 2 from State/Region Hluttaw*), a representative of each of the township GAD, DRD and the planning department.⁴³ The committee met to generate a list of proposals for capital investments and prioritise them by assigning a numerical rank. Townships differed in their use of data throughout this process. Typically, members relied on contextual knowledge of their township and were not required to use criteria or data in generating and ranking proposals. Though in some cases, members of these planning committees used data in an attempt to constrain strong individual influence and political lobbying, particularly from MPs.⁴⁴ The final ranked lists of township-level proposals of road and bridges projects were eventually submitted to the state/region DRD office. At

⁴¹ Established in 2012, when DRD separated from the Ministry of Border Affairs (MOBA). Today, it is also responsible for delivery of rural infrastructure related to water supply, sanitation and electrification.

⁴² Initial DRRD estimate suggests it would move 484 engineers and 111 administrative positions. The total permitted recruitment capped at 3,000, with the expectation of some positions to be taken by current DOH staff.

⁴³ In practice, different townships involve different representatives in the process, with participation not limited to 7 committee members. The inclusion criterion into this proposal-generating committee appears to be informal and responsive to the local context.

⁴⁴ Data may include population of the area for proposed project(s), number of the beneficiary villages, houses and households, the length of the road, estimated cost, and types of products produced in the area. It is normally sourced from DRD and GAD. Type of data used appears to vary by township as well.

this point data on the number of affected people, villages, village tracts, households by each proposed project is added to the lists.

The rest of the planning process, on the surface, looks similar to what has been described for DOH. The State/Region DRD office then aggregated lists of ranked proposals from all its townships and sought approval of the Chief Minister – who was expected to coordinate and seek feedback from the cabinet (sometimes from individual MPs, not state/region Hluttaws).⁴⁵ With the inclusion of DRRD expenditure on sub-national budgets, it is expected that the respective state/region Hluttaws will now have to formally approve the rural roads proposals under their budget. With the agreement from the Chief Minister, the state/region DRD office submitted the final aggregated list of proposals to headquarters in Nay Pyi Taw – by December. Headquarters then informally notified the sub-national level offices of their estimated budget ceiling around January-February. This ceiling was always lower than the proposed value of project lists, meaning that a further round of cut-backs needed to be negotiated between the sub-national and Union offices. The Union office approved final list of projects based on the sub-national office's final recommendations after the ceiling announcement.

Finance for rural roads

Rural road spending information reveals that resources for rural roads are allocated across states and regions on an even basis based on their rural population, with some prioritisation of poorer locations (Figure 10A).⁴⁶ The bias toward equal per rural capita distribution has become more evident over time, with the difference between the highest and lowest states and regions in terms of per rural capita spending narrowing sharply, from 10 times in 2014/15 to 3.6 times in 2017/18.⁴⁷

The relatively equal distribution of rural road spending across rural population seems to also hold true at the township level. DRD budget data for 2016-17 show that across 279 townships 65 percent received between 1,000 and 5,000 kyat per rural resident, and another 21 percent received between 5,000 and 10,000 kyat (Figure 10B). DRD's staff acknowledged that while areas with larger rural populations may require larger investments, it does not imply a straightforward relationship with investment needs. It is understood that future Union funding will be distributed across states/regions to better reflect village access levels and investment needs.⁴⁸ Each township gets its projects approved in a ranked order to the extent that they fit within the township's budget ceilings. Partially funded projects may still be approved with the expectation of further funding the following financial year.

