

**Donor Approaches to Risk  
in Fragile and Conflict Affected States**

**Mini-Case Study**

**Myanmar**

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Revised 14 July 2013



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**Contents**

- 1 Donor Responses to risk ..... 3
  - 1.1 Risk profile ..... 3
  - 1.2 Background..... 4
  - 1.3 Aid flows ..... 4
- 2 Responding to ongoing conflicts (contextual risks) ..... 6
  - 2.1 Context ..... 6
  - 2.2 Gradual Engagement to manage contextual risks ..... 6
  - 2.3 Risk management and addressing context ..... 7
  - 2.4 Access challenges ..... 7
- 3. Coordination and harmonisation (programmatic risks)..... 9
  - 3.1 Common working around peacebuilding ..... 9
  - 3.2 Coordination and multi-donor funds including LIFT ..... 9
  - 3.3 Localising Busan.....10
  - 3.4 Innovations and risk-taking .....11
- Annex: Key points of the Naypyitaw Accord for Effective Development Cooperation .....13

## 1 Donor Responses to risk

### 1.1 Risk profile

Using the categories of the Copenhagen Circles the following table identifies and comments on the key risks faced by donors operating in Myanmar.

<b>Contextual risks</b>	
Political risks	Risk of undermining the reform process. This risk has so far been limited as donor engagement is increasing only gradually.
Conflict risks and access	Large border areas of Myanmar remain largely inaccessible and conflict prone. Donor activity is mainly limited to areas central parts of the country and areas that have been 'pacified' through ceasefire agreements. There is a risk that external assistance will continue to bypass conflict areas, to support investment but not encourage needed institutional changes, and fail to address key conflict issues including discrimination against Muslim minorities.
Risk of doing harm	Risks in upland minority areