

DEEPENING DEMOCRACY IN MYANMAR

What role for public financial management in deepening social accountability and promoting legitimate governance?



Women discuss how to increase their own roles in community decision making and local planning for disaster response; part of an Oxfam and partner programme on disaster risk reduction in Myanmar's Ayeyarwaddy Delta. Photo: Kaung Htet/Oxfam

This discussion paper outlines some of the challenges and opportunities for public financial management (PFM) reform in contributing to deeper social accountability and legitimate governance in the context of Myanmar's wider decentralization and peace process. The paper poses a set of key questions for development actors to consider as they seek to support inclusive reform in Myanmar.

Oxfam Discussion Papers

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SUMMARY

A country's budget is perhaps the most powerful tool a government has to implement its policies and advance the rights of its population. It can also be an important vehicle for holding a government to account. Together, these help to lay the foundations for a social contract built on an active, informed public and an effective state – the cornerstone of a democracy.

In Myanmar, which is transitioning away from decades of centralized political control towards a range of reforms, including an ambitious decentralization agenda, a public financial management (PFM) reform programme offers unprecedented opportunities to engage the public in planning and decision making on public finance issues which affect their lives every day, and move Myanmar a step closer to embedding the fabric of democracy in government.

A good PFM system can enable a government to be transparent and accountable in its decisions, tackle corruption and deliver key services to the public more effectively and efficiently. This is why PFM reform represents an important mechanism both for reducing poverty and inequality and for deepening social accountability.

But the current PFM reform agenda in Myanmar may be undermining its own objectives by prioritizing technical reform at the Union level of government, and paying insufficient attention to the demand side of the management of public finances – ensuring the public understand and are able to hold the government to account on resource allocation. This creates risk because as suggested by international experience, supporting PFM reform from the top down (through the finance ministry) either fails, or delivers very slowly.

This is not the only risk. The PFM agenda is intertwined with Myanmar's protracted ethnic conflicts, national peace process and contests over the legitimacy of different governance actors and structures, particularly where armed groups have developed complex local administrative decisions and provide public services in the areas they control. If efforts to support PFM do not consider these dynamics, they will, at best miss opportunities to support long term peace in Myanmar and, at worst, complicate or undermine that political dialogue. For development partners, greater public accountability and the improved ability of civil society to influence development decisions will also mean aid investments are better spent, maximizing the impact of donor investments.

Given the need to ensure PFM reforms promote greater social accountability and the challenges around legitimate governance in contested areas, Oxfam believes there may be three challenges for the current approach:

1. **Too much of the reform programme focuses on the Union level**, without sufficient strategies for building the capacity of officials at the state/regional level and below, or without considering whether or how similar capacity development should be supported with officials from ethnic armed group (EAG) administrations.
2. There is **too little investment in the demand side**, including raising awareness among the public of the budget process and building the capacity of civil society organizations (CSOs) to stimulate demand for fiscal information and greater budget transparency – and ensuring this demand-side work supports civil society from contested areas to participate in discussions around Myanmar's PFM system. This must involve ensuring that women and marginalized groups are increasingly participating in these processes.
3. More thought needs to be given to **how PFM reforms may affect future governance arrangements in contested areas**, including whether the very process of discussing PFM reforms with EAGs and civil society from contested areas might be part of negotiating the political pact around governance that will be needed for long-term peace in Myanmar.

On the other hand, there are also opportunities for using PFM to deepen social accountability including:

- the decentralization agenda – **if** there is reinvigorated political will to take it forward from the highest political level, clearer guidance and policies on the management of sub-national budgets, and a capacity development programme to equip local governance actors to respond to people's needs;
- an increasingly active Parliament;
- growing awareness of the importance of and access to information;
- efforts to turn key national policy commitments such as the government's promise to put a credible, responsive and transparent planning and budget process at the heart of political reform and 'people-centred' development;
- the opening up of policy space for CSOs;
- a burgeoning free media.

These phenomena will only become opportunities for PFM to deepen social accountability if the reform programme is able to refocus and begin addressing the key challenges it currently faces.

Given the potential for PFM reforms that are focused only on technical support at the Union level to, on the one hand, miss opportunities to deepen social accountability and, on the other, risk undermining gains made in the wider political/peace process, Oxfam believes there are a number of questions development actors involved in and supporting such reforms need to consider. There are no simple answers to these questions, so this paper should be viewed as a contribution to ongoing discussions around PFM reforms, social accountability and the role of governance in Myanmar's many conflicts.

In lieu of recommendations, a selection of key questions (listed in the final section of this paper) will be addressed at a forthcoming roundtable discussion on this subject and taken forward for reflection with key policy makers and development partners.

1 INTRODUCTION

At the heart of a democratic relationship between the people and their state lies an accountable system of public spending. A country's budget is perhaps the most powerful tool a government has to implement its policies and advance the rights of its population, yet many countries' annual budget process remains a closed-door technical affair, swathed in mystery.

Myanmar is transitioning away from many decades of overtly authoritarian political control and its reform process is leading to increasing economic openness and opportunities for investors. However, despite a range of political reforms – including an ambitious decentralization agenda – democratic space remains limited, decision making highly centralized and the general public disconnected from both the budget process and local development planning.

Even in the event of a Nationwide Ceasefire Agreement being signed, the deeper roots of conflict in the country's ethnic areas will remain. These root causes are complex and multifaceted, but most if not all include contestation over the legitimacy of governance: who has the right to govern certain populations and in what way?

