



Public Finances and the Social Contract in Myanmar: Reflections from the City Life Survey

*City Life Survey
Discussion Paper*

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ACKNOWLEDGEMENTS

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FOREWORD

In 2018 The Asia Foundation, in partnership with the Yangon School of Political Science, rolled out the City Life Survey (CLS) following a successful pilot in 2017. This multi-year, multi-city, public perception survey is a tool to understand the changes happening in Myanmar cities and the impact of these changes on people's sense of well-being.

Drastically varying levels of economic, social and political change in Myanmar has made it challenging for even the most attentive observers to track what's changing, what remains the same, how this varies across different groups, and what the implications of this all are for society and the economy. This challenge is compounded by two factors. The first is the more traditional lack of reliable comparative and longitudinal data on the diverse experiences of urban residents. The second is the rapid rise in prominence of social media as a source of information for urban leaders. While it is increasing government officials' exposure to the direct views of residents the information being exchanged on these platforms is biased in ways that, across the world, we are only just starting to understand.

The CLS is a tool to measure the many different aspects of urban living that influence the well-being of residents across five of Myanmar's largest cities, based on the latest scientific research. Well-being as a concept is broad and multi-dimensional and has no literal translation into Myanmar language. At its simplest, well-being is about what it means to live a good life and the CLS is designed to capture those aspects of urban life that are most important to this. The 2018 Summary Report contains headline findings, a framework for thinking about well-being, and details on the full methodology. Yet with 135 questions asked of 2,414 people from five cities, the Summary Report only represents a snapshot of the analysis that is possible from the rich CLS dataset.

To address this gap, The Asia Foundation invited research experts to take a deeper dive into [the 2018 CLS](#), to contextualize and triangulate its findings against other sources of evidence. The three Discussion Papers apply the research experts' distinct skills, knowledge and experiences to important urban issues they have identified through their analysis. Although all Discussion Papers follow the same structure, each reflects the unique voice and style of the different authors.

This Discussion Paper Series focuses on three core areas of interest; gender, migration and the social contract. *Urban Migration in Myanmar: An Analysis of Migration Patterns and Migrant Well-being* discusses urban migration patterns, the characteristics of recent migrants and how they experience urban governance. *Public Finances and the Social Contract in Myanmar: Reflections from the City Life Survey* takes a more conceptual approach and looks at what theory and data can tell us about social cohesion and state-society relationships in an increasingly urbanized Myanmar. *Not Enough Time: Insight into Myanmar Women's Urban Experiences* explores prevailing social norms and presents robust data on the widely experienced phenomenon of the 'triple burden' and considers the implications for women's opportunities in cities.

These papers are intended to prompt discussion and will in places challenge some prevailing views. They aren't considered the last word on these topics, and readers are invited to join The Asia Foundation's wider efforts to contextualize these findings and to help make them relevant to Myanmar's urban leaders. We hope that these papers and further initiatives provide valuable evidence to those working to make Myanmar's cities better places to live and work and in particular to provide insight into more traditionally marginalized groups, such as women and migrants.

The views presented in these papers are of the authors and do not represent the views of The Asia Foundation.

Matthew Arnold

Country Representative, The Asia Foundation
Yangon, January 2020



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KEY TERMS

Social Contract	In the context of this Discussion Paper refers to the implicit and explicit agreements between government, citizens and wider society as to the role of the state, the responsibilities of citizens and how the rights and freedoms of the individual should be balanced with that of the community and the authority delegated to the state.
Tax Reform	The process of altering how taxes are structured, collected and used by government.
Public Finances	The way government structures and manages public expenditure and revenue to meet social and economic policy goals.
Citizen	This paper follows the convention in the tax and social contract literature and defines citizen as 'a member of a state'.
Ward Administrator	It is the urban equivalent of 'Village Tract Administrator'.

LIST OF ACRONYMS

CLS	City Life Survey
CSO	Civil Society Organization
DAO	Development Affairs Organization
EAO	Ethnic Armed Organization
GAD	General Administration Department
GDP	Gross Domestic Product
IRD	Internal Revenue Department
MCDC	Mandalay City Development Committee
MP	Member of Parliament
NLD	National League for Democracy
PACE	People's Alliance for Credible Elections
YCDC	Yangon City Development Committee



EXECUTIVE SUMMARY

Responding to the needs of citizens through the provision of public goods and services, maintaining the rule of law, and the protection of the most vulnerable are all important functions of modern governments. Yet, for the state to fulfil these duties, it requires both the knowledge of its citizen's needs, a willingness to respond to them, and access to sufficient budgetary resources to translate government plans into action. In light of this, both a nation's democratic systems and its budget processes are inextricably linked, having a mutual bearing on a nation's economic and social development, intergroup cohesion and, the nature and strength of relationships between citizens and the state.¹

Public financial management, budget oversight, and fiscal decentralization are therefore not just of economic relevance but can also form an important foundation of modern democracies; through their shared ability to encourage democratic accountability and incentivize inclusive institutions by binding governments and their citizens together in productive interdependence. For Myanmar, a country in the midst of a dramatic political and economic transition, this connection is not merely academic. With a long history of authoritarian rule, inter-ethnic conflict and an over-reliance on natural-resource revenue, historically, government in Myanmar has done little to incentivize the development of a prosperous inter-dependent relationship between citizens and the state or to encourage intergroup cohesion.

Yet, there is some reason to be optimistic, with results from The Asia Foundation's 2018 CLS showing that citizens felt well-represented by their local officials, were optimistic about the future, and willing to pay more taxes for better public services. This suggests that tax reform is not just a means for rebuilding the capacity of government but can also be used as a pathway for strengthening social cohesion and rebuilding the relationship between Myanmar's government and its citizens.

Reflecting on this, this Discussion Paper uses modern conceptions of the vertical and horizontal dimensions of the social contract to examine the nature of citizen relationships with government in Myanmar and what this might mean for reform. This Discussion Paper therefore, starts by introducing the concept of the social contract, before highlighting its relevance to Myanmar. The Discussion Paper then draws on insights from the 2018 City Life Survey (CLS) to better understand the 'vertical' relationships between citizens and the state before covering the 'horizontal', community, intergroup and interpersonal relationships. Lastly, drawing on these insights the Discussion Paper then provides some thoughts on their relevance for reform, before providing specific recommendations.

THE 2018 CITY LIFE SURVEY CITIES



Yangon



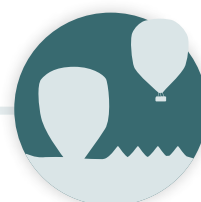
Mandalay



Mawlamyine



Monywa



Taunggyi

BACKGROUND

To ensure the well-being of its citizens, modern governments are expected to fulfil a range of roles on their behalf such as investing in road infrastructure, ensuring access to adequate health services, providing education, and guaranteeing a social safety net to help protect the vulnerable. Yet for a nation to meet the needs of its citizens, requires that it is able to identify them, prioritize them and has the resources and capacity to meet them. Yet, with limited financial resources, trade-offs must be made in how money is spent and funds are raised, with the choices made by government not just having practical implications for national prosperity, but also having bearing on social cohesion and the relationship of citizens with the state.

Taking taxes as an example, how they are designed, administered, and used all provide important touchpoints for citizens to interact with government. Levy taxes which are thought to be too high, burdensome or provide taxpayers with little benefit, and the relationship between citizens and government might be threatened. Conversely, levy taxes that are fair, well administered and help meet the needs of the community and the relationship between government and citizens might be strengthened. How governments manage their finances is therefore not just of relevance to economists and bureaucrats, but strikes at the very heart of a state's legitimacy and the 'social contract' that underpins it.

In Myanmar's case, this connection is not merely academic with a variety of factors having limited the practical opportunities for creating meaningful connections between citizens and government,² such as a history of inter-ethnic conflict, authoritarian rule, limited public service provision, and a heavy reliance by government on natural resource revenue. At the same time, in many areas, social cohesion is fragile with ongoing conflict between the Tatmadaw and Ethnic Armed Organizations and the persecution of the Rohingya minority in Rakhine State providing important reminders of the challenges that remain and the contentious nature of statehood and citizenship in modern Myanmar.³

Yet, this unfortunate history need not define Myanmar's future, with the political and economic reforms of the last decade providing reasons to be optimistic about what is possible. In the area of public financial management alone, reforms have been promising - with regional governments being provided with greater resources and authority, local communities being more frequently consulted in the budget allocation process, and budget information being published more frequently and in greater detail.⁴ At the same time, the transfer of the GAD to civilian control,⁵ the increasingly more active role of subnational legislatures⁶ and targeted engagements between the Union, State, and Region budget oversight committees⁷ all suggest important opportunities for maintaining this momentum.

Notably, with a general election in 2020, continuing these reforms will be crucial. Particularly as national elation has increasingly given way to public frustration, due to a stalled peace process and the slow pace of reforms since the NLD's landslide victory in 2015.⁸ Improving the daily lives of citizens and their relationship with government should therefore form a key priority for the government elected in 2020. Targeted tax reform and improvements to public service provision represent practical avenues to achieve this as part of wider nation building efforts.

Reflecting on this challenge, this Discussion Paper uses the conceptual framework of the 'social contract' to contextualize insights from urban citizens surveyed as part of The Asia Foundation's 2018 CLS. The Discussion Paper does this by first introducing the concept, before highlighting its relevance to Myanmar. Insights from the 2018 CLS and other relevant research is then used to better understand the state of 'vertical'

relationships between citizen and the state before moving to the 'horizontal' dimensions such as intergroup cohesion and interpersonal trust. The paper then concludes by providing some thoughts on the relevance of these relationships for reform, with a particular focus on tax reform, before providing specific recommendations. Note that the CLS findings are not representative of Myanmar's overall population, nor its overall urban population. The Discussion Paper there avoids interpreting survey results at a more granular level than individual cities, and the conclusions formed are not intended to be definitive or exhaustive on the topic of tax reform.

BOX 1: ABOUT THE CITY LIFE SURVEY

The 2018 CLS is an initiative to understand the well-being of urban residents living in five cities across Myanmar: Yangon, Mandalay, Mawlamyine, Monywa, and Taunggyi. The CLS has three key goals:

1. Providing policymakers with the information they need to make informed decisions
2. Helping policymakers understand the priorities of their communities
3. Facilitating lesson learning and healthy competition between cities

The survey itself includes 135 questions covering all aspects of urban life. Questions can be roughly divided into the categories of economic, physical, and inter-personal well-being. Questions were selected to either capture holistic determinants of well-being, or to meet the specific needs of municipal authorities. The survey itself was conducted in 2018 in collaboration with the Yangon School of Political Science, and its intended to be repeated every two years alongside parallel programs and products such as city-level briefings, the development of a public data portal, data analysis training workshops, and thematic Discussion Papers such as this one.



The idea of “positive deviance” as an approach to policy reform is a key part of CLS’s theoretical framework. A positive deviance model identifies places where conditions are unusually good or systems are unusually effective, and then explores why that place is more successful than its peers – and whether their strategy or solution could be learned from and replicated elsewhere. Cities can be thought of as laboratories, and their wide diversity of practice means it is possible to compare the efficacy of different approaches, learn from successes and failures, and improve well-being in all cities as a result.

The CLS utilized three-stage randomization (by ward, household, and respondent) and was conducted by trained face-to-face interviewers who input responses into e-tablets. There were 2,414 respondents in five cities, 27 townships, and 228 wards, all of which are residents of Myanmar over the age of 18. Four religious groups and 48 ethnic groups are represented. For the full methodology please read the [‘City Life Survey 2018 Summary Report’](#).

CONCEPTUALIZING THE SOCIAL CONTRACT

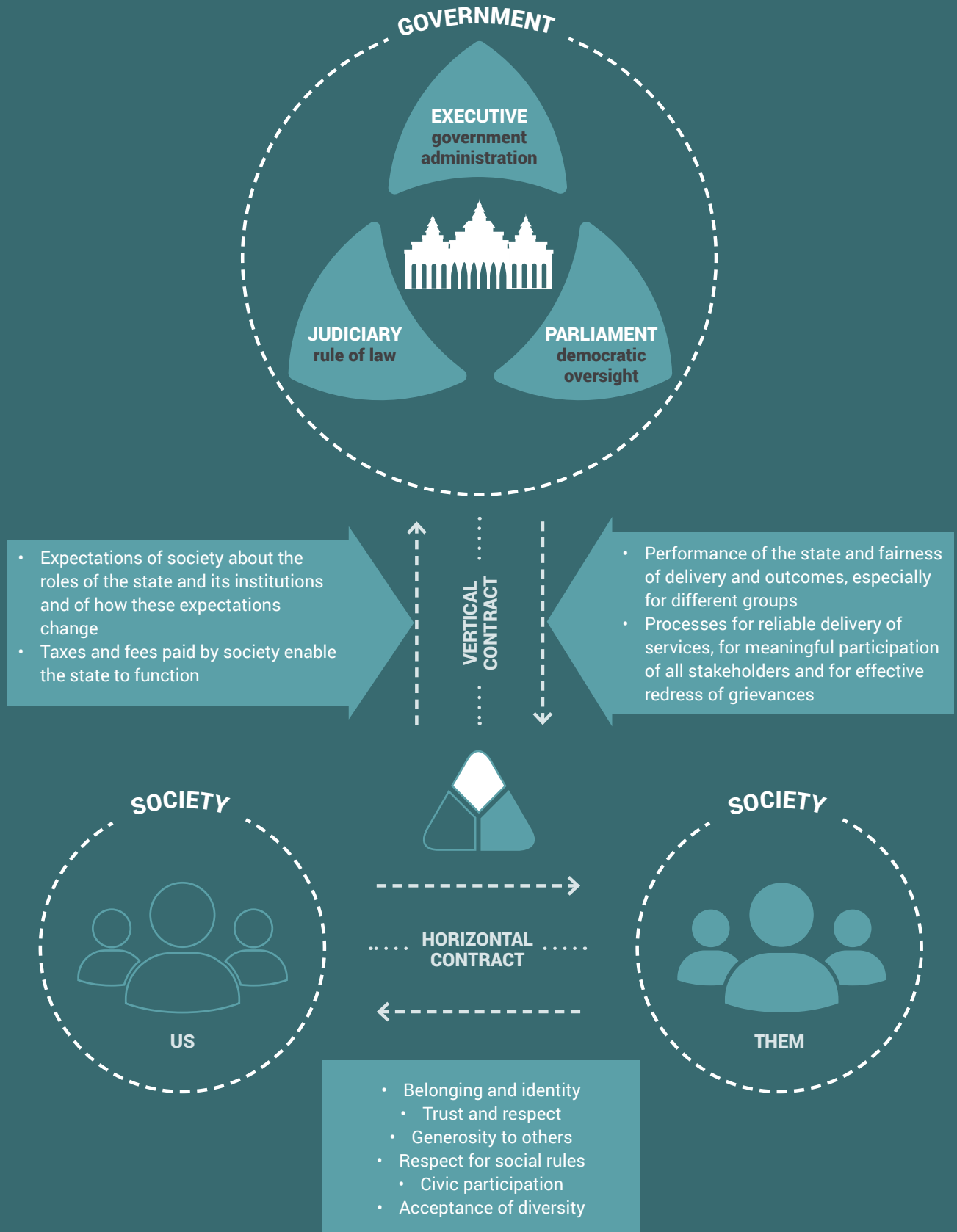
“ The social contract is the process by which everyone in a political community, either explicitly or tacitly, consents to state authority, thereby limiting some of her or his freedoms, in exchange for the state’s protection of their universal human rights, security, and for the adequate provision of public goods and services.”⁹

The social contract is typically described as an unwritten agreement between individuals and government as to how a nation should be formed and how power will be exercised. It can be thought of as the implicit and explicit agreements between government, citizens, and wider society as to the role of the state, the responsibilities of citizens, and how the rights and freedoms of the individual should be balanced with the authority of government.¹⁰

As the very formation of a stable democratic government depends on its citizens, having a sense of ‘nationhood’ that can unite citizens regardless of their ethnicity, religion, or beliefs is crucial. The strength of the ‘horizontal’ dimension of the social contract forms a critical bedrock on which ‘vertical’ relationships with the state and the public can be sustainably built, social cohesion maintained, and the establishment and maintenance of productive economic and social institutions incentivized.¹¹

As stylized in Figure 1, central to the idea of the social contract in the context of modern democracies is the interdependence between government and its citizens. From the perspective of the public, government is generally expected to provide a range of public goods and services such as health, education, and infrastructure while maintaining law and order in a way that reflects the needs and aspirations of the public. Elections are held to provide citizens with a means to delegate authority to political leaders, while bodies such as the civil service, legislature, judiciary, media, and civil society play a role in ensuring community needs are communicated, public resources are well-used, and authority is properly exercised. Correspondingly, government will then also place expectations on its citizens such as acceptance of the state’s authority in particular areas of their daily lives, willing participation in civic life, and financial contribution to maintaining the state by paying tax for example.

**FIGURE 1:
 CONCEPTUALIZING THE SOCIAL CONTRACT**



BOX 2: TAXES AND FEES¹²



A tax is a compulsory, unrequited payment to the government. It is “unrequited” in the sense that the benefits that citizens receive from government are not directly tied to the tax payment. For instance, while citizens will generally expect public goods and services in return for paying income taxes, the tax liability depends on their income rather than the level of public goods and/or services they access. This makes them different to fees, which are legal payments made to access a particular good or service provided by government such as for business registration, licenses, or trash collection.

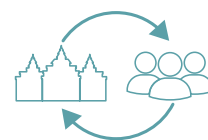
Although both taxes and fees are crucial for funding the provision of public goods and services, in the context of the social contract they imply a different relationship between government, society, and the payee. For instance, fees being provided to access a government good or service means that the benefits are more directly observable to the payee. On the other hand, the benefits of payment to individual taxpayers may be harder to observe, due to its benefits being more widely dispersed. Particularly if the revenue is allocated outside the taxpayer’s community.

Underlying this reciprocal connection between government and the public sits a horizontal relationship or ‘social covenant’ which informs social relationships such as the informal rules, traditions, and customs that bind together public actors and groups. In practice this might include informal rules and institutions that influence the daily lives of citizens such as the accepted role of the private sector, processes for community decision making, the role of community organizations, and public expectations about the characteristics that define good political leadership.

“In fragile settings, horizontal society-society dynamics have an important impact on how vertical state-society relationships evolve, whether a social contract can thus be fashioned and what the nature of that contract will be if eventually achieved. In such contexts, developing a social covenant or some other form of pact that brings together various ethnic, religious, clan and ideological groups may be essential to progress on other fronts. All else being equal, a society that is able to reach agreement on its fundamental principles and values (e.g. who is or can become a citizen, what makes for a legitimate government, or how to accommodate myriad ethnic, religious and regional identities), is more likely to be able to forge a sustainable social contract, particularly when institutions are unable to equitably enforce rules and commitments.”¹³

In countries with weak social contracts the relationship between citizens and the state might be characterized as ‘fragile’. Government might show limited accountability and responsiveness to the needs of citizens; formal rules, norms, and institutions might not reflect public aspirations; and institutions might not be conducive to building social cohesion and economic prosperity for the nation as a whole. On the other hand, nations with strong social contracts might be characterized as having governments that are stable, accountable, and responsive to the needs of its citizens. Being more responsive, government is likely to be better placed to allocate public resources effectively, while also administering the rule of law in a way that is fair, reflective of the public will, and protects the fundamental rights of citizens.

BOX 3: TAXATION, STATE FORMATION, AND THE 'GOVERNANCE DIVIDEND'¹⁴



A variety of studies have suggested there may be a causal link between the state of a nation's public finances and the quality of a government's relationship with its citizens. In essence, it's posited that when governments rely more heavily on their citizens for resources and authority, mutually productive relationships between citizens and the state are more likely to emerge. Put another way, when a government relies on the economic prosperity of its citizens through tax revenue, the state will have greater incentives to allocate resources and exercise authority in a way that fosters the social and economic prosperity of taxpayers, thereby strengthening the social contract (see: Moore 2004).

Because of this, governments that are less reliant on the economic prosperity of citizens for tax revenue might be more inclined to develop 'extractive' economic and political institutions which are unaccountable and steer resources to a narrow segment of a nation's population. As a result, a skilled civil service and effective tax administration may be less likely to emerge, while the provision of public services in response to the needs of citizens will likely be limited. On the other hand, governments that rely on a wider segment of their population for tax revenue might have greater incentive to establish and maintain 'inclusive' institutions that allocate resources and apply authority for the benefit of a wider segment of the population. As a result, a more accountable government, effective civil service, and public services that respond to citizen needs, are more likely to emerge, as is a stronger social contract (see Acemoglu, D. and Robinson, J.A., 2012).

While the idea is still subject to debate and the relationship between a government and its citizens is context-specific, there is evidence to support the idea. For instance, a large number of cross-country studies have found strong empirical evidence of there being a positive link between the extent of a country's reliance on tax revenue and democratic accountability, even after accounting for natural resource wealth (See: Prichard et al, 2014). Similarly, a number of country-focused studies have also provided some support to this idea including research focused on Benin (Piccolino 2015), China (Zhuang, Y. and Zhang, G., 2016) and Poland (Easter 2002).

The social contract therefore provides an important foundation on which a country's budget is built. For citizens and businesses, it might influence the strength of their moral obligation to pay tax, the types of good and services they expect from government and whether it's acceptable to allocate public funds outside the community, ethnic group or religion they identify with. From the perspective of government, a weak social contract might also make it more acceptable to allocate public resources or administer law for their personal benefit, rather than for the benefit of the nation as a whole.

Finally, because a nation's public finances can directly influence the day-to-day lives of its citizens, it can also directly shape the social contract itself. Practically, this might be through public perceptions of fairness about how public funds are being used; the ease of access citizens have to information on the use of public resources, the direct impacts of administering taxes on citizens and businesses; and the incentives created by taxation and how they might influence the behavior of taxpayers. In essence, a well-designed, fair and efficient fiscal system can therefore help encourage mutual interdependence by ensuring citizens, businesses, and government all have a mutual stake in national prosperity.

Because a nation's public finances can directly influence the day-to-day lives of its citizens, it can also directly shape the social contract itself.

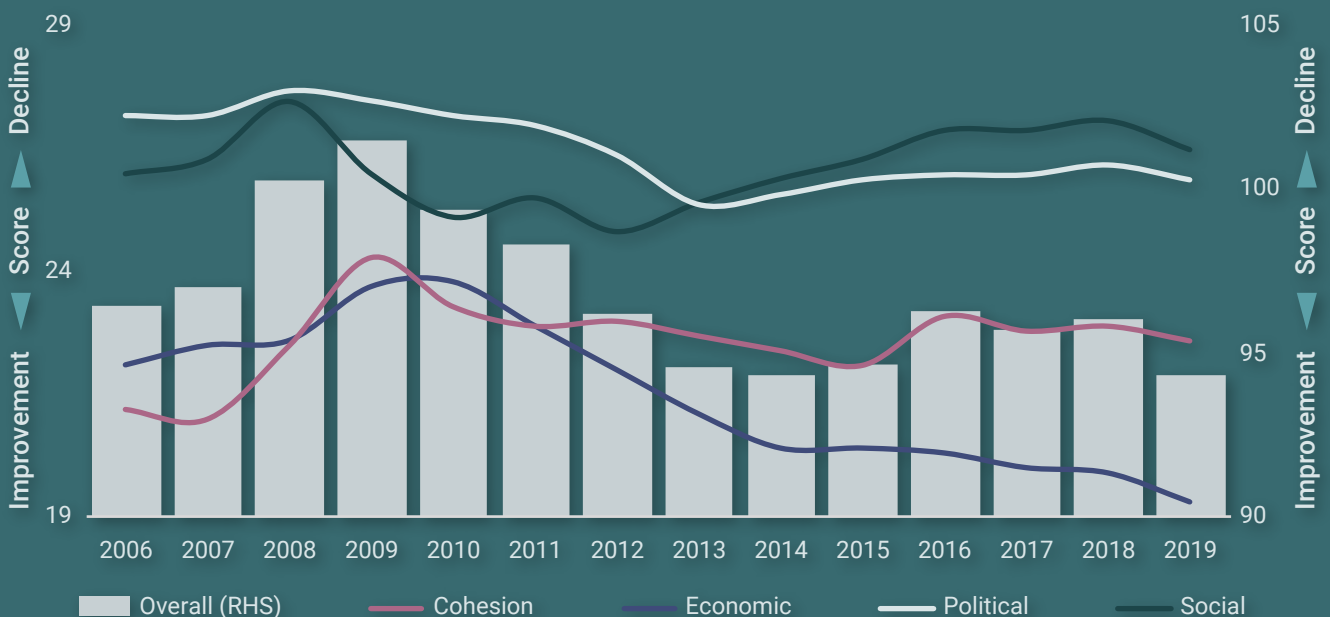
THE SOCIAL CONTRACT AND MYANMAR

With some of the lowest health, education, and economic outcomes in the region,¹⁵ public finances may not be the first of Myanmar’s many development priorities that come to mind. Yet for government to drive development, public spending on health, education, and infrastructure will need to increase, requiring government to raise greater revenues.¹⁶ However, with a long history of authoritarianism, simmering ethnic tensions, an under-resourced tax administration with a reputation for corruption,¹⁷ and one of the lowest tax-to-GDP ratios in the region, overcoming this challenge is likely to be as much about re-forging the social contract as it is about regulations.¹⁸

From a practical standpoint, Myanmar’s long history of centralized control, heavy reliance on non-tax revenue to fund government¹⁹ and its extractive military institutions²⁰ has left the civil service and tax administration ill-equipped to respond quickly to this need. At the same time, government legitimacy is in need of repair after decades of failed economic reform and state-led persecution, such as the 1987 demonetization,²¹ the violent crackdown against pro-democracy protests in 1988 and the brutal response to the 2007 ‘Saffron Revolution’.

But these themes are not just of historic relevance, with modern proxies for the quality of vertical and horizontal aspects of Myanmar’s social contract having seen limited improvements since the commencement of recent economic and political reforms. For instance, as illustrated in Figure 2, the ‘Fragile States Index’, which attempts to proxy key dimensions relevant to state-fragility, has seen many of the gains from Myanmar’s economic performance being offset by declines in proxies of political legitimacy (Political), social cohesion (Cohesion) and demographic pressures (Social).²²

**FIGURE 2:
 MYANMAR AND THE FRAGILE STATES INDEX (2006 TO 2019)**



Although caution is warranted when interpreting quantitative estimates of something so complex, a recent survey by PACE gives credence to many of these trends. For instance, between 2016 and 2019 public trust has declined in a number of key government institutions and representatives including, the President, Union Hluttaw and Union Election Commission. At the same time, likely reflecting both these general declines in public trust and more tempered expectations of the NLD, PACE's 2019 survey found those reporting an interest in politics to have dropped to 34 percent, its lowest level since 2015 and substantially lower than the high of 58 percent reported in PACE's 2016's survey, conducted shortly after the NLD's election.

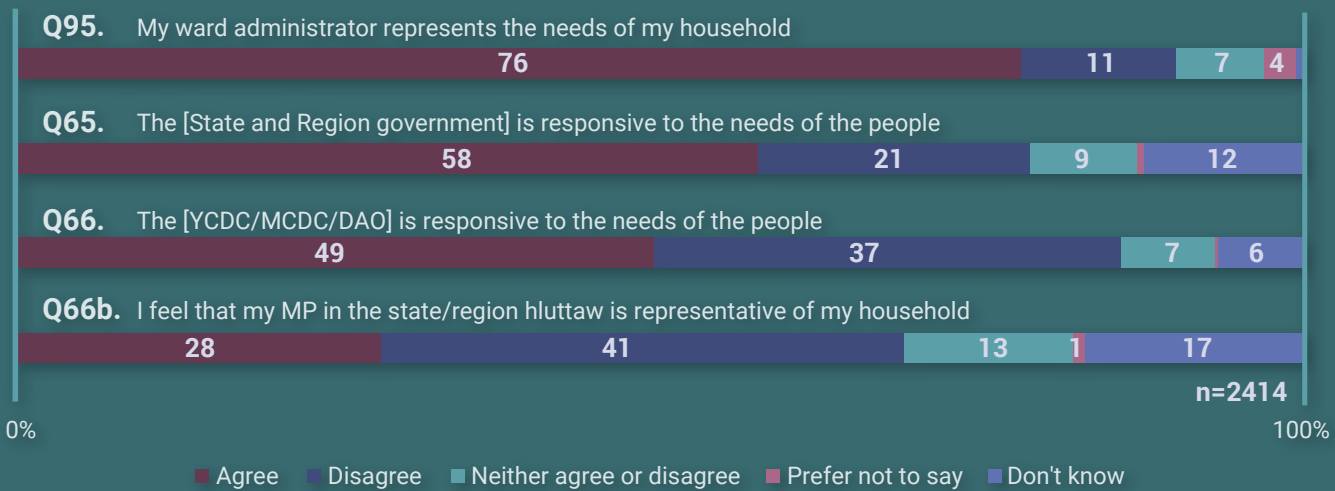
Finally, trust in the key institutions responsible for administering security and the 'rule of law' also appears to be low. For instance, PACE's recent survey suggested public confidence in the police to be relatively low, while more people in Myanmar reported having 'no confidence' in the courts than reported having 'confidence'.²³ This also appears to be true on a regional basis, with the 2015 Asian Barometer Survey finding trust in the police, courts and military were low in Myanmar when compared with the results of other nations in the region.

In the context of the social contract, many of these declines might also have more practical implications for tax reform, budget allocation and democratic accountability. For instance, there is evidence to suggest that public attitudes towards paying tax are positively related to the public's satisfaction with democracy, perceived levels of corruption, trust in government and, public satisfaction with the quality of public services.²⁴ Consequently, recent declines in vertical aspects of the social contract will likely serve as an impediment to improving tax compliance.

Results from the 2018 CLS also suggest both the quality and nature of these relationships is likely to vary greatly across government (Figure 3). For instance, while most urban citizens surveyed didn't feel their household was represented by their local parliamentarians,²⁵ they were three times more likely to feel the state/region government was responsive to their needs, than not.²⁶ While perhaps most strikingly, a little over 80 percent felt their local Ward Administrator represented the needs of their household.



**FIGURE 3:
 GOVERNMENT RESPONSIVENESS AND REPRESENTATIVENESS**



While the results achieved by Ward Administrators appear striking when compared with local MPs, it is perhaps unsurprising given the longstanding role of Ward Administrators in Myanmar’s government administration, their respected position in the community, their more direct selection by local communities, and them being tasked with responding to issues that impact the day-to-day lives of citizens.²⁷

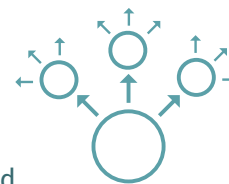
At the same time, MPs are tasked with representing an average of sixty thousand people,²⁸ twelve times that of the average Ward Administrator.²⁹ This, when combined with the limited budget resources, Myanmar’s low state capacity,³⁰ and the relatively recent establishment of democratic institutions has provided little opportunities for democratic institutions to form practical links with the public likely resulting in many citizens being unsure of the role and responsibilities of Union and Subnational MPs.

PACE’s recent survey also found some support for this idea, with most respondents not being aware or able to rate the performance of their subnational or Union MP in important areas such as mobilizing development activities, introducing legislation in parliament or regularly visiting their constituencies. At the same time, when asked how MPs could better meet the expectations of citizens, almost half of respondents identified the better understanding of community issues as being most important, again highlighting just how important local communities are in the eyes of citizens.³¹ Yet, even with their more local focus, state/region MPs and legislatures did not appear to perform better than their Union counterparts.³²



**A LITTLE OVER
 80%
 FELT THEIR
 LOCAL WARD
 ADMINISTRATOR
 REPRESENTED THE
 NEEDS OF THEIR
 HOUSEHOLD**

BOX 4: FISCAL DECENTRALIZATION: CLOSING THE GAP BETWEEN CITIZENS AND THE STATE



Since reforms began, some effort has been placed on encouraging greater political and fiscal autonomy at the State and Region level. This has included the establishment of subnational parliaments, with their own budgets and legislative authority, increases in funding provided to subnational governments and the establishment of local committees to encourage more 'bottom up' input into planning and development.

While the success of many of these reforms has been mixed, they have been suggested as an important means for bridging the divide between citizens and the state. This is in part because decentralization is thought to provide a practical opportunity to enhance the legitimacy of government by encouraging government to better reflect the identity of local communities. Similarly, by narrowing the distance between decision makers and the lives of the citizens they influence, it is hoped that fiscal and political decentralization can encourage greater democratic accountability and the better use of public funds.

Yet fiscal decentralization is no panacea. For just as there are advantages to more closely aligning government with local communities, so too are there risks - such as the capture of decision-making authority by local elites, local autonomy undermining centralized coordination, and reduced economies of scale. At the same time, to avoid excessive waste requires a managed transition, requiring a clear division of responsibilities between each level of government; sufficient local bureaucratic capacity; adequate local budget oversight and mechanisms for utilizing community input.

These results also suggest an important area of focus in light of Myanmar's recent reforms. For instance, the ability of subnational political and fiscal autonomy to positively impact the lives of citizens heavily depends on subnational bodies effectively representing their constituents, responding to their needs and to be seen to do so by citizens. In practice requiring, not just access to sufficient financial resources and the capacity to use them, but enough transparency, openness and democratic accountability to provide the public with an opportunity to meaningfully engage with government and influence outcomes.

However, Myanmar scores poorly in terms of budget transparency and public participation in the budget process, both globally and when compared with regional neighbors.³³ As a result, there are still limited practical avenues for the general public to access meaningful budget information or influence how public resources are being used. In addition to this limiting the incentives for government to better use public funds, this also serves as a practical impediment to citizen participation while doing little to overcome public perceptions of the misuse of public funds that discourage tax compliance.³⁴

Corruption, defined broadly to be the use of public resources for private gain, is also relevant in this regard due to it both imposing costs on citizens directly while also undermining public trust and government legitimacy. While not a core focus of the 2018 CLS, corruption is generally acknowledged to be common in Myanmar³⁵ with both Transparency International's Corruption Perception Index and the World Bank's, Enterprise Survey highlighting it as a concern.³⁶ This was also reflected in the 2018 CLS, with around half of respondents feeling corruption was common practice in their city, with a little over ten percent reported having paid a bribe in the last three months.³⁷ Although respondents were more likely to view corruption as an issue when having recently paid a bribe, those that hadn't still were more likely to see corruption as an issue than not (Figure 4).³⁸

There are still limited practical avenues for the general public to access meaningful budget information or influence how public resources are being used.



**FIGURE 4:
 HAVING PAID A BRIBE IN THE LAST 3 MONTHS
 VS. SEEING CORRUPTION AS COMMON PRACTICE IN THE CITY:**

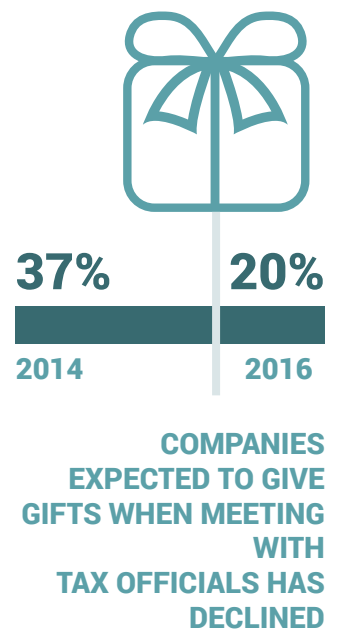


While on one level corruption matters due to it imposing a direct cost on households, businesses and the wider community, it can also impose costs indirectly through hampering economic growth, encouraging resources to be unfairly distributed, and undermining democratic institutions.³⁹ From a social contract perspective, corruption in Myanmar is also likely to be particularly detrimental due to it commonly occurring when citizens interact with key public services such as the police, courts,⁴⁰ hospitals, and public schools.⁴¹ This, when combined with high-profile cases of corruption and the misallocation of public funds,⁴² are all likely to further undermine public trust in government and weaken the incentive to voluntarily pay tax.

For Myanmar, tackling corruption is therefore, a clear priority, both for the broader economic benefits possible and to help rebuild the public’s trust in government. In this regard there has been some important progress. For instance, the proportion of companies expected to give gifts when meeting with tax officials declined from 37 to 20 percent from 2014 to 2016,⁴³ likely in-part reflecting the Internal Revenue Department’s active efforts to tackle the issue.⁴⁴ At the same time, for all the difficulties faced by the NLD, reducing corruption has been noted as one of their accomplishments.⁴⁵

However, underling the fragile relationship between citizens and Myanmar’s government also sits horizontal aspects of the social compact which are weak and appear to have experienced declines since 2011. For instance a deterioration was recorded in the Fragile States Index’s measure of ‘Group grievances’, which proxies the divisions between groups and their inclusion in the political process; and “Refugees and Internally Displaced Persons” which attempts to proxy the severity of issues relating to refugees and forced displacement.⁴⁶ Echoing this trend, PACE has also observed declines in interpersonal trust, trust in religious leaders and trust in civil society organizations between 2016 and 2019.⁴⁷

At the same time, PACE’s most recent survey suggested public confidence in the military and police was substantially lower in Myanmar’s (mainly ethnic) States when compared with Regions, suggestive of how differently ethnic divides appear to be impacting relationships with key government institutions. This was shown in respondents from States tending to express lower levels of trust than Regions in a range of political representatives and government institutions including the State Counsellor, President, Union-level Hluttaw, Region Hluttaw, Union Election Commission, State-Owned Media, and the Anti-Corruption Commission. In contrast, reported levels of trust for Ward/Village Tract Administrators, Township Administrators, religious leaders and CSOs were positive and



similar when comparing results from States to that of the Regions, likely suggestive of their more 'local' nature and better reflecting of the identity of respondents.

While such movements are concerning in their own right, weaknesses in the 'social glue' that binds citizens together as a nation can also have a number of important practical implications. For instance, interpersonal trust and social cohesion are generally seen to an important facilitator for interpersonal and inter-community trade, with stronger social cohesion and trust encouraging an economic 'bridge' between communities, thereby having the potential to expand commercial opportunities.⁴⁸ At the same time, there is evidence to suggest that 'collective action' is more likely when there is a stronger shared identity. As such, when intergroup cohesion is stronger, citizens are more likely to advocate government to provide broadly beneficial public services such as health, education, and infrastructure, as opposed to delivering benefits solely to their identity group.⁴⁹

BOX 5: SOME NOTES ON THE SOCIAL CONTRACT AND MYANMAR⁵⁰

To provide a descriptive framework for discussing the social contract, this paper uses the term 'horizontal' to describe relationships amongst households, communities and businesses and 'vertical' dimensions that relate to the relationship between the public and their government. While this distinction is not always made in the literature, it is considered particularly important in the context of developing states, as it better recognizes the role of informal institutions and a shared sense of nationhood to the formation of a stable nation state. Yet, it is important to recognize that while the concept provides a useful descriptive framework, it is not intended to be prescriptive or to provide a comprehensive means of characterizing the many challenges unique to Myanmar.

Additionally, it's also important to recognize the inherent difficulties in discussing complex and multidimensional issues such as state-building and intergroup relationships. For instance, in reality there will exist practical crossover between the identity of groups meaning many citizens can simultaneously identify themselves as civil servants, business owners and religious leaders. As a result, they might hold different relationships with the state and will hold a variety of perspectives on the fairness of a particular rule, regulation, tax or policy depending on the context of their decision making.

At the same time, while the concept of the 'social contract' is typically described in singular terms, as Duncan Green (Senior Strategic Adviser at Oxfam GB and LSE professor) notes, most citizens in Myanmar will be part of multiple 'social contracts' at a time including with the Union government, subnational government and the Township Administration. Such relationships are also likely to be even more complex where the authority of Myanmar's government is contested, such as in areas where EAOs operate. Particularly as many EAOs may in fact also provide health, education and other public services in return for taxes.

For Myanmar, a number of detailed surveys provided important insights in this regard, with there being a tendency for surveys to find that trust in others is higher in more 'local' communities. For instance, in the 2018 CLS, when asked to reflect on their local neighborhoods 92 percent of respondents felt close to other people in their neighborhood and 90 percent reported feeling welcome, while approximately half of respondents felt most people could be trusted in their city as whole (Figure 5), compared with 19 percent agreeing that 'most people can be trusted' for comparable national surveys.⁵¹

However, also highlighted in the 2018 CLS results were low levels of trust in those from other religions and ethnicities, particularly when compared with local neighborhoods. Suggestive of both Myanmar's fragile intergroup cohesion⁵² and the fact that many urban neighborhoods are likely to be strongly segmented along ethnic and religious lines.⁵³ These divisions also appear to be reflected in political preferences, with PACE's 2019 survey finding that over fifty percent of respondents would not vote for a candidate from their preferred party if from a different religion, 33 percent if from a different ethnicity and 29 percent if the candidate nominated by their preferred party was from a different township.⁵⁴



92%
FELT CLOSE TO OTHER PEOPLE IN THEIR NEIGHBORHOOD

**FIGURE 5:
 INTERPERSONAL TRUST AND COMMUNITY**



0% Strongly agree Somewhat agree Neither agree or disagree Somewhat disagree Strongly disagree Prefer not to say 100%

While the ‘formal’ taxes paid by citizens are considered relatively low, these do not reflect the substantial informal donations made by many citizens.

Although being more willing to trust those in your neighborhood or social network is not unusual, it is likely suggestive of where horizontal dimensions of the social contract are weak, where it needs attention and the type of tax policies more likely to gain traction. For instance, it is conceivable that improvements in tax compliance might be more likely, if funds are expected to be allocated to the taxpayer’s local community.⁵⁵ On the other hand, support for tax policies that redistribute revenue from one community to another will require a narrative that is able to transcend local identities to be accepted. As such, overcoming ethnic and religious divisions and strengthening interpersonal trust are all likely to be important preconditions for improving tax compliance and incentivizing the selection of politicians that represent shared-prosperity, rather than sectarian interests.

At the community level, the 2018 CLS also suggested the important role of civic, religious, and business organizations in the day-to-day lives of citizens. For instance, Myanmar’s citizens appear to be highly charitable and socially engaged, with 92 percent of respondents reporting donating to charity while 60 percent reported having volunteered at least every few months. These indications of strong community involvement were also supported by the 2014 Civic Knowledge survey which found almost half of respondents to be members of a social club.⁵⁶

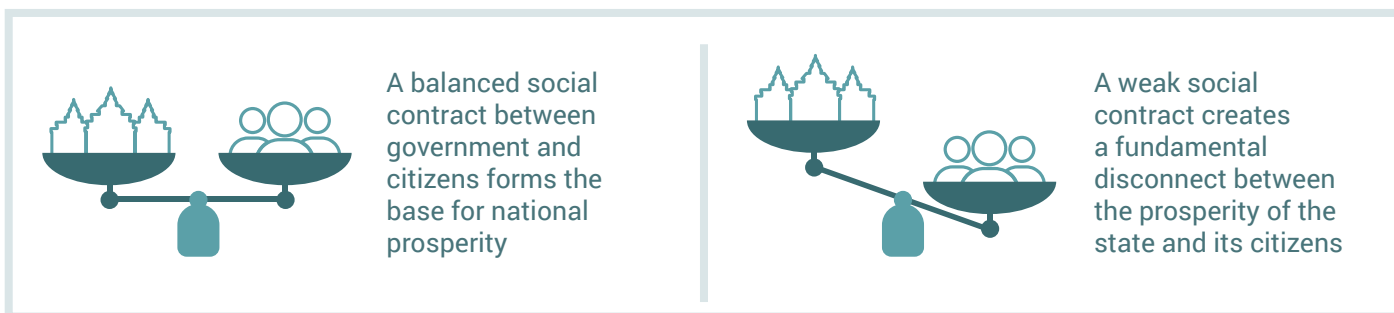
Yet, this is also likely an indication of many local communities in Myanmar filling a space that has been unoccupied by the state out of necessity. With research finding that in many areas community and religious groups provide more ‘essential services’ than government, particularly in regards to social support.⁵⁷ As such, while the ‘formal’ taxes paid by citizens are considered relatively low, these do not reflect the substantial informal donations made by many citizens that support the provision of social support services in their community by community organizations. As a result in many areas, a large part of the effective tax burden of Myanmar’s households likely comes from informal contributions to local service providers and community groups, rather than government.⁵⁸



CONCLUSION

The social contract is often described as the formal and informal agreements between government, citizens and wider society as to the role of the state, the responsibilities of citizens and how the rights and freedoms of the individual should be balanced with the authority of government. Yet, as the very formation of a stable democratic government depends on its citizens, it must also be formed on a bedrock of nationhood that can unite citizens, regardless of their ethnicity, religion or beliefs.

With a weak social contract, relationships between citizens and the state tend to be poor and intergroup cohesion weak. As a result, public services, regulations, and political leadership are less likely to reflect, or respond to, the shared aspirations of the public. With limited state legitimacy, citizens also have little motive to voluntarily comply with their tax obligations, requiring government to rely on punitive action or alternative revenue sources for funding. Thereby creating a fundamental disconnect between the prosperity of the state and that of its citizens.



Nations with a strong social contract are likely to have governments that better reflect, and respond to, public needs and aspirations. Being built on a widely shared sense of nationhood, rules and informal norms are built on a stronger foundation of social cohesion. With strong state-legitimacy, public goods and services that encourage personal and economic security and an ability to identify with the goals of the state, the public has greater reason to voluntarily contribute through taxes. Correspondingly, by relying on revenue from the prosperity of its citizens, a fundamental link exists between a government's budget and the prosperity of taxpayers.

In the context of Myanmar, the social contract provides a vital framework for understanding the multidimensional nature of economic and social reform, particularly in the context of public finances. Tax reform in Myanmar is therefore likely to be as much about strengthening social cohesion and trust in government as it will be about technical aspects of tax reform.

In Myanmar's case, many indicators suggest vertical aspects of the social contract to be weak. Trust in key government institutions, including the President, Union Hluttaw, Political Parties and the Union Election Commission has declined since 2016. Adding to this, reported confidence in government bodies responsible for administering the rule of law, such as the police and courts, are low. Corruption is also commonly cited as a concern, with evidence suggesting it often occurs during critical interactions with government such as when citizens attempt to access basic public services such as the police, courts, hospitals, and public schools.

Although recent surveys suggest the public is broadly optimistic about the direction Myanmar is heading in, optimism appears to have declined. Specifically, while 75 percent of respondents felt Myanmar was heading in the right direction in 2017, this was down from 88 percent in 2014, with the proportion feeling the country is heading in the wrong direction more than doubling from six to 16 percent.⁵⁹ At the same time, while PACE's 2019 survey found people were almost four times more likely to state the country, their state/region or their township was heading in the right direction than the wrong direction, almost half of respondents stated they didn't know, suggesting a significant level of uncertainty about the future, potentially in light of general political disengagement or upcoming elections.⁶⁰

Proxies for Myanmar's intergroup cohesion and the strength of the 'horizontal contract' also suggest reasons for concern. For instance, while many urban citizens report high levels of trust in their neighborhood and moderate levels of trust for others in their city, reported trust in others in Myanmar appears low when compared with its regional neighbors. At the same time, the high levels of community trust reflected in the 2018 CLS were starkly contrasted with high levels of suspicion for those from different ethnicities or religions, suggestive of Myanmar's weak intergroup cohesion.

Overcoming weaknesses in intergroup cohesions, has wider implications than peace and security, with the strong preferences against political candidates from other religions and ethnicities suggesting the challenges that must be overcome to build an inclusive national identity needed for more ambitious national economic and social reforms. Specifically, PACE's 2019 survey found a little over fifty percent of respondents would not vote for a candidate from their preferred party if from a different religion, 33 percent if from a different ethnicity and 29 percent if the candidate nominated by their preferred party was from a different township.⁶¹

Progress has been made. With a number of proxies for government capacity and state legitimacy having improved drastically since 2011⁶², including the Fragile States Index's measure of 'State Legitimacy' and a number of key perception-based indicators from the World Bank relating to corruption, the quality of public services and governments' ability to implement sound policies and regulation.⁶³ Similarly, despite recent declines, Myanmar's tax-to-GDP ratio has experienced general improvements since 2001 as a result of a number of reforms such as the introduction of commercial tax and establishment of the large taxpayer office in 2014.⁶⁴

Many of the most promising reforms might still have the potential to bear fruit, with efforts to decentralize fiscal and political authority to subnational governments still having the potential to narrow the divide between government and citizens if complemented by further reforms. For instance, by enhancing transparency, encouraging democratic accountability and having more decisions made locally, it is possible that subnational governments can become more accountable to local communities, thereby improving how budget resources are allocated, monitored and projects evaluated.⁶⁵

The strong sense of local community and important role of local religious, ethnic and community organizations in service provision provide an important opportunity to build upon. For instance, most urban citizens surveyed in the 2018 CLS reported being actively engaged in their community through charitable contributions and/or actively volunteering in the community. In fact, while Myanmar is noted as having one of the lowest tax-to-GDP ratios in the region, informal contributions to community organizations that provide a range of essential services can form a more significant proportion

By enhancing transparency, encouraging democratic accountability and having more decisions made locally, it is possible that subnational governments can become more accountable to local communities.

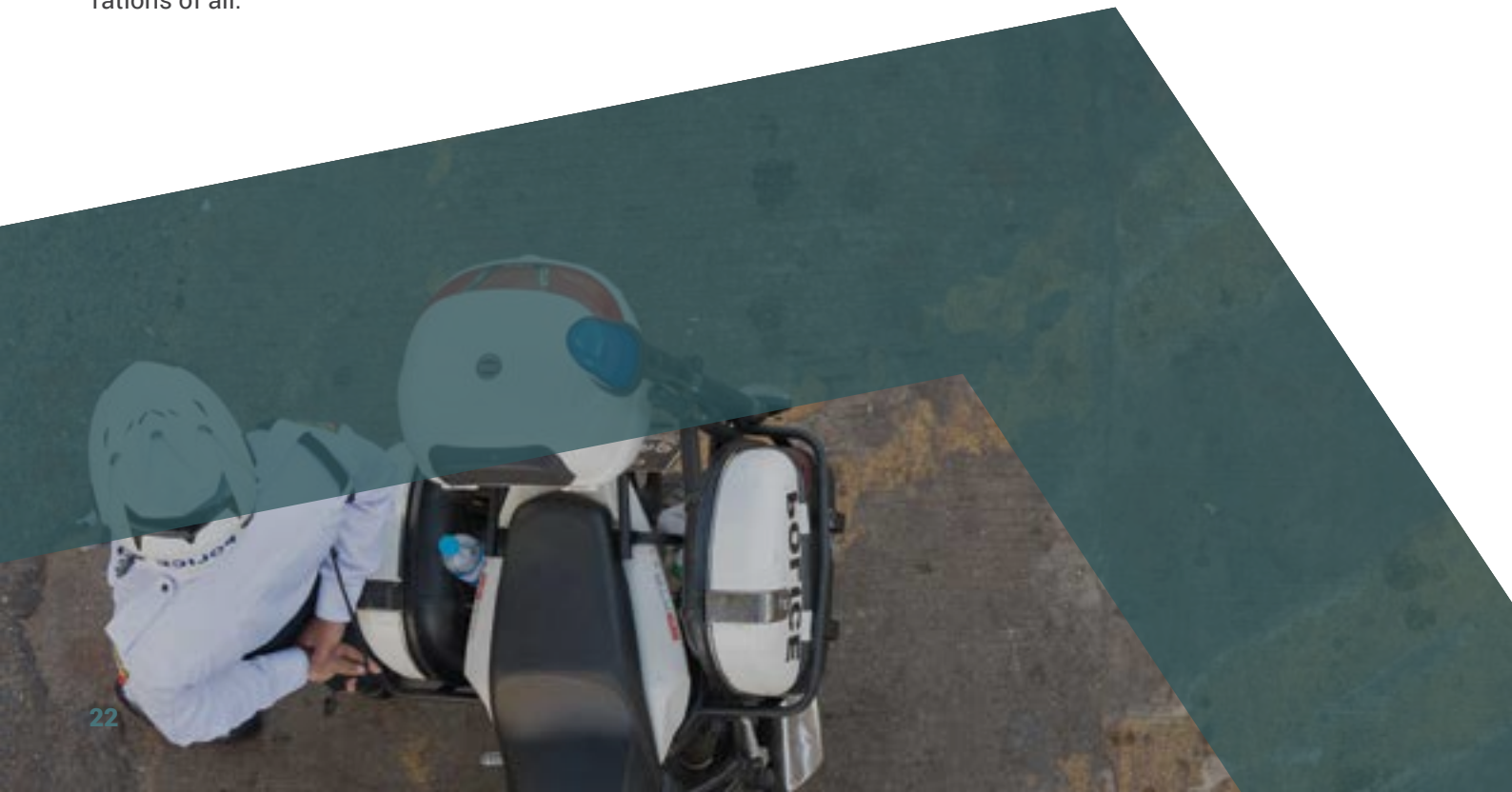
of household expenditure than tax payments. As such, in a real sense many citizens are effectively paying more 'tax' than implied by statistics as a result of voluntary community contributions.

There are some indications tax reform can work if paired with greater transparency, better public oversight and visible increases in public services that can be seen to benefit the daily lives of taxpayers. For instance, in the 2018 CLS urban citizens expressed a readiness to pay more tax in return for greater public services, while also being willing to make personal sacrifices if it meant their neighbors having better access to municipal services, such as trash collection.

Many ideas held by the general public appear to be compatible to building a modern tax system, with surveys suggesting general support for personal agency, meritocracy and the need to support the vulnerable. For instance, the 2018 CLS found the majority of people feel they can get ahead through hard work. While a survey in 2014 found that most respondents felt all should have equal rights under the law and ethnic minorities should be provided with additional support.⁶⁶

Ward Administrators provide important lessons for how to make government work for citizens by focusing on local issues that respond to their daily concerns. In fact, despite general declines in public trust of key government institutions, Ward Administrators are still generally thought to be some of the most responsive and trustworthy officials in Myanmar. This was true both overall and when comparing the results from States to that of Regions. Suggestive of the positive influence government can have when seen to be responsive to the daily lives of citizens.

For the future of Myanmar's economic and political reform, rebuilding 'vertical' and 'horizontal' dimensions of the social contract should be central. As such, tax and public service reform should not be seen as merely a technical exercise. Rather, taxation and the provision of public services by government should be seen as a chance to rebuild the social contract with citizens, foster a sense of national identity that transcends intergroup differences and builds a government that is responsive to the shared aspirations of all.



RECOMMENDATIONS

REBUILDING VERTICAL DIMENSIONS OF THE SOCIAL CONTRACT SHOULD START LOCALLY.

