

Myanmar and foreign aid – recent changes, risk and opportunity

Adam Burke, September 2013

This policy briefing gives an overview of politics and development in Myanmar, focusing in particular on minority conflicts as well as the national context. The role that international aid agencies can play is explored, and recommendations are offered for policy and practice.

There is a risk that pressure to build good relations with the government and to spend pledged funds will lead donors to overlook significant ongoing problems in conflict-affected border areas and elsewhere. Yet, the right kind of foreign aid, implemented effectively, can play a potentially useful role in supporting peace, justice and development. Donors need to learn from experience elsewhere, recognising that many challenges will arise over the coming years despite recent reforms. Through a careful understanding of Myanmar's political economy at the local and national levels, and by incrementally establishing programmes, they will be able to build domestic capacity in support of sustainable peace and poverty reduction. Continued engagement can generate opportunities for promoting international standards including human rights.

Recent Changes

Despite continued uncertainty, Myanmar's recent transition is now generating significant political, economic and social change. After decades of rule by an opaque and chiefly self-interested military junta, some political space is opening up and media censorship is being relaxed. Economic and development policies have continued to shift, with signals emerging that the leadership is more responsive to the needs of Myanmar's ethnically varied and predominantly poor population of around 55 million.

External coverage of Myanmar has for decades presented the country's travails as a black-and-white morality play: villainous generals opposed by the virtuous angels of the Burmese people represented in particular by Nobel prize-winner Aung San Suu Kyi. In practice, some changes had already occurred before the military junta carefully selected its civilian successors in 2011, including gradually improved economic management and ceasefire agreements that had reduced bloodshed in the many long-running conflicts affecting most of the country's outlying, border regions. Various foreign aid agencies had already established a presence with a limited range of humanitarian and social programmes despite the sanctions imposed by many Western states.

Myanmar's transition may be genuine enough, yet it remains partial. The military has officially withdrawn from direct executive authority, but is still hugely powerful. It is not yet clear whether genuine opposition parties will be able to stand freely in national, as well as local, elections. Some political dissidents languish in jail or overseas. A small number of powerful businessmen with close links to the military, as well as military-owned companies themselves, still control vast swathes of the economy. Outlying regions are still affected by a string of conflicts, resource disputes and discriminatory practices, with violence in Rakhine and Kachin States indicative of deep-seated problems that will take many years to resolve. Active and forthcoming ceasefire agreements with rebel groups in minority areas demonstrate progress, but remain fragile. Reactionary anti-Indian and anti-Muslim currents within mainstream Burmese society led to widespread violence and arson in early 2013, another indicator of the different layers of tensions that are likely to endure.

Changes in Myanmar have not directly resulted from a popular uprising or from any other single factor. Instead, a combination of considerations including the military's continuing inability to quell a resilient opposition, concerns over the growing influence of China, and a desire to benefit from growing regional economic opportunities appear to have encouraged leaders to pursue a more conciliatory political path. 2014-2015 could see further significant change, with proposed parliamentary elections following the end of Myanmar's turn to chair the Association of Southeast Asian Nations (ASEAN), a position it has been unable to fulfill in the past given domestic unrest and international sanctions. Aung San Suu Kyi looks likely to stand for high political office, and has adopted increasingly conciliatory positions in recognition of the still-critical political role of the Armed Forces.

Wider experience of political transformations in Southeast Asia suggests that Myanmar is unlikely to follow a smooth track towards western-style liberal democracy and open markets. More likely scenarios involve a complex mix of elections and authoritarianism, with a diminished yet still significant political role for the military, and considerable power being wielded by well-connected individuals or networks of aligned interests. Improved economic and development outcomes should improve the lives of millions of Burma's citizens as new space emerges for civil society. At the same time, unaccountable links between well-connected businessmen and senior officials in opaque government institutions are likely to persist, as will tensions between the state and minority groups.

The military have sought to maintain their power, and will continue to do so. Reserved quotas of parliamentary seats should guarantee them an influential formal role even if the main opposition party, the National League for Democracy (NLD), were to win a national election - as seems likely under any free and fair poll. The military also wield considerable informal authority nationally and locally. The NLD itself incorporates a range of interests, with some influential older members regarded as intransigent and outdated. Relations between the NLD and Burma's minority populations are complex. The limited concern shown by Aung San Suu Kyi for persecuted Muslim Rohingya in Rakhine state demonstrates deeply embedded ethnic tensions. A desire to court popular appeal and build good relations with senior powerbrokers is probably encouraging her to follow a conservative line.

Economy and Poverty

A recent household survey indicates that one in every four Myanmar citizens is considered poor, a share comparable to rates in the least developed countries of Southeast Asia, for example, Cambodia at 27% and Laos at 32%. Performance against some of the Millennium Development Goals for 2015 varies from moderate to poor. Budgets for key services are extremely low: some 40% or more of overall state resources have typically been allocated to the military. Government health expenditure of an estimated US\$1.60 annually per person is among the lowest in the world.

Agriculture accounts for about 36% of gross domestic product and provides 25–30% of exports by value. Myanmar has a small industrial base and high reliance on natural resource extraction. Natural gas is the most significant export. The national economy has grown at around 5% annually over the past decade.

Political and economic policy changes, along with the end of sanctions from the USA and Europe, have increased trade and inward investment, especially for major infrastructure projects including ports and power generation. Barriers will inevitably emerge, however. For example, new laws on economic liberalisation passed in the 1990s have in many cases not been implemented, with actual practice depending more on personal connections than on legal frameworks. A web of regulations that extends to restrictions on freedom of movement across many parts of the country means that high-level contacts, typically with the military, are often necessary to conduct business.

Economic changes since the 1990s have increased both overall affluence and local disparities. It is estimated that nearly one in four farming families are landless. While increased investment in agriculture is generally a welcome sign of progress, many problems have emerged at the local level. Land tenure is poorly managed in many areas and prone to manipulation by powerful interests. Myanmar's forest areas and other natural environments with high levels of biodiversity are insufficiently protected. New economic opportunities tend to be shaped by prevailing power dynamics. Senior leaders maintain a legacy of extracting resources by offering monopolistic opportunities to business allies and establishing patronage networks. Wealthy businessmen, like Tay Za and the associated Htoo group of companies, are linked with senior military figures.

Democracy and Governance

Historically, checks and balances on power have been largely absent, with an expectation of governance through force rather than negotiation or democratic process. In many senses, military leaders assumed the mantle of pre-colonial traditional rulers, maintaining central authority through power, ideology and control of resources. There was little incentive for leaders to find ways to improve the lives of most ordinary people, resulting in low investment in health, education, or even infrastructure. Unlike rapidly developing Southeast Asian and East Asian nation states, leaders did not appear to perceive a need to compete with neighbouring countries by pursuing economic development targets, instead basing their authority on a mythical traditional desire to be independent and ethnically pure.

The military maintains high levels of influence and was able to capture a large proportion of the increased revenue flows generated as the economy partially liberalised. The number of military

personnel more than doubled between the late 1980s and 2000 to over 400,000 in the army alone. It remains likely that many senior military figures will not oppose democratic reforms only so long as their personal and institutional interests are protected. They are likely to seek a deal that enables Myanmar to adopt some democratic processes while protecting budgets, business opportunities, and a continued political role for the military both in national politics and in regions with ongoing conflict concerns.

Across Myanmar, the government is widely seen as primarily exploitative. Opportunities to gain revenue are sought at many levels, formally and informally. The level of government revenue as a proportion of GDP is around 13%, in line with similar countries in the region. However, formal tax revenue is very low at just 3%, with civil and military government resources often coming from concessions and business opportunities. This situation generates incentives for civil and military leaders to pursue further rent seeking opportunities rather than to improve overall national economic performance through broader business development.

Outside government institutions, community-level responses have flourished in recent years and have often been tolerated by the state. The growing number of civil society organisations has been well documented. Civil society and community bodies typically follow a broadly apolitical mandate, offering developmental and humanitarian support, although many informally align themselves with the NLD or other opposition parties.



Counting votes during the elections 1st April 2012

© The Irrawaddy www.irrawaddy.org

Subnational Conflict, Poverty and Ethnic Minorities

Finding a sustainable and just end to the conflicts in Myanmar's peripheral border areas is perhaps the country's greatest challenge. Recent political changes may have created the best opportunity to resolve ethnic conflicts in the country for many decades.

The arc of subnational conflicts has involved Myanmar's military fighting for control over territory and natural resources against armed groups affiliated with local minority populations. Tensions leading to regular outbreaks of violence have persisted since independence in 1948. Well-documented extensive human rights abuses and repeated displacement have further deprived millions of already impoverished people.

Although the Burmese military's pursuit of ceasefire agreements gradually reduced levels of armed conflict in many minority areas, ongoing violence has continued. In 2011 conflict between rebel groups and the military returned to Kachin State, while violence affected the minority Rohingya population of Rakhine State. Violent conflict also continues in parts of Shan State, a large and diverse region bordering Thailand, Laos and China. Parts of other states remain unstable. Many ethnic minority areas remain among the poorest in the country, with limited service provision and high levels of both malnutrition and communicable diseases.

In Myanmar's peripheral border areas, military officials and affiliated local leaders have typically extracted benefit from whatever resources are available: forced labour, land, mines and forests. Rebel groups have often been similarly exploitative. Government development initiatives in many border areas are based around accessing resources or pacifying the population through measures including resettlement and road construction. There is little extension of the state for any other purpose. In such a situation, unequal access to the benefits of state projects and economic development initiatives can feed resentment, enabling local leaders and entrepreneurs to mobilise people along ethnic lines. Service provision can also fuel conflict, state education sometimes being seen as enforced assimilation, for example.

The level of political interest in longer-term solutions to tackle underlying problems of contested authority is not yet clear. The ceasefire agreements reached to date are best seen as military accords between leaders of armed combatants rather than full peace agreements. Hopeful signs have emerged, including promises by President Thein Sein for inclusive political dialogue and the pursuit of peace talks over the remaining conflicts. The establishment of decentralised political authorities for each of Myanmar's fourteen states and regions is a further step.

In addition to tactical steps to find ways round 'spoilers' – resilient military or rebel leaders who do not agree with or have little to gain from a successful peace process – it will be necessary to reduce the influence of the military centrally and at the local level. Broader public debate and consultation, as well as more meaningful local political mechanisms may be valuable tools. It will also be essential to provide alternative political channels for former rebels to pursue their interests and to satisfy at least some popular demands among minority groups.

More fundamentally still, discussion of a new inter-ethnic accord in Myanmar is meaningless without recognising the deep-seated reasons why conflict has been so protracted, and pursuing appropriate measures in response. Long-term promotion by Myanmar's leaders of an ethnically defined national identity sits uneasily with the country's diverse population, over 30% of whom belong to minorities. A notion of shared civic rather than ethnically defined nationalism remains weak.



Burning buildings during sectarian violence. 12 June 2012. Rakhine State
© The Irrawaddy www.irrawaddy.org

Exclusive ethnic nationalism: The roots of recent violence in Rakhine State

As is the case across much of the rest of Southeast and East Asia, cultural nation-building promoted in Myanmar by the military for decades is founded around racially defined categories. This has fostered an assumed superiority among the majority over minority groups (non-Buddhists in particular), who are uneasily defined as being members of seven minority 'races'.

In 2012 inter-group ethnic trouble in western Rakhine state was followed by concerted campaigns of arson and aggression designed to drive members of the Muslim 'Rohingya' minority out of Myanmar. Rohingyas are a marginalised and largely ignored group, who number about 800,000. They are effectively denied citizenship even if born in the country. The 2012 violence included perpetrators on both sides, but the main trend conformed to a long-term pattern of state-sanctioned discrimination and violent attacks against Rohingyas.

Normally called Bengalis by the government and by most others in Myanmar, most Rohingyas have lived in Myanmar for generations despite sharing much cultural affinity with their neighbours in what is now Bangladesh. Rohingyas are described in mass media and common discourse across Myanmar as illegal migrants.

Discrimination and ethnic violence against all people of South Asian ethnic origin has been a common recurring theme in Myanmar since before independence in 1947. A 1982 citizenship law effectively disenfranchised many Indians remaining in Myanmar. Anti-Muslim riots scarred central Burmese cities in 1997, in 2001 and again in March 2013. Government security forces stood by as attacks took place. Indians and Muslims in general are still commonly perceived as a threat to the Myanmar nation, not only by hardliners, but also among the general public, Buddhist monks, opposition politicians, and even human rights campaigners.

Foreign Aid Across Myanmar

Activists continue to question the agendas of foreign aid agencies in Myanmar, but there are now fewer reasons to oppose donor engagement outright given both positive political changes and some evidence that past involvement has supported incremental improvements. Since 2011, donor funding has risen rapidly from a low base. In 2012, the European Union proposed a package of \$100 million for democratic reform and inclusive development initiatives. In May 2013, Japan announced around US\$500 million of additional lending over several years, much of it for industrial development. Australia and the UK have each pledged to raise their grant commitments to around US\$90 million per year by 2015.

Myanmar is unlikely to follow standard international prescriptions for development or to accept high-profile, intrusive donor approaches. The strongest influences shaping development directions will stem from East and Southeast Asia, including private investment, diplomatic relationships, and concessional aid. Proposed large-scale projects include several major ports, gas pipelines, road and rail links, telecommunications and electricity. Investors are also looking to take advantage of burgeoning tourism, agriculture, textiles, and other industries. Many countries, Asian and Western, will inevitably link concessional aid funds to business opportunities.

The context is challenging for foreign aid agencies trying to promote standard approaches to 'good governance'. A politically astute approach is needed. Standard institutional measures to promote a level playing field, strengthen transparency and apply the rule of law are likely to encounter many barriers in the complex political environment.

Foreign Aid and Peacebuilding in Border Areas

The long history of violence in Myanmar's upland peripheries challenges some of the conventional wisdom surrounding links between conflict and development. A lack of development and service delivery may be one cause of dissatisfaction that motivates violence, but the roots of these and many other similar subnational conflicts typically lie more in resentment among local elites and the wider population at how the central state operates.

This has implications for foreign aid, which has a fairly poor record of addressing problems in subnational conflict areas and tends by default to work with recipient governments. Conflict-sensitivity methodologies and peacebuilding initiatives are often applied to smaller initiatives, while larger aid projects have typically continued with business as usual. Incentives to maintain good relationships with the national government, and the way in which aid programmes are inevitably shaped by dominant political trends, mean that minorities and local leaders are commonly ignored. Specific steps are needed to address their concerns and to involve them in planning and implementation. Economic initiatives including natural resource extraction, plantations, and dams have already contributed to violence across Myanmar's border regions. Accelerated development is likely to exacerbate existing tensions. There is a risk that foreign aid will end up backing a central government agenda based on narrow ceasefire agreements that enable development as a tool of pacification, also serving as a conduit for private sector investments that benefit well-connected individuals and bypass local people.

Aid agencies need to be particularly cautious over large projects that are likely to benefit state and associated business interests or unaccountable local elites. The promotion of small-scale local grants by the World Bank and others makes sense in this context, although aid can still be captured by vested interests at the community level. Other donors that are less bound by an apolitical remit may be able to engage more deeply in the dynamics of development in border areas, assuming that they have strong political understanding of the potential outcomes. Bland and uncontroversial justifications claiming that aid initiatives will 'increase confidence', 'build trust', or otherwise 'promote peace' in conflict-affected areas need to be questioned.

Main Issues for Donors

International approaches have tended to emphasise statebuilding as a response to conflict, while in much of Myanmar the issue is about changing the state rather than strengthening it. As in many other conflict situations, problems typically stem from how political systems operate rather than from a simple lack of capacity or from state fragility.

It is important for aid agencies to consider the legacy of Myanmar's historically exclusive, self-serving government and to promote political progress across many sectors, as well as looking to expand state services and infrastructure. Examples include encouraging consultation and participation at different levels, or considering how approaches incorporate minority concerns in conflict-affected and other areas. Some aid agencies will have opportunities to support positive changes for relatively low profile topics like decentralisation or through careful support for civil society rather than through more directly political engagement. Donor governments need to link their aid policies with their approaches to both human rights and to promoting responsible foreign investment.

Concerns that Myanmar would be flooded with poorly planned and coordinated programmes have not yet been realised as most donors have gradually stepped up their involvement and struggled to find ways to spend large sums rapidly. The government may however be suffering from an overdose of advice as aid agencies push to gain high-level influence. Senior figures complain of an unmanageable excess of meetings and proposals, and complain that the government is being swamped with recommendations from outsiders.

Despite signs that senior government figures are listening to policy recommendations more than in the past (the Myanmar Development Resource Institute has been established to offer advice to government, for example), many funders will be better off concentrating instead on building longer-term domestic capacity. Skills and technical capacity are areas for potential cooperation given weaknesses in many civilian state institutions. Excessively forceful efforts to promote policy change or to make funding conditional on specific measures are also potential hazards since policymakers are likely to react strongly against unwanted foreign interference.

Aid officials themselves have recognised the risks of competition between agencies – a scramble for opportunities to provide assistance and high-level advice. Donors are working rapidly to build government contacts, recognising that the current window of opportunity created by rapid change will become smaller over time as delivery mechanisms and aid relationships become embedded. Aid agencies are already risking damaging indigenous non-governmental structures by flooding them with support, and rightly recognise the need to work with the state.

There is space to work outside the state too. Carefully designed support that aims to foster civil society involvement in a range of issues beyond service delivery or community self-help – for example strengthening independent media reporting or promoting accountability – may generate opportunities to broaden democratic processes.

Experience to date shows that successful projects in Myanmar are normally established over long time-frames, building on experience of varied operating conditions. One example is the Livelihoods and Food Security Trust Fund (LIFT), formed in 2009 with the aims of increasing food availability and income generation opportunities. The fund has been supported initially by seven bilateral donors and the European Union, who together intend to contribute at least \$170 million. It builds on the programmes of international NGOs, such as Save the Children that have been working in Myanmar for many years gradually building relationships and establishing local delivery mechanisms.

There is some risk that the former polarised vision of Myanmar will be replaced by unrealistic expectations that, with a little external assistance, the country will follow a straight path towards democracy fuelled by market-led economic growth. In reality, in the absence of deeper underpinnings, a semi-democratic political structure is more likely. Western involvement in particular needs to continue to monitor conflict challenges, as well as human rights concerns. Open, accountable institutions will take decades to develop, while the failure of Burmese pro-democracy groups to speak out against the ethnic persecution of Muslims in 2013 demonstrates that supporting civil society organisations provides no simple shortcut to a peaceful and universally just political system.

Seven principles for foreign aid

1. **Carry out careful context analysis and avoid rushing in.** Aid agencies need to invest in understanding diverse, rapidly changing national and local conditions before implementing initiatives. They also need to avoid competing among each other. This involves political and social analysis at national and local levels.

2. **Build relationships and capacity gradually.** Gradual, phased approaches create opportunities to build up involvement and respond to shifting conditions. Donors need to confront non-transparency and corruption, as well as the risk of unintentionally damaging indigenous institutions.

3. **Watch for 'elite capture'.** Economic reforms and new revenue flows in closed political systems typically lead to corruption and feed vested interests. These are very real risks, especially in remote border regions.

4. **Concentrate on long-term support to promote a more progressive state.** Donors need to improve how the state operates rather than just strengthening its capacity. Many different approaches are possible, from direct support to government institutions through to backing non-governmental initiatives and supporting a positive role for civil society.

5. **Careful positioning and promotion of rights.** In countries with relatively strong governments and nationalistic outlooks, effective support for human rights is best achieved through careful brokering rather than hectoring.