Part of Myanmar's national reform process includes a programme of reform on 'public financial management' – the core architecture through which a national budget is developed, agreed, implemented and scrutinized. Oxfam believes such reform programmes present opportunities not only to improve the technical efficiency of the state but also to decentralize budgetary decision making, increase accountability and transparency of resource allocation, engage the public in budget planning and monitoring, and – by supporting people to hold the government to account – help lay the foundations for a social contract built on an active public and an effective, accountable state. Through these processes, an effective PFM process can deepen social accountability and improve the demand side of the people-state contract, at the same time as improving the supply side – the state's technical efficiency. Both of these components are critical for embedding democratic accountability. Historically, PFM has often overlooked the demand side of the bargain, instead focusing its energies on the technical reform agenda. But an effective budget is more than a technically sound process: good national budgeting is also about how people outside of government understand budget decisions and hold government to account for them. This paper finds that in Myanmar, this aspect of PFM is being neglected, with a detrimental impact on social accountability.

Moreover, in Myanmar the reform process is complicated by decades-old ethnic conflicts and contests over the legitimacy of multiple governance actors. Many EAGs or their political organizations operate systems with varying degrees of comprehensiveness, social service provision and governance in areas they control, and these often enjoy full legitimacy among the local population. As Myanmar's peace process progresses from negotiating a ceasefire to deeper political dialogue, the issue of whether and how these different systems of governance can continue to coexist and interact will become critical. If efforts to support PFM do not consider these dynamics or attempt to build in flexibility to take evolving scenarios into account, they will, at best, miss opportunities to support long term peace in Myanmar and, at worst, complicate or undermine that political dialogue.

This paper seeks to better understand these interlinked dynamics through examining the connections between these issues and asking what those connections may mean for stakeholders seeking to support PFM reform. In particular, the paper examines the role of PFM in deepening social accountability and strengthening the social contract between the people and the state, and poses questions about how this would work in Myanmar – both in the context of the country's ambitious reform programme and in the reality of its many conflicts. There are no simple answers to the questions asked in this paper. As such, it is offered as a contribution to

ongoing discussions around PFM reforms, social accountability and the role of governance in Myanmar's conflicts.

This paper is grounded in the experiences of Oxfam and partners in promoting social accountability across many countries where Oxfam works, and in Myanmar's Ayeyarwaddy region, as well as our ongoing efforts to take a conflict-sensitive approach to all our work in Myanmar. It was not within the scope of this paper to carry out significant comparative research with PFM in other conflict settings; however, the experience of Nepal's PFM programme and social accountability work have informed the analysis and arguments set out here.

The paper begins with a short discussion of the relationship of PFM to social accountability and legitimate governance in Myanmar. Section 3 looks in detail at the management of public finances in Myanmar and the current PFM reform agenda. Section 4 looks at a number of challenges and opportunities for PFM in relation to deepening social accountability and promoting legitimate governance.

Finally, this paper does not offer specific recommendations but instead poses questions which Oxfam believes should be asked by the actors who are involved and supporting PFM reform. A small roundtable of Myanmar civil society and international experts will be held to discuss some of these questions, and a summary of that discussion uploaded as an addendum to the online version of this paper.

2 WHAT IS THE RELEVANCE OF PFM REFORM FOR SOCIAL ACCOUNTABILITY AND LEGITIMATE GOVERNANCE?

PFM is defined by the Chartered Institute of Public Finance and Accountability as ‘the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals’.¹ In sum, PFM relates to the way governments manage public resources and the immediate and medium-to-long-term impact of such resources on the country’s economy or society.²

The practice of PFM is central to how a government operates – how it is accountable for its promises; how it receives, processes and budgets its finances; and how it is able to finance and subsequently deliver key public services. All of this is foundational to the social contract between the people and the state.

In principle, a good PFM system should enable a government to be transparent and accountable over its decisions, tackle corruption and deliver key services more effectively and efficiently. This is why PFM reforms represent an important mechanism both for reducing poverty and inequality, and for deepening social accountability.

Many developing countries, supported by donor governments and international financial institutions (IFIs), have embarked on PFM reform processes. External support for PFM reform has grown ten-fold over the past two decades, from around \$50m in 1995 to approximately \$500bn in the late 2000s.³ This increase has been driven by the desire to embed development reforms in country government systems. Strengthening the core systems of financial management in government reduces corruption by reinforcing financial control, and enables effective implementation of poverty-reduction strategies.

PFM experts acknowledge that technical reforms do not take place in a political vacuum and are in fact deeply political because they are linked to the allocation and management of public resources. However, too often, PFM reforms focus largely on the technical ‘supply side’ without a strong understanding of the political realities that drive budgets and decisions on spending.⁴

The purpose of reforms should be to help position ‘good practice’ within a local context so that PFM institutions can respond to locally-defined issues and match local capacity and political realities.⁵ A ‘lack of political will’ is frequently identified as a reason for failure in implementing PFM reforms, but in many cases failure is due to a range of additional factors. In Myanmar, reforms will be complicated by the contestation over governance in many ethnic areas.⁶

Those working on PFM in Myanmar should be keenly aware that reforms risk being unsuccessful if they fail to address problems of weak institutions, social exclusion and poor governance, as well as the politics of power between different ministries.⁷ Perhaps even more crucially, in Myanmar’s ethnic regions they are likely to have an impact on the legitimacy of different governance structures, and on the actors supporting the reforms.

WHY IS PFM IMPORTANT FOR SOCIAL ACCOUNTABILITY?

A country's budget is the most powerful tool a government has to implement its policies and meet the needs of its population. It is through the PFM system that national policies are transformed into actions and services, and budgets are a critical link for the public to participate in the democratic process of national development.

The purpose of public engagement in the budget process is to improve the effectiveness of budget allocation. Budgets which have involved public input should better reflect peoples' needs, and enable those who are less likely to have a voice in formal decision making processes to share their priorities for budget allocation.

A good PFM system can improve delivery of vital essential services such as health and education, and it can also deepen social accountability. Increasingly effective and accountable provision of services can set in motion a process of exchange between government and the public that leads to increased participation and transparency.⁸

Good delivery of public services is one manifestation of state responsiveness to the people, but a functioning PFM system can also make government more accountable to Parliament, the national audit office and the public by allowing for checks on how public resources are being used and by helping the public track the government's promises. This takes PFM out of the narrow confines of technical management.⁹

Strengthened PFM systems can only support this 'virtuous circle' if they actively improve the transparency of, and access to, basic information on public resource expenditure, so that people can hold their government to account for the use of public funds. Strengthened PFM alongside decentralization/deconcentration measures can also bring the budget closer to the people, by allowing the public to see their full government budget as well as resource allocation at local government levels, which more directly impacts them. Attention should also be paid to ensuring that all strata of society are included in efforts to bring the budget to the people.

But information alone is not enough. To really deliver on social accountability, PFM needs to promote systems that can take into account people's voices on financial planning and resource allocation, and that can inform the public on decisions made.¹⁰

By engaging the public in the budget process, people, and in particular women and marginalized groups, have an opportunity to play a role in decision making on public spending that affects their daily lives. Where the state, officials and power holders are responsive, a 'feedback loop' between state and public can build trust and legitimacy between the people and their government. The annexe to this paper outlines four key ways in which the public can engage with the formal budget process and the links between six key planks of many PFM interventions and social accountability (see page 22).

Efforts to foster social accountability are increasingly recognized as central to making development effective,¹¹ but despite the clear linkages, development partners have tended to focus PFM programmes more on improving the machinery of government and strengthening PFM within the executive branch than on investments in developing social accountability and inclusion measures that will ensure PFM reforms really benefit those living in poverty.^{12 13}

The challenge of legitimate governance in Myanmar

There are many complicated and interlocking causes of Myanmar's many conflicts in ethnic regions, but contests over the right to govern are at the heart of most of them.

Following independence from British colonial rule in 1948, the primary political question was how the newly created 'Union' of Burma would integrate and govern the various different ethnic

groups it comprised. Key to many ethnic leaders' vision was, at first, total independence, which later evolved into the desire to retain considerable autonomy over territory/administration. However, the broad trajectory of political history following independence was one of increasing centralization and control from what is seen in many ethnic areas as a Burmese-dominated central state.¹⁴ Consequently, many people in non-Burmese ethnic areas see the desire for self-determination and increased self-governance as a major grievance that drives conflict.¹⁵ Conversely, for decades the central government saw the need for strong control from the centre as the key to keeping Myanmar from fragmenting.

In modern Myanmar, government functions are largely centralized. This extends to state/regional level government and below, where many important functions are coordinated by or made possible through the General Administration Department of the Union-level Ministry of Home Affairs – one of three ministries run by military-appointed ministers.¹⁶ At the same time, and parallel to the government, there is a complex political geography of armed actors, including both EAGs and militias aligned to the government, many of which make claims to govern and provide services in the areas they control, and who often enjoy greater legitimacy than what is perceived by some in those areas as an extension of military-dominated central government rule.¹⁷

This situation poses a challenge for PFM reform in Myanmar. Ensuring that PFM reforms include measures to improve social accountability is essential for ensuring they effectively meet the needs of marginalized people and build trust and legitimacy between the people and the state. But when the legitimacy of different governance actors is a point of tension, such reforms will not be 'politically neutral'.

The issue of who has legitimacy to govern in ethnic areas is highlighted in an interview with a Kachin Independence Organization (KIO) supporter, cited in a recent conflict analysis of Kachin state. The supporter was explaining the KIO's own attempts to improve its legitimacy through increased public consultation: 'Right now, we can see that the KIO had become more and more transparent and accountable to their people. But we cannot see such a change in the Tatmadaw [Myanmar Armed Forces] and government's attitude. The KIO became more transparent in its activities, policies and other aspects'.¹⁸

PFM reform has great potential to help improve transparency and stimulate public engagement in governance processes. But there is a risk that PFM initiatives – even those trying to promote social accountability – which overlook the multiplicity of claims to legitimate governance in contested areas may be seen by some groups as an attempt to consolidate the claims of the central government. This could undermine the political dialogue needed to advance the peace process, and jeopardize the effectiveness of PFM (see Box 1 on the Do No Harm framework for aid interventions for one perspective on understanding the linkages between development interventions and their interaction with how people experience conflict).

Beyond improving the efficiency and effectiveness of government spending and promoting greater social accountability, the question for PFM reform in Myanmar is what role it has in contributing to what the Asia Foundation has described as '... a political solution that not only involves adequate power sharing to reduce contestation but that also brings about official government structures that reflect the power relations and existing systems of authority in contested non-Burmese areas'.¹⁹

Box 1: The Do No Harm framework

The Do No Harm framework has been developed by the Collaborative for Development Action (CDA) on the basis of over twenty years of examining the interaction of aid with conflict contexts and is a key tool for assisting development actors and the programmes they support to take a conflict-sensitive approach. The framework outlines several causal mechanisms through which aid can inadvertently affect conflict dynamics, including the 'legitimization effect', whereby the use of aid impacts the legitimacy of different actors in a conflict context. Clearly, improving the legitimacy of governance actors by supporting a more transparent and responsive fiscal relationship between the people and the state should be a key aim of PFM reforms, but care will have to be taken to consider unintentional impacts in areas where legitimacy of governance and notions of what 'the state' is are contested.

3 PUBLIC FINANCIAL MANAGEMENT IN MYANMAR AND ITS MODERNIZATION

In 2011, the Government of Myanmar, under new presidential control, ushered in a wave of reforms which have begun to change the country's political, economic and social landscape. These have ranged from the removal of some limitations on certain freedoms through significant budgetary increases for essential services such as health and education, to important initiatives on decentralization, to a stated commitment to achieving a peace agreement.

In 2012, the Government of Myanmar published its Union Budget Law²⁰ for the first time. This coincided with the public airing of budget debates on national television, which led to increased transparency and public discussion of the budget. Prior to 2011, there had been no parliamentary scrutiny of the budget, but the scale-up of Parliamentary activity, the creation of a Public Accounts Committee (PAC) and the National Planning and Finance Committee has started to provide budgetary oversight.²¹ The Planning and Finance Committees have been instrumental in having the approved budget law published in the local press, yet they still lack specialized staff for independent analysis of budget proposals and the national development plan, relying instead on government ministries for policy analysis.²² Similarly, the Office of the Auditor General (OAG) – a semi-independent body – is already having a positive impact on the management of public finances in Myanmar, while recognizing the need to strengthen its capabilities by adopting the International Standards for Supreme Audit Institutions.²³

Despite these considerable improvements in Myanmar's PFM, significant challenges remain and, as reflected in the country's Open Budget Index (OBI) score of zero in 2012, budget transparency is still very limited.²⁴

Parliament, the private sector, civil society and the public have very little information on the budget, and where information is being published; it is usually not presented in an accessible format. A major concern is that about 30 percent of expenditures are categorized as 'Other Accounts' and are allocated outside of the formal budgetary process.²⁵ This undermines strategic resource allocation through the budget and weakens external oversight. Such opacity makes it difficult for the public – even budget-focused CSOs – to hold the government accountable for its management of public money. A revised classification system in line with international standards is planned under the PFM reform programme, which would contribute significantly to a better understanding of how the budget is spent.

The implementation of commitments made under the Extractive Industries Transparency Initiative (EITI) also has the potential to improve Myanmar's transparency in natural resource governance – though from a very weak base: Myanmar was ranked the lowest out of 58 countries in the Revenue Watch Institute's Resource Governance Index 2013.²⁶

MYANMAR'S DECENTRALIZATION CHALLENGE AND THE MANAGEMENT OF PUBLIC FINANCES

Since 2011 there have been two major catalysts for reforms in the Government of Myanmar's management of public finances. The first is the creation of the Parliament and the establishment of the PAC. The second is the separation of state and regional budgets from the Union.

State/regional and line ministries now set their own budgetary ceilings and expenditure proposals, and state/regional governments have control over selected revenue collection.²⁷ The total budget for the states/regions has risen from less than 4 percent of public spending in 2013–14 to nearly 12 percent in 2014–15.²⁸ To coordinate state/regional budgets with the Union budget, the government has also established the Financial Commission and the National Planning Commission – both chaired by the President.

Several committees have been developed at township level to facilitate more bottom-up planning, including:

- The Township Development Affairs Committee (TDAC), chaired by a respected community member and intended to manage planning and implementation at township level, providing a space for public and civil society engagement in local development issues;
- The Township Management Committee (TMC), which serves as the decision making committee;
- The Township Development Support Committee (TDSC), an informally elected body that plays an advisory role positioned between the TMC and the public – commonly referred to as 'village elders'.²⁹

Through this structure, a number of development funds are channelled to townships with the aim of providing a budget for local development and enabling a participatory approach in fund allocation.³⁰

In practice, the overlapping objectives of the funds and committees make coordination and targeting of resources problematic.³¹ A United Nations Development Programme (UNDP) mapping of local governance revealed that many did not understand the roles or responsibilities of the various committees, thus bringing into question the legitimacy and likely effectiveness of these structures.³² Furthermore, women's participation in community meetings was found to be very low, concluding that TDSCs would be strengthened if additional seats were reserved for women.

Beyond these funds, it is also important to note that there is currently limited capacity to raise revenue at the local level to fund service delivery.

The significant role played by GAD in state/regional government functions further limits the ability of states and regions to develop their own administrative capacity. The prevalence of this centralized administration system could restrict the potential for state/regional representatives to be a conduit for local priorities.

However, despite these challenges, the scale-up of Parliamentary activity, the creation of the PAC, and the establishment of township committees have resulted in changes to the budget responsibilities of the finance and planning ministers at the state/regional level, and in many areas there is anecdotal evidence of greater engagement with communities, and a growing understanding among ministers and township officials of the importance of working with the public. Nevertheless, while the new structures do make an attempt to enable bottom-up planning, the budgetary requests made by the state/regional governments are not always

reflected in Union-level decision making, and there are few incentives to pursue funds by other means to meet the needs of the people. It is clear that further work remains to establish mechanisms that can channel peoples' needs and priorities to influence the planning and allocation of public finances.

PFM modernization

In 2014, the Government of Myanmar embarked on a \$30m PFM modernization programme, which will take place over a 10–15 year period.³³ The first phase is jointly funded by the World Bank, the UK's Department for International Development (DFID) and Australia's Department of Foreign Affairs and Trade (DFAT). Interventions are coordinated through the donor government PFM Sector Working Group – chaired by the Ministry of Finance, with one CSO representative and other 'observers' acting as members.³⁴ The objective of the programme is to 'support efficient, accountable, and responsive delivery of public services through modernization of Myanmar's PFM systems and strengthening institutional capacity'.³⁵

There is strong buy-in from the Government of Myanmar to modernize PFM in order to develop the internal capacities needed to effectively manage the country's transitions and enhance the capacity for resource allocation.³⁶ Yet decades of isolation have understandably led to a PFM system which has not kept pace with modern practice. Moreover, a legacy of highly centralized and opaque decision making and budget management has resulted in a lack of checks and balances to ensure that fiscal policies respond to the needs of the people.

The reforms have been designed to respond to the problems outlined in the PFM Performance Report³⁷ (produced by the World Bank and Public Expenditure and Financial Accountability (PEFA), which found that public funds and revenues have been subject to little accountability and that Myanmar's system focuses narrowly on control.³⁸ The report highlights weaknesses at multiple stages of the budget cycle and presents four key priorities:

- strengthen the credibility of the budget, which would increase the reliability of Union ministries as well as newly-empowered states and regions;
- improve information on the budget and actual spending through strengthening budget classification, providing some basic ICT functionality to plan, record and analyse expenditure;
- build up basic regulations and controls to help reduce fiduciary risk;
- make external oversight more robust to enhance incentives for better PFM. Measures would include improving the quality and timeliness of in-year budget reports, building the quality and scope of external audits, and providing adequate technical support to the Parliamentary oversight committees.³⁹

All four priorities are essential for 'getting the basics right first', and while the first three are largely 'supply' focused, the success of the fourth relies on a combination of supply and demand activities to improve transparency and deepen accountability. Here, through creation of the right entry points, civil society will have a role to play in holding the government to account for how it spends public resources and how civil servants fulfil their roles and duty bearing responsibilities. A well-informed civil society is essential for ensuring strong external audits and to support parliamentary committees in developing a culture of accountability.

Getting the basics right, putting in place appropriate mechanisms for economic stability and introducing systems to enable a good supply of information are absolutely vital, **but without strengthening the demand side, the PFM reform programme will not be able to meet its stated objectives.**

4 CHALLENGES AND OPPORTUNITIES FOR PFM REFORM IN MYANMAR

CHALLENGES

Given the need to ensure PFM reforms promote greater social accountability, and the challenges around legitimate governance in contested areas, Oxfam believes there may be three main challenges for the current approach to PFM reforms in Myanmar:

- **Too much of the reform programme focuses on the Union level** without sufficient strategies for building the capacity of officials at state/region level and below, and without considering whether or how similar capacity development should be supported with officials from EAG administrations.
- There is **too little investment in the demand side**, including: raising awareness among the public of the budget process; building the capacity of CSOs to stimulate demand for fiscal information and greater budget transparency; and ensuring in particular that this demand-side work supports civil society from contested areas to participate in discussions around Myanmar's PFM system. In addition, the increased involvement of women and marginalized groups must be secured.
- More thought needs to be given to **how PFM reforms may affect future governance arrangements in contested areas**, including whether the very process of discussing PFM reforms with EAGs and civil society from contested areas might be part of negotiating the political pact around governance that will be needed for long-term peace in Myanmar.

Too much focus on Union-level reform

Initial interventions by development partners have been limited to a focus on the Union level, prioritizing fiscal discipline and financial control at the centre – despite a clear demand for capacity building in states and regions.⁴⁰

International experience suggests that supporting PFM reform from the top down (through the finance ministry) either fails, or delivers very slowly, in part due to lack of ownership outside of the central ministries.⁴¹ By contrast, taking a coordinated multi-level approach that addresses reforms at the national, sub-national and sectoral levels can increase the pace and efficacy of reform.⁴²

Acknowledging the centralized PFM reforms to date, the Asia Foundation explored PFM needs at the state/regional level and piloted a training programme for officials involved in delivering reforms. The report recommended that training and/or mentorship of key representatives in the states and regions is necessary in order to prepare their government apparatus to engage meaningfully in future reform discussions.⁴³ Under the PFM reform programme, DFID has been leading on plans for a PFM Academy to train civil servants to better manage public funds, but so far progress has been slow and it is clear that more could be done to support capacity development at state/regional and township levels.

At the same time, it is not clear whether efforts to support the development of responsive and accountable sub-national governance capacity will be extended to the officials of EAG

administrations in contested areas, nor whether there will be political space to do this – though this may become more feasible if a Nationwide Ceasefire Agreement can be signed. However, given the ultimate necessity of what the Asia Foundation describes as a ‘... process of disbanding, reforming or cross-integrating local administrative systems [in areas governed by ethnic armed actors]’,⁴⁴ it would be prudent to properly assess the capacities of these institutions and think through approaches to working with them even if actually doing so must come later.

Too little investment in the demand side

To better inform decisions and debate on budgetary allocations, the PFM reform programme will also seek to improve the quality and timeliness of information. The World Bank has been leading on the supply side with government, improving the quality and timeliness of information available in the budget through basic computerization and attempting to enhance how the content is presented to Parliament. The project plan also states that the government will be supported to prepare information in a way that is accessible to the public, and some CSOs are already driving discussions on producing a ‘people’s budget’, which would translate the budget into a more accessible and simplified format. However, there is a serious lack of investment on demand side social accountability, which threatens to undermine PFM reform.

A recent survey conducted by the Asia Foundation found that among those surveyed, 94 percent believe that public participation in governance is important.⁴⁵ Yet there is currently little space for the people or CSOs to engage with budgeting, even though expanding public engagement was one of the key recommendations that came out of the 2012 Open Budget Survey in Myanmar.⁴⁶ Despite the need for greater financial literacy and opportunities for participation, there is very little investment in the demand side.

A global scoping study by the International Budget Partnership also found that PFM reform tends to focus on the supply side. The study argues that ‘an effective budget is more than the product of strong government systems: the ability of those outside government to understand and participate in budget decisions, and to hold government to account for how money is raised and spent, is crucial’.⁴⁷

Neglecting the demand side flies in the face of the evidence, which shows that supporting local civil society, improving public access to fiscal information and expanding public participation are all crucial to achieving accountability for public services and resource allocation in the long term. International experience finds that CSOs and the legislature can have an important long-term influence on this process.⁴⁸

Demand-side PFM reforms do not have to come at the expense of investment in the supply side, as illustrated in Nepal, where the World Bank-funded Program for Accountability in Nepal (PRAN) was a component of the overall PFM reform programme. Building the capacity of the government to be responsive and equipping CSOs with the knowledge and skills to participate in budget issues will take time, and therefore should happen alongside improvements in government capacity. Without increased budget transparency and a more active and informed civil society, Myanmar runs the risk of missing this opportunity to deepen social accountability and inclusion and strengthen its governance.