The high levels of trust in others in their neighborhood, readiness to pay more property tax for better public services, voluntary contributions to community organizations and willingness expressed to make practical sacrifices for the benefit of others (such as in the case of trash collection) are all suggestive of a willingness of Myanmar's urban population to make personal contributions for the benefit of their local community.

This suggests efforts to rebuild Myanmar's trust in government are likely to be most effective if focused at the local level. As such, initial efforts to improve tax compliance could focus on local taxation and expanding local service provision that help improve the daily lives of taxpayers and their local community. This could include the improvement of the provision of municipal goods and services identified as a priority by local communities, such as trash collection, street lighting, and building and maintaining roads.⁶⁷

To fulfill the promise of fiscal and political decentralization efforts are also needed to strengthen the links between local communities, subnational government and their members of parliament. This could be progressed by enhancing budget transparency⁶⁸, encouraging community input into government decisions⁶⁹, expanding the provision of public goods, services and social protection⁷⁰, improving the fairness and transparency of public tenders⁷¹, holding public hearings and encouraging the independence and transparency of budget oversight institutions, such as the State, Region and Union Audit Offices.⁷²

BUDGET TRANSPARENCY IS ESSENTIAL FOR OVERCOMING GOVERNMENT'S REPUTATION FOR CORRUPTION, REBUILDING PUBLIC TRUST AND ALLOWING MEANINGFUL PUBLIC ENGAGEMENT IN THE BUDGET PROCESS.

Myanmar ranks poorly on international measures of budget transparency, suggestive of the limited practical avenues for citizens to meaningfully engage in the budget process. While important progress has been made including the release of 'citizen's budgets' and the more regular release of budget information by State and Region parliaments, information likely to be of most interest to citizens is still not provided. As a result, citizens, the media, and civil society organizations are provided with limited means to engage with budget allocations in a way relevant to the day-to-day lives of citizens thereby limiting the link between budget allocations, tax compliance and public service provision and investment by government.

Given this, improving budget transparency should be a priority. In the short-term, this could be done by providing wider access to budget information more likely to be of interest to local communities, such as funded projects, budget allocations and the responsible government body for projects.⁷³ Efforts should also be made to encourage greater transparency of government tenders such as by making information publicly available on the responsible firm, project timeline, allocated budget, expected outcome, and the lead agency.⁷⁴

PUBLISHING TAX EXPENDITURES SHOULD BE MADE A PRIORITY.

More generally, to build public trust in government, tax expenditures should be published as a priority. Tax holidays, exemptions and lower rates provided to commercial enterprises are estimated to account for as much as 1.5 per cent of GDP in Myanmar,⁷⁵ representing a substantial loss in tax revenue to government while also providing little reason for citizens to trust government. Given the Internal Revenue Department's recent tax reform efforts, the public's preference for honesty⁷⁶ and the common belief that paying tax is a duty, one way to discourage this would be to fast-track Myanmar's commitment to publicly publishing tax expenditures alongside any legislation granting tax exemptions.⁷⁷ This would serve the dual purpose of encouraging greater budget transparency, enhancing the public's trust in government and discouraging new tax legislation being adopted without explicit consideration of its revenue impact.

EFFORTS SHOULD BE MADE TO TRANSFORM 'TAX DUTY' INTO 'TAX COMPLIANCE'.

While there are a variety of reasons for citizens not complying with their tax obligations, the high proportion of individuals that feel paying taxes is a duty might suggest that relatively minor changes could improve tax compliance. In the short-term this might include improving the ease of tax administration,⁷⁸ reducing opportunities for corruption,⁷⁹ providing greater information on the obligations of a 'typical households' in their neighborhood, developing online-self assessment and payment tools,⁸⁰ better communication of how public funds are allocated through greater budget transparency which highlight local community allocations,⁸¹ and trialling the use of behavioral 'nudges' to encourage citizens and businesses to voluntarily comply with their tax obligations.

Yet in the long-term, sustainable tax reform in Myanmar will be linked with the larger project of building an inclusive nation. With building a government that taxpayers trust and feel served by likely to be a bigger motivator for citizens to voluntarily comply with their tax obligations than administrative and regulatory 'tweaks'. As such, implementing fiscal decentralization reforms that better serve local communities might offer a means to achieve this. This might be done by furthering fiscal decentralization efforts by granting greater subnational autonomy,⁸² more equitable revenue sharing,⁸³ greater community participation in policy-making,⁸⁴ expanding subnational service provision,⁸⁵ encouraging cultural and linguistic pluralism in government⁸⁶ and improving the legal system to ensure the rule of law is more accessible and fairly administered.⁸⁷

ANNEX

THE CITY LIFE SURVEY AND MAPPING THE SOCIAL CONTRACT: APPROACH

The City Life Survey (CLS) is a multi-year, multi-city public perception survey designed to support policy-makers improve the well-being of urban residents. The survey tested public perceptions and lived experiences of urban life on a longitudinal basis. Complemented by previous studies it can therefore provide an important snapshot of the attitudes, relationships and perceptions of Myanmar's urban citizens and what these might mean for public policy issues such as public financial management reform. While this paper places a particular focus on the 2018 CLS, which is urban focused, many of the points made are designed to reflect more broadly the concept of the 'social contract' and its relevance to Myanmar's economic and political reforms.

Recognizing this, this Discussion Paper explores these results using the conceptual framework of the 'social contract', which is often used to describe the 'unwritten contract' that defines the relationship between citizens and the state. While the concept can be contentious, it is a useful framework for basing discussion:

- **'Vertical'**: meaning relationships between citizens and government; and
- **'Horizontal'**: the relationships of households with others in the community (such as other households and businesses).

This Discussion Paper is not meant to imply causal relationships or provide exhaustive coverage of the topic of tax reform. Given its reliance on survey results it should also be noted:

- While the results of the 2018 CLS are representative of the overall populations in the five cities surveyed, they are not representative of Myanmar's overall population, nor its overall urban population. The Discussion Paper has therefore avoided interpreting survey results at a more granular level than individual cities.
- The overall CLS results were 'weighted' according to the population of each city. This means that results that are not broken down by city will be driven by the results in Yangon and Mandalay, as they have much larger populations than the other three cities.
- While results were anonymized, some responses may be aspirational. Responses to questions related to social norms or attitudes (such as whether tax paying is a civic duty) may therefore suffer from 'social desirability bias'.
- Survey results represent 'snapshots' of opinions and perspectives at the time the survey was conducted, it is therefore not possible to infer the stability of opinions expressed in the survey.

ENDNOTES

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- 48 See: Foa, R., 2011, January. *The economic rationale for social cohesion – The cross-country evidence. In International Conference on Social Cohesion*, OECD Conference Centre, Paris; and Beugelsdijk, S. and Smulders, S., 2009. *Bonding and bridging social capital and economic growth*.
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- 51 In particular, the 2015 Asian Barometer Survey asked respondents to reflect whether ‘most people could be trusted’ and found 19 percent agreed in Myanmar, compared with 42 percent for Vietnam, 35 percent for Thailand and 34 percent for Indonesia.
- 52 While these results were also supported by the 2014 Civic Knowledge Survey, it also suggested good reasons for optimism with most respondents believing in equal rights under the law and more than 85 percent of respondents believing that ethnic minorities should be provided additional support. See: Myanmar 2014: *Civic Knowledge and Values in a Changing Society*, The Asia Foundation, 2014, pp. 87-88.
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- 57 McCarthy, G., 19/7/16, “Duty isn’t enough to boost tax revenue”, The Myanmar Times. <https://www.mmmtimes.com/opinion/22597-duty-isn-t-enough-to-boost-tax-revenue.html>
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- 68 For example: 1.5.3 and 2.4.1, Myanmar Sustainable Development Plan, Government of Myanmar, 2018.
- 69 For example: 1.5.4, Myanmar Sustainable Development Plan, Government of Myanmar, 2018.
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- 86 For example: 1.5.5, Myanmar Sustainable Development Plan, Government of Myanmar, 2018.
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