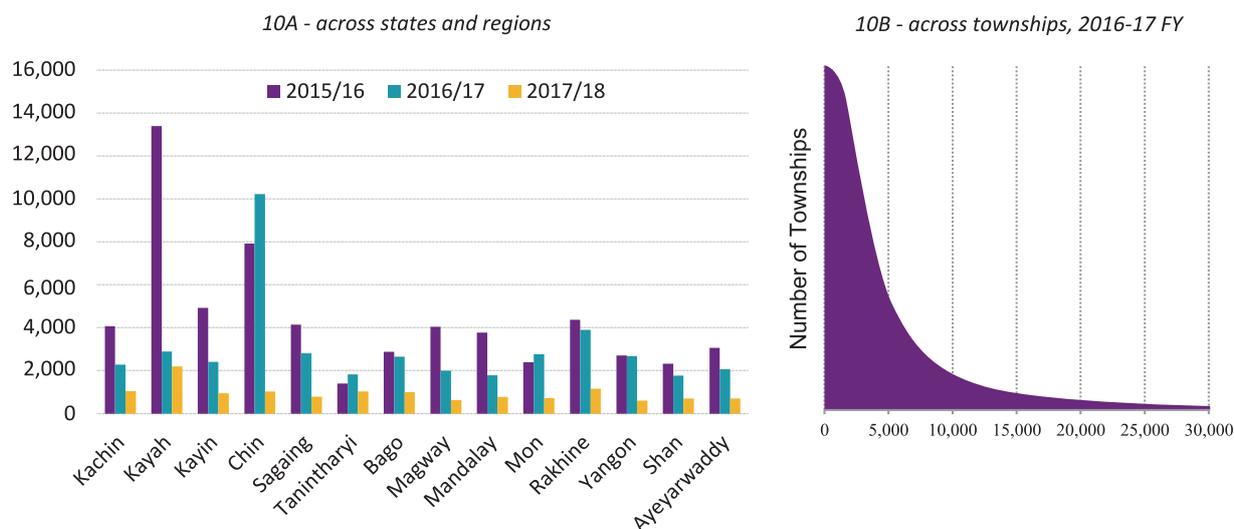
⁴⁵ The DRD office didn't make any changes or cuts to the proposed list of projects without approval of the state / region government – through the Chief Minister holding the right to make final changes. Field interviews in Ayeyarwady suggest that the Chief Minister has so far not exercised this right, trusting the contextual knowledge of the township committees and the appraisal process itself.

⁴⁶ Interview with DRD official (2017).

⁴⁷ The maximum per rural capita value was allocated to Kayah State, around 2400 kyat per rural capita. The minimum per rural capita expenditure was budgeted in Yangon at 670 kyat.

⁴⁸ This includes consideration to the number of unconnected villages and the distance between them.

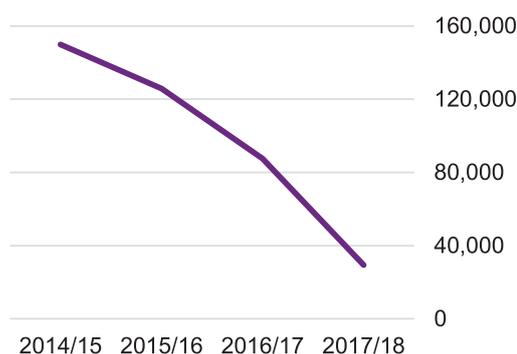
Figure 10: Department of Rural Development - rural road expenditure, kyat per rural capita



Source: DRD, 2017; RI/IGC staff estimates

Overall, however, rural road expenditure has been in sharp decline over the past four fiscal years (Figure 11). This figure does not reflect overall expenditure on rural roads, as it excludes projects undertaken under Ministry of Border Affairs and off-budget expenditure by donor-funded programmes (like the World Bank-funded National Community Driven Development Program). The sharp drop in DRD/DRRD road budget has been at least partly offset by such off-budget support.⁴⁹ NCDDP’s rural roads expenditure in 2016/17 was nearly half the size of DRD’s overall expenditure the same year, and is larger than DRD’s estimated expenditure for 2017/18. Donor support in rural roads appears to be large – relative to government investments – and it’s unclear what impact it has on downward government accountability and interactions between citizens and governments.

Figure 11: Department of Rural (Road) Development Total road expenditure, million kyat



Source: DRD, 2017; RI/IGC estimates

Fiscal decentralisation for rural roads – what happens next?