It will also be critical that any demand-side interventions include civil society from contested areas, so that civil society there can help to deepen social accountability with regards to the administrations of ethnic armed actors, as well as to ensure that CSOs from these areas are part of the larger conversation about the future of sub-national governance in Myanmar. This could be seen as a contribution to the informal and/or public side of the political dialogue around the future of Myanmar’s governance arrangements and will be important for the legitimacy of any arrangements agreed in the future.

How PFM reforms may affect future governance arrangements in contested areas

Beyond thinking about whether and how to build the capacity of EAG administration officials and support demand-side governance work from civil society in contested areas, development actors supporting PFM reform in Myanmar need to do so with an eye on the potential broader impacts of such work on the prospects for the political dialogue following any Nationwide Ceasefire Agreement. Both development partners and their counterparts in government need to be keenly aware of the dynamics in the peace process, and ensure PFM is connected to it. In order to do this, development actors will need to understand how such reforms are perceived by EAGs and the populations of the areas they govern and not just to stakeholders in Yangon, Naypyidaw or state/regional capitals. It may be that PFM work undertaken now should be on a basis flexible enough to be rethought, *after* a post-NCA National Political Dialogue (which will look at many aspects of governance including in contested areas) gets underway. Whatever the approach, it is vital that PFM and the peace process do not proceed on parallel tracks without being informed by each other.

OPPORTUNITIES TO DEEPEN SOCIAL ACCOUNTABILITY

Decentralization and governance

The current government's vision for a more transparent and accountable government has driven important reforms following decades of poor governance. The ambitious decentralization agenda agreed by the government in 2011 offers a real opportunity for PFM reforms to deepen social accountability.

However, despite some action, confusion over structures and responsibilities, lack of capacity, and limited political and budgetary autonomy at the sub-national level have held back progress on decentralization. Turning the decentralization agenda into an opportunity for deepening social accountability is likely to need:

- stronger political will to drive forward decentralization from the highest political level down;
- clearer guidance and policies by the Union Financial and Planning Commission on the management of sub-national budgets to remove some of the existing ambiguities;
- a capacity development programme to equip local governance actors with the capacity, budget and responsibility to be more responsive to the needs of the people.

The potential for deepening social accountability will also depend on the capabilities of individual administration officials and the unique local context. For example, in the Ayeyarwady Region the response to Cyclone Nargis has helped to create a more active and coordinated civil society network, which has been supported by a number of ministers demonstrating their openness to CSO engagement. As civic participation increases, it must be matched by an increased capacity and commitment on the government's side to enable a constructive relationship.

More critical still will be the need to ensure that decentralization plans are adapted to meet the needs of ethnic states, many of which have parallel governance systems, including service delivery implemented by non-state actors.⁴⁹ Within the context of the peace process and National Political Dialogue there will be many entry points for PFM to be part of the conversation. This should be capitalized upon by all levels of government, development actors and CSOs.

Strengthening Parliament

Myanmar already has key bodies in place to enhance budgetary oversight, including the PAC and the OAG. However, these are in their infancy and will need to be nurtured if they are going to be effective in providing oversight and tackling corruption. Their success will also depend on enhancing the technical capacities of stretched parliamentarians responsible for oversight. Not only will improved capacity to review budget information and more reliable and transparent data improve their power, but ensuring that they have sufficient time, political space and political commitment will also be necessary. The example of the Philippines has shown that as the OAG matures, there may be opportunities for formal collaboration between civil society and the OAG to strengthen oversight. But critically, for this to work these parliamentary bodies need to ensure they are open to public scrutiny.

At sub-national level, a clearer framework outlining the rules and regulations for sub-national parliaments requires further development. But sub-national parliaments and parliamentarians should take advantage of growing opportunities to seek a stake in policy making and hold the government to account. Thought will also need to be given to how to support measures that would help to improve the legitimacy and representativeness of sub-national governance bodies in ethnic areas.

Turning commitments into reality

The government's Framework for Economic and Social Reforms (FESR) puts a credible, responsive and transparent planning and budget process at the heart of political reform and 'people-centred' development. Yet poor public knowledge of key functions of sub-national government and potential opportunities for participation, combined with the legacy of past authoritarian government,⁵⁰ means that in reality there is little space for participation. To date PFM reforms have been consistent with a top-down approach, targeted at enabling the central government to gain recognition for its 'quick wins', and supporting the Ministry of Finance to assume more responsibility. But turning the FESR commitments on open government into reality means the government must take specific measures to set out how it will inform and engage people in decision making, and in particular, how it intends to enhance transparency and accountability of budget processes.

Increasing access to information

Access to information is vital for social accountability, and the FESR outlines the government's intention for the public 'to participate in the political process and to be well informed about policy decisions, which in turn will improve accountability'.⁵¹ In line with this vision, the government has taken a number of crucial steps towards improving transparency, such as publishing the national budget and committing to joining the Open Government Partnership (OGP) by 2016 – an international standard that seeks commitments from governments to promote transparency, civic participation and accountability. Making such information available in ethnic languages will also be a central part of the commitment to inclusion.