6. **Concentrate on borders areas and minority rights.** Donors can consider specific rules of engagement and adaptations to national programmes for border and ethnic minority areas, including equal opportunities for staff and measures to promote religious or cultural sensitivity. Although politically challenging, careful work on options for decentralisation at different levels could add value, along with support for the meaningful implementation of peace agreements that go beyond elite alliances and provide a basis for future governance in border areas.

7. **Build a strong basis for engagement.**

- Adopt long-term time horizons.
- Invest in staff and knowledge generation.
- Keep a tight focus within fields of competence.
- Experiment and devise local responses - don't rely on blueprints.
- Promote aid coordination where it will work, but not as an end in itself.
- Develop shared operational guidelines for working in conflict-affected areas and for considering how to challenge ethnic chauvinism.
- Manage in-country reputation in order to create space to address potentially controversial issues including human rights, conflict, and discrimination.

The following table assesses the risks and potential responses for aid agencies establishing new programmes in Myanmar's unstable and complex environment.

Risks facing aid agencies	Potential responses
Context risks	
Reversal of political progress	Continue to support positive changes. In case of political reversal, maintain engagement but consider reducing disbursements
Upsurges of ethnic tension and violence	Address ethnicity across projects and policies, including national attitudes to minorities, media coverage, education, budgeting. Ensure an even-handed approach
Continued conflict in border areas	Support peacebuilding initiatives through locally appropriate, informed inputs. Consider guidelines to avoid supporting the status quo
Government unable to implement new policies given lack of commitment and lower-level involvement. Aid agencies partner weak ministries.	Concentrate on long-term change, not immediate gains. Analyse stakeholders and interests in sectors carefully before engagement
Civil society bodies lose local traction, orient themselves around aid flows	Careful, incremental fostering of civil society rather than using NGOs only to deliver programmes.
The poorest women and men are marginalised, service provision does not reach local levels	Focus on understanding bottom-up perspectives and needs, supporting increased accountability and participation within institutions
Aid programme risks	
Aid agencies are kept marginal, fail to develop policy access. Aid coordination efforts fail	Realistic steps, avoiding 'lowest common denominator' approaches and recognising the primary role of domestic institutions. Individual donors should focus on specific sectors or geographical areas
Brokering engagement generates practical obstacles	Build up engagement gradually. Invest in relationships, strategically selecting entry points
Failure of aid agencies to prepare long-term approach	Prioritise long-term budgets and programmes. Build national staff capacity and encourage extended international postings
Aid flows compromised through links with commercial priorities of donor nations	Devise common guidelines that localise international good practice. Maintain barriers between aid and commercial interests. Adopt transparent and accountable approaches with third-party oversight
Border areas are passed over by aid agencies except for specific security issues	Ensure all parts of Myanmar are included in strategy development and establish programmes that can respond to local diversity
Aid agencies fail to appreciate the diversity and complexity of Myanmar's regions	Knowledge building, wide consultation, efforts to travel outside the central areas. Build up a programme in phases
Backlash against foreign agencies	Carefully manage public relations. Avoid supporting one group without assisting others in the same area

About this policy brief and The Policy Practice

Additional detail on aid to Myanmar including full references for the material used in this briefing can be found in an accompanying background paper: <http://www.thepolicypractice.com/papers/myanmar.pdf>

For further information on this particular topic contact Adam Burke (adam.burke@thepolicypractice.com)

This paper is part of a series of policy briefs intended to share our insights on an ongoing basis in a form that is easily digestible and readable to policy makers, experts and others in the development field.

The Policy Practice undertakes policy work in developing countries, and advises and trains governments, development agencies, civil society organisations and companies. We provide practical, innovative solutions based on realistic assessments of the challenges and opportunities facing developing countries. Our multi-disciplinary approach uses 'The New Political Economy Perspective' to understand the processes of socio-economic change and their effect on the implementation of development programmes.

For further information on The Policy Practice see www.thepolicypractice.com