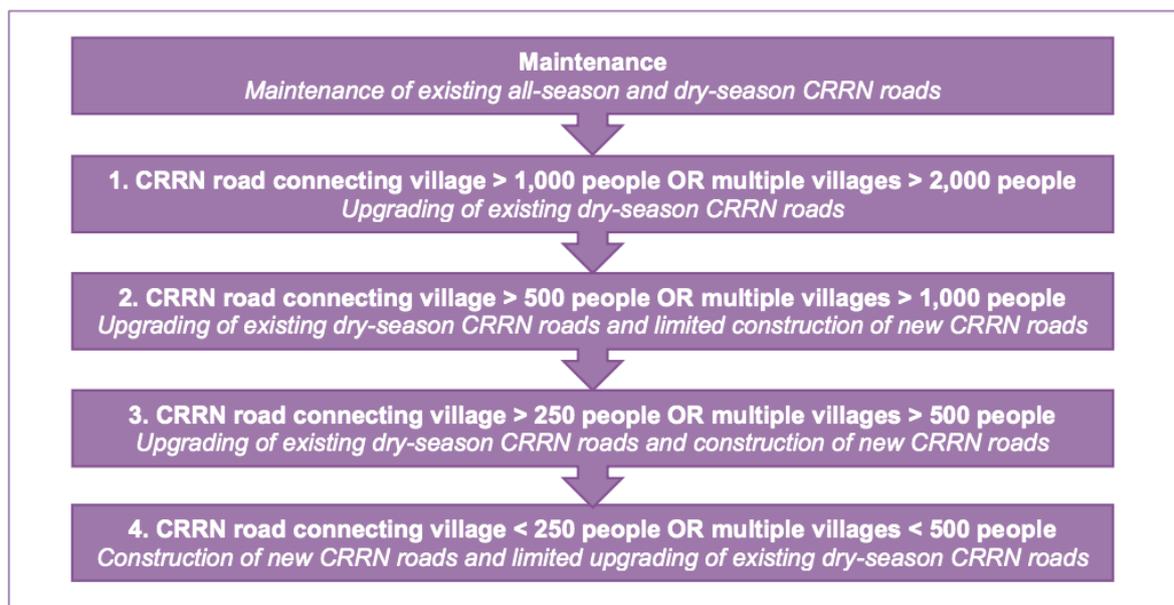
Overall, the 2017 National Strategy for Rural Roads and Access document lays out a well thought prioritisation strategy – arguably the most comprehensive in Myanmar (Figure 12). It provides a more comprehensive and structured approach to prioritisation and budgeting decisions. It also signals a shift in the prioritisation of spending. Whereas previously the priority was on new projects and construction⁵⁰, the updated strategy pivots toward maintenance, noting that “available funding will first be allocated to the maintenance of the existing CRRN roads, and

⁴⁹ In addition to government financing, rural roads are also partially financed by local beneficiaries. The contributions are both in the forms

⁵⁰ Interview with DRD official (August 2017).

remaining funding will be allocated to upgrading and new construction”.⁵¹ New construction of roads in villages with more than 1,000 people will be given the next highest priority (Figure 12). The 2017 strategy document estimates a US\$ 3.9 billion financing need between 2017 and 2030, with US\$ 2.1 billion to be financed by Union and state/region budgets.⁵² Cost for maintenance (and possibly upgrading roads) is estimated at US\$ 1.4 billion.

Figure 12: Prioritisation strategy for rural roads.



Source: National Strategy for Rural Roads and Access, Government of Myanmar, 2017

While it is too early to tell whether the reorganisation of rural roads will be a success, there are a number of potential issues that will need to be considered. It is unclear how this strategy will be implemented with funding split across Union and state/region budgets. Interviews for this study revealed that there is an explicit expectation that state and regions will increasingly pick up the tab for the maintenance and construction of new earth roads (and possibly upgrades to all roads).⁵³ In fact, sub-national governments have already started placing expenditure on rural roads in their budgets in 2017/18 FY (Figure 13).⁵⁴ These expenditure figures represent around 6.6, 5.3 and 4.4 percent of overall local budgets for Bago, Sagaing and Rakhine, respectively. There is currently no expectation that state and region governments will get additional transfers to fund rural roads expenditure, which means any additional expenditure will have to be accommodated within present budget ceilings – adding financial pressure to relatively small state and region budgets.