But so far, the lack of proactive dissemination of information on budgetary issues and the format in which information is published limits the opportunities for civic engagement. If the commitment to publishing a people's budget for fiscal year 2015–16 is met, this could create opportunities to inform and mobilize civil society to use the information in a way that deepens social accountability. An 'access to information' law, similar to Nepal's Right to Information (RTI) Act, could also expand information access in Myanmar. CSOs are already working to influence the government on establishing such a law.⁵²

A burgeoning media can raise awareness

The media plays a key role in making budget information accessible and relevant to ordinary people.⁵³ While challenges remain, the government's abolition of the law on press scrutiny provides a new legal environment that may facilitate greater access to information.⁵⁴ At the national level Myanmar's media can help to stimulate public interest and a culture of accountability. It can also draw international attention to shine a light on the use of public funds. Given the low level of awareness and understanding of local governance structures and development funds, the sub-national media, including ethnic language media, will be central to disseminating information to stimulate public interest in budgetary issues.⁵⁵

It is essential that the growing freedom of the media is allowed to continue, and as both the free media and budget transparency are in their infancy, training will be required to support increased media engagement. This should target media house managers, editors and reporters to help create an environment in which journalists are incentivized to 'dig' for information. An RTI law would encourage this further but for the media to really thrive, journalists must also be adequately protected.

Attention should also be given to the possibility of using ICT techniques, especially those based on mobile phone technology, as a means of public communication and interaction with officials, alongside more traditional media approaches.

At the same time, it must be remembered that media will not reach all the people of Myanmar, particularly the poorest and most marginalized. Therefore, creating awareness among the most excluded populations – for whom public budget expenditure may be the most needed – will be important.

Opening up policy space for CSOs

The government has emphasized cooperation with civil society and recognized that 'international experience certainly shows that civil society engagement can significantly improve budget processes, decisions and outcomes and thus transform the lives of people'.⁵⁶

With increased government openness, media freedom and public awareness, the prospects of significant demand-side engagement could expand exponentially.

There has been increasing engagement of civil society by the government on selected processes and issues, including: a consultation with the public across 14 states and regions on the development of a new land use policy by the Ministry of Environment, Conservation and Forestry in late 2014; consultations and a request for submissions from the public on the development of the new Myanmar Investment Law; and a request for submissions on sections of the draft companies' law. Although these represent important steps to opening up decision making processes to the public, they have come as the result of significant pressure from civil society and have not yet been characterized by sufficient timeframes or outreach to civil society and the public.

The government has also shown leadership by agreeing the Nay Pyi Taw Accord for Effective Development Cooperation, which sets out how it will ensure that development cooperation is accountable, democratic and targeted towards reducing poverty and inequality – including creating an enabling environment for civil society.⁵⁷ But so far, the impact of the commitments in the Accord has been limited, with the government and development partners (donors, IFIs and international organizations) only focusing on taking forward a selected number of its technical aspects.

Experience in other countries demonstrates that engaging the public and civil society on budget accountability enables groups to use this engagement as a tool for social change rather than an end in itself. Engaging CSOs offers a huge opportunity to strengthen democratic reforms and

enhance social accountability. But it is vital that power holders recognize the value of opening up decision making spaces and processes to be more accountable, transparent and participatory.

To make this a reality, specialist training for national CSOs in tools and approaches for constructive engagement with targets, as well in budget literacy, is vital. It will also be important to ensure these opportunities are open to civil society in contested areas, and this will mean thinking through practical challenges such as language, travel limitations and the financial position of many smaller, but locally important, CSOs.

5 CONCLUSION: KEY QUESTIONS TO CONSIDER

Oxfam believes that the government's stated commitment to people-centred development and subsequent wide ranging reforms, including in PFM, could provide a valuable opportunity to deepen social accountability and promote legitimate governance in Myanmar.

However, Oxfam also recognizes that Myanmar is not a country in which the sole challenge is around the capacity and accountability of the central state, but also one where ethnic conflict and contests over the legitimacy of different governance actors have held back development prospects for many of the poorest and most vulnerable people.

Given the potential for PFM reforms that are focused only on technical support at the Union level to, on the one hand, miss opportunities to deepen social accountability and, on the other, risk undermining gains made in the wider political/peace process, Oxfam believes there are a number of questions development actors involved in and supporting such reforms need to consider.

Oxfam recognizes that these are difficult questions. We raise these issues as a contribution to ongoing debate and invite development actors to engage with them.

The roundtable to accompany this report will present an opportunity to discuss these and other related questions. An addendum based on a summary of that roundtable will be added to a later, electronic version of this paper. Key questions to be addressed include:

- How can incentives be introduced to encourage state/regional finance and planning ministries and state/regional ministers to demonstrate people-centred development in planning and budgeting processes?
- How can the poorest and most marginalized be included in the demand side of PFM?
- How can women be better engaged in PFM reform, and in holding governance structures to account over expenditure? What are the barriers to participation they face, and how can they be overcome?
- How can Nay Pyi Taw Accord commitments to creating an enabling space for CSOs to engage in PFM be realized? (For instance, through opening up the PFM working group, publishing a 'people's budget' or establishing a right to information law.) And how can the inclusion of civil society from contested areas be ensured?
- How might the growth of ICT and new media in Myanmar be harnessed to improve opportunities for CSOs and the public to play a role in the demand side of PFM reforms – and how can the inclusion of contested areas in this be ensured?
- What are the current gaps in knowledge that need to be filled in terms of PFM reform in contested areas, and how can these be filled?
- What is the best way for international development actors to support Myanmar civil society, including from contested areas, to build the skills and capacities needed to engage in the demand side of PFM reform?
- To what extent can PFM reform reinforce (or undermine) the National Political Dialogue following a ceasefire agreement, and what would this mean for development actors engaged in or supporting those reforms?

- What might be the impact of proposed PFM reforms on the systems of general administration practised by both the government through GAD and by many EAGs in areas they administer?
- In what ways is it feasible or desirable to extend capacity building measures around PFM to officials from EAG administrations? What are the risks and opportunities?
- In areas with overlapping administration systems (government and one or more EAG), who do residents actually want to hold accountable for service delivery, and would supporting public accountability measures pose any risks for the population?
- What are some of the realistic pathways for moving from the interim arrangements included in the NCA to long-term governance arrangements acceptable to all parties, and how might PFM reforms be approached in such a way as to be coherent with / promote those potential pathways?