⁵¹ Core Rural Road Network (CRRN) is the minimum rural road network required to connect all registered villages to each other and to the higher-level road networks. See, National Strategy for Rural Roads and Access (2017)

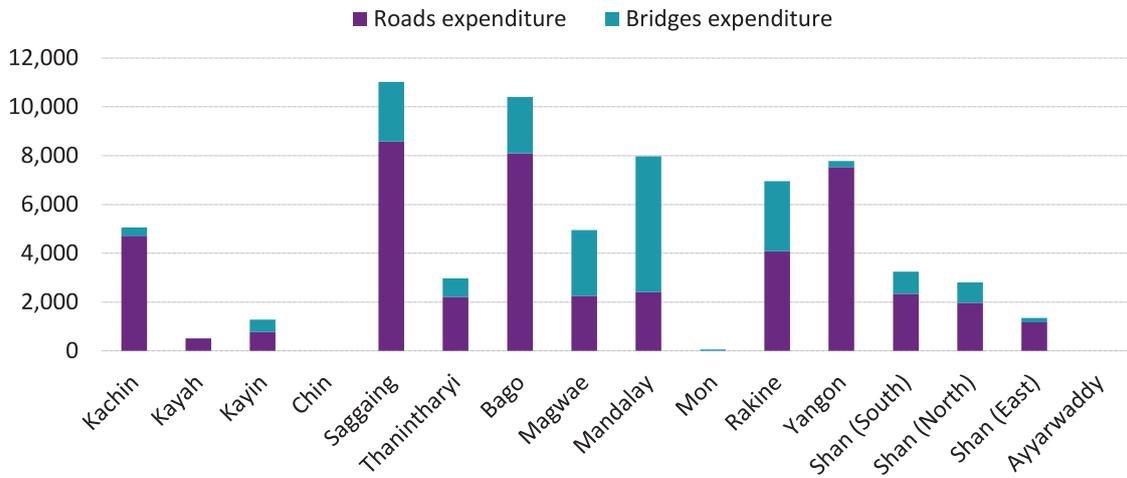
⁵² One official suggested a revised number for the total financing needs is closer to US\$ 5.3 billion.

⁵³ Earth roads are sometimes referred to by officials as donkey or mule roads.

⁵⁴ Data presented in Figure 13 represents a sum of initial budget estimates from early in the fiscal year and additional expenditure that was added during supplementary budgets in October. The actual rural roads expenditure financed by sub-national budgets may change at the end of the fiscal year. While only 7 states/regions budgeted rural expenditure under their budgets at the beginning of the fiscal year, 12 include at least some rural expenditure after revisions later in the fiscal year. At the time of publication, DRRD was not recorded as a separate department in sub-national budgets, rather rural road expenditure was recorded elsewhere (e.g. under the Cabinet Office).

Figure 13: DRRD sub-national expenditure

Rural roads and bridges expenditure under state/region budgets, million kyat 2017-18 FY



Source: DRRD, 2018; RI/IGC staff estimates according to revised budget estimates, actual expenditure may differ at the end of the fiscal year.

It is unclear whether state/region governments are willing or will be able to allocate more resources towards rural roads. Further, assuming sub-national governments shift expenditure to rural roads, it remains to be seen how the new prioritisation strategy will be implemented – more specifically, coordinated with local governments. If states/regions face larger financial pressure and don't have any more control over DRRD decisions than they did over the centralised DRD, it is unclear whether this change is an effort in greater decentralisation or simply a shift of workloads to the lower level offices. Paraphrasing Faguet (2012), if there is a lack of real decision space for rural roads within sub-national governments, then decentralisation may fail to enhance development, because it hasn't truly happened in the first place.

Chapter 5. Policy considerations

Building on the findings of this report and previous research, we propose the following five recommendations for the roads sector in Myanmar:

1. Pursue decentralisation of administrative functions – align decision-making powers over government functions

Administrative decentralisation has lagged behind reforms in the fiscal and political dimensions. More specifically, there is an imbalance between sub-national ministers and administrative structures (departments within the Union line ministries). We argue that this contributes to weakened sub-national autonomy, fragmentation and wider politicisation of the decision-making process. Insufficient local authority limits space for transparent political action, makes governments less likely to be able to respond to citizens' demands and citizens less likely to participate in the political process, thus weakening accountability. Specific steps to pursue decentralisation of administrative functions may include:

- i. Establish phased plans for separating DOH and/or DRRD responsibilities from Union MOC. Any function (over a road) that falls under state/region responsibility should have a state/region department separate from a Union ministry.
- ii. Explore opportunities allowed by Article 257 of the constitution – allowing formation of sub-national civil service organisations. This would serve as a complement to the earlier point, allowing sub-national departments flexibility in managing human resources. This not need be completely independent from Union objectives. Sub-national civil service organisations can enforce Union level civil service pay and quality standards – while providing sub-national governments with more authority to deliver on their mandates by offering a platform to build a civil service more responsive to local needs.

The Myanmar Sustainable Development Plan offers an action plan to “Explore administrative decentralisation in the transport sector, such as for the management of state, regional and rural road networks...”⁵⁵ The statement is important as it offers the first formal articulation of the central government's intended direction in pursuing decentralisation reforms; more specifically, providing local government with more autonomy. It also mirrors our first recommendation.

While these recommendations offer ways of moving forward, it is important to keep in mind that there are no optimal designs for distribution of power. Shifting authority downwards alters the power balance and any design may face trade-offs. In that regard, reforms should be managed carefully with consideration as to their political implications. However, caution should not justify inaction. As emphasised in this report, decentralisation is a process that responds to local factors and will likely yield different results in different parts of the country. The central point is not whether the country decentralises, but how it decentralises. As such, achieving the right balance of decentralisation will require experimentation. The central

⁵⁵ Myanmar Sustainable Development Plan is a government document which provides a list of actions plans identified as government's priorities. The publication of the completed Myanmar Sustainable Development Plan is forthcoming.

government should consider piloting new administrative models in a particular state or region before scaling up to more comprehensive reforms. Yangon and Mandalay may provide good candidates, with perceived higher levels of capacity and available resources. The following administrative models, as applied to the roads sector, could be considered for experimentation:

- i. Model 1: The central government is in charge of roads of national significance and sub-national governments are responsible for region/state and rural roads. DOH manages national roads on behalf of MOC and thus is accountable to MOC. At the sub-national level, local road management offices are established under a local Ministry (e.g. of Transport) for all functions over management of region/state and rural roads. This model addresses the unclear assignment of responsibilities between different levels of government.
- ii. Model 2: Under this model, DOH and DRRD would be placed under the management of state and region governments, outside of the Union structure of the MOC. These departments manage all sub-national roads (i.e. region/state, and rural roads) within their respective states and regions as well as national roads on behalf of the Union Government. Prioritisation, planning and funding for national roads would stay with the central government, with projects now implemented by sub-national departments.

The models are presented as examples and not an exhaustive list of options. Both would require additional considerations with regards to financing arrangements; both have costs and benefits, which are beyond the scope of this report and may require further research should this reform be pursued. Ideally, any administrative (as well as fiscal) division of responsibilities would follow a formal assessment and assignment of functions between levels of government. However, in practice there are few successful examples of clear systematic functional reviews and assignments, especially in countries comparable to Myanmar. Although formation of locally accountable administration at this stage is likely to create tensions, it may be necessary to kick start the clarification of functional assignments between levels of government. In the absence of strong central authority to coordinate functional review, clarification-by-doing may be a more practical path forward.

2. Introduce appraisal tools and data requirements

A weak appraisal process also contributes to opaque decision-making by leaving a large list of project proposals and associated cut-backs for late in the project selection process. Although the Union Government has been developing capacity to appraise large investment projects through the Project Appraisal and Progress Reporting Department (PAPRD), appraisal practices are underutilised in informing investment decision-making at lower levels of government. Currently, there is no obvious institutional entity equipped to carry out economic analyses of investment projects at the sub-national level. As a result, road investment decisions are based on more political, rather than objective and technical, considerations. In the absence of data we cannot say, with confidence, whether the current process leads to inefficient allocation of scarce public resources. Political process and lobbying by elected officials are likely to persist, and are a fact of life in many democracies. However, a more transparent and evidence-based process would help avoid white elephant projects and elite capture, offer a platform to evaluate investment efficiencies, and help build accountability. Thus, a more systematic use

of project appraisal tools would help improve on the current process. The following could be considered: ⁵⁶