ANNEXE

Ways for the public to engage with the budget process⁵⁸

Each stage of the budget cycle is important in enhancing social accountability, but the best entry points for civic engagement will depend on the unique country context and current opportunities and constraints.⁵⁹

1. Budget formulation: strategic budgeting and budget preparation

At this stage policies are formulated, resources are allocated and the annual budgets and sector plans are set – usually behind closed doors. Sometimes the executive may release a discussion document or an overview of the budget in advance, and public hearings may be held by line ministries and budget-specific committees, **but the legislature and civil society generally have little direct access to this stage of the process.**⁶⁰

What civil society can do: stakeholders outside the executive can engage by lobbying the government on how spending is set – including which sectors receive funds and in what amounts. This can happen through participatory budgeting, a process which is considered instrumental in making the allocation of public resources more ‘inclusive’ and ‘equitable’, as it can give women and marginalized groups the chance to voice their budgetary needs and priorities. For example, Porto Alegre in Brazil has become a model for participatory budgeting. The city’s regional assemblies and participatory budget councils have had close involvement in allocating resources and in monitoring how they are used, leading to positive results such as the increase in the number of households with access to water.⁶¹

2. Budget approval: legislative debate and enactment

After budget preparation, the proposal is submitted for approval to a political body such as a parliamentary committee (which represents the people), and it may also be examined by specialized committees.

What civil society can do: It is in this stage that CSOs often have the greatest opportunity to influence budgetary decision making. With their technical expertise and understanding of people’s needs, CSOs can help committees to analyse the budget and may enhance understanding that is lacking in legislatures. In turn, legislatures can ask CSOs for input at specific moments in the budget process.⁶² In some countries, CSOs have also played an important role in demystifying the budget to increase awareness, even training parliamentarians to pressure the executive for pro-poor changes. In New Delhi, for example, the Centre for Budget and Governance Accountability has provided research support to parliamentarians on issues relating to budgets and economic policies.⁶³

3. Budget execution: resource management, internal control/audit, accounting and reporting

Institutional weaknesses and opportunities for rent seeking mean that disbursements do not always reach the intended beneficiaries. Budget execution allows government to keep records of financial flows.

What civil society can do: CSOs can undertake independent budget expenditure tracking to monitor and report on public spending. At the local level CSOs can focus on whether amounts for specific projects such as a school or a road have been used for the intended purpose, or whether allocated government funds have reached the intended beneficiaries. For example, as part of the PRAN in Nepal, Public Expenditure Tracking Systems (PETS) on social security entitlements were conducted and in some cases it was found that social security allowances

had been spent on other budget priorities.⁶⁴ This reinforces just how important it is to have budget transparency at all levels of government to help the public and CSOs to track spending.

4. Budget evaluation: external audit and accountability

The final stage of the cycle involves monitoring and evaluation of publicly funded agencies. At the national level, governments are commonly required to send their annual financial reports to independent bodies for 'external audit and accountability' processes.

What civil society can do: The findings of these reports are used by legislative bodies to raise any concerns they may have. Civil society can add to this by providing additional evidence to better inform external evaluation bodies such as the OAG. In the Philippines, the Commission on Audit (COA) formalized a partnership with the Affiliated Network for Social Accountability in East Asia and the Pacific (ANSA-EAP) to implement a Participatory Audit Program. The programme provides technical assistance to the COA in an effort to open up public audit processes to the people, and ultimately contribute to improving the efficiency and effectiveness of the use of public resources.⁶⁵

Table 1: The relevance of six key PFM reforms to social accountability

Intervention	Description	Relevance to social accountability
<i>Formalized budget preparation processes</i>	The introduction of budget calendars allows people to see when different steps take place in budget preparation and what should happen at each step.	Provides a formal framework to advocate for and monitor bottom-up planning, which has the potential to enable more inclusive budget outcomes.
<i>Medium-term expenditure frameworks</i>	These guide resource allocation processes by creating better links between the policies and plans that ministries produce and the revenue and expenditure forecasts produced by ministries of finance.	Necessary for any advocacy on policies and plans to lead to tangible changes in revenue and expenditure forecasts that should guide revenue allocation.
<i>Integrated Financial Management Information Systems (IFMIS)</i>	The automation and 'informatization' of budget management has come to be seen as a necessary step in modernizing the management of public finances. IFMIS aim to address weaknesses in outdated manual accounting systems.	Provides a foundation for open data and improved public access to budget information. Should also facilitate more proactive dissemination of information to the public.
<i>Budget classification systems</i>	Classifying budget items according to their economic, administrative or functional nature allows for interpretation and analysis of what would otherwise be a large amount of unspecified numbers included in a budget report.	This is a key prerequisite for the development of a people's budget and can help to provide a more comprehensive picture of government operations enabling civil society to have a better understanding of the budget and how it is spent.
<i>Legislative strengthening</i>	Includes explicit efforts to give bodies such as parliaments enough time and experience to assess budgets and to strengthen the advisory capacities legislative bodies have at their disposal.	There may be space for CSOs to support parliamentary bodies to build their capacity to hold the government accountable, and for parliamentary bodies to engage civil society at selected stages of their assessments of budgets.
<i>Budget and spending transparency and public participation</i>	A more recent addition to the PFM reform arena. These efforts are often led by civil society groups, parliamentarians and audit institutions who believe that budgets should be more open to independent scrutiny. This could also include a people's budget. ⁶⁶	The supply of budget information is necessary to meet the demand for information that leads to public participation and engagement, as well as developing a long-term culture of accountability.

Source: Adapted from Andrews et. al (2014)

NOTES

All links last accessed September 2015.

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