- i. Projects should be ranked based on criteria that are well defined, clear, and objective. For example, criteria like “development need” are vague and offer weak guidance.
- ii. Introduce a simple cost-benefit analysis requirement to project selection phase of the process. This could be led by an agency like PAPRD, to develop a consistent framework to be used across states/regions. This is an area with a large body of international experience, including within international organisations presently providing aid to Myanmar. Consideration should be given as to which government agency, and at what level, would be best placed to implement such analysis – DOH, DRRD, planning and budget departments. Without further administrative decentralisation, considerations could be given to setting up sub-national policy and planning units, to carry technical project appraisals, possibly embedded within the cabinet or Chief Minister’s office. The cost-benefit analysis wouldn’t necessarily take the decision power away from elected officials. It’s likely that more projects would still be eligible for funding than what could be funded. Rather, it would provide a degree of transparency to ranking of proposals, and help avoid inefficient projects proposed by VIPs.
- iii. Introduce data requirements to submission of project proposals. In the absence of evaluation of costs and benefits, there is still scope to improve the process by institutionalising use of data at various stages of the process. For example, the state/region budget department (or planning department, township level DOH/DRRD) may require for data to be submitted along with the project proposal. Data could include the number of highways, schools, hospitals or commercial areas the proposed road would connect to. Failure to provide certain data would yield the proposal ineligible for funding. This has several potential benefits in near term. First, it could reduce the number of total eligible proposals, easing the burden on later stages of project selection. Second, this would provide a reference point for what kind of data is currently available and what data collection efforts need investment; feeding into the design of appraisal tools and allowing for better-informed policy.

3. Formalise financial arrangements for national roads

The ownership, management, and funding responsibilities for national roads lie with the central government; however, state and region governments co-finance national roads without a predefined arrangement between the central and state/region governments. This ad-hoc practice blurs estimation of expenditure needs at each level of government and can lead to avoidance of managerial or political accountability. It can neither ensure that resources are allocated efficiently nor meet the national government’s interests. It is therefore important to formalise sub-national financing of projects on national roads. Two cost-sharing arrangements could be considered:

- i. Pre-defined cost-sharing arrangement: The Union Government could finance the costs

⁵⁶ This does not offer an exhaustive list of technical inputs in the investment planning process. More generally, It could include: (i) a detailed technical design study (ii) a financial profitability assessment; (iii) an evaluation of economic costs and benefits, and (iv) an environmental and social compatibility review (e.g., impact analysis and mitigation measures).

of maintenance on national roads, whereas sub-national government budgets could fund the maintenance of sub-national roads. The investment costs for national roads would be shared between the Union Government and sub-national governments at a pre-defined rate. For example, the federal government in the United States funds 80 percent of national roads. Alternatively, maintenance could also be co-financed at a set rate.

- ii. Formula-based arrangement: The Union Government may provide funding to state/region budgets for maintenance works and investment into national roads based on simple indicators, like road length, population, mountain areas.

4. Earmark revenue for rural roads

As suggested in the report, responsibility for funding works on rural roads is now being shifted to state and region governments, without, it appears, an accompanied increase in intergovernmental transfers or own-revenue sources. Considerations should be given to sub-national revenue generation capacity – potentially expanding revenue responsibilities in tandem with the increase of expenditure responsibilities. In other words, state and region governments should have adequate resources to fund their expenditure. The following could be considered:

- i. Introduce additional fees: Asian Development Bank (2016) suggested introducing a fuel tax of around \$0.10 per litre, and a heavy vehicle license fee, with a supposed revenue boost of \$400 million.
- ii. Conditional grants: Currently, the Union Government transfers unconditional grants to state/region governments – these make most of sub-national revenue. This grant could be expanded to account for additional expenditure responsibility for rural roads. Alternatively, a separate conditional (roads sector earmarked) grant could be introduced to fund rural road construction works and/or maintenance.
- iii. Earmarked funds: The Schedule 5 of the constitution assigns collection of registration fees and taxes on vehicle and road transport to states and regions. However, it does not appear that sub-national governments make use of the provision. Instead the Union Government collects revenue for items like car registration fees and duties on vehicles. Road user charges, like receipts from vehicle registration taxes, collected by the Road Transport Administration Department (under Ministry of Transport and Communication) and road rolls (which are channelled to DOH) could be kept at sub-national level and earmarked to finance road maintenance and investment works. In the absence of local administration, these taxes/fees could be collected centrally but earmarked for state and region governments.⁵⁷

⁵⁷ When considering earmarked financing, road user charges should be linked to the roads sector expenses, providing accountability and linking usage related costs to usage related revenue.

5. Strengthening accountability systems

A key theme of this report has been that accountability is an essential component of successful decentralisation reforms. While it focuses on government decision-making, citizen engagement is an important piece of the puzzle. A growing body of evidence suggests that the manner in which citizens are provided information and the opportunities to participate in the delivery of public services, influences the impact of citizen engagement on the quality of local governance (Olken, 2007; Duflo et al. 2014; Blimpo 2015). There are a number of ways sub-national governments could bring citizens closer to this process:

- i. Improve citizens' access to information. For instance, a publication of easily understood project completion information, highlighting what projects were selected and implemented. Multiple state and region governments have, for the first time, published citizen's budget during the 2017/18 financial year. A citizen friendly breakdown of road projects could be communicated separately, or published within the sub-national citizen's budgets.
- ii. Pursue citizen engagement through use of technology. First, a third party monitoring of construction activity – such as through engaging local monitors to take photographs/ videos of critical construction steps and materials – could be introduced for a pilot. This would help shift the auditing focus away from measuring financial compliance and toward measuring quality and project effectiveness. Second, a citizen outreach/ feedback models could be tested in selected states/regions.⁵⁸ This could help governments reach out to citizens, build demand for participation and provide elected government officials with citizen feedback through the investment cycle.

⁵⁸ For citizen feedback models see, Masud (2015); Citizen Feedback Monitoring Program (CFMP) implemented in Pakistan.

Chapter 6. Conclusion

This report presents a summary of recently implemented decentralisation reforms in Myanmar and how these changes have affected sub-national budgeting and decision-making in the roads sector. It demonstrates that decentralisation reforms are complex, impacting numerous interconnected and overlapping government functions and many stakeholders. As such, the decision to decentralise must represent a commitment to a difficult process of political and institutional change.

It suggests that improving local government accountability is an essential component of successful decentralisation reforms. In addition, it highlights the importance of local autonomy in building accountability and thus, capturing the benefits associated with decentralisation reforms. In Myanmar, misalignment of sub-national functional authority weakens local autonomy and contributes to a fragmented, opaque and politicised decision-making process. With the inclusion of MPs and a locally elected government, this process is likely more reflective of local needs relative to the previously more centralised and, arguably even more, opaque and subjective decision-making process. However, without sufficient local autonomy and transparency in the budgeting process, continued politicisation is more vulnerable to elite capture and risks damaging the emergence of local democratic accountability. The benefits of decentralisation are more likely to be lost without institutional safeguards against such capture – that is without accompanied accountability mechanisms such as transparency of budgeting procedures, public provision of information, oversight by citizens and the media (Mookherjee, 2015).

In contexts with weak traditions of citizen participation, decentralisation can be an important first step in creating regular, predictable opportunities for citizen-state interaction – but only if reforms enhance downward accountability and help create local demand for more participatory channels to voice local needs.

The roads sector has been at the forefront of decentralisation reforms in Myanmar, providing a live laboratory with important lessons to decentralisation in Myanmar more broadly. In interpreting the findings of this report, it is important to keep in mind that decentralisation is ultimately a political decision. Though often presented in the realm of technical solutions and efficiencies, it is necessarily fused with politics. As the writing of this report was nearing completion the Government of Myanmar has circulated a draft of its Myanmar Sustainable Development Plan, which provides a list of actions plans identified as government's priorities. A number of our recommendations are reflected in the document, and aim to provide direction for further policy dialogue and technical research.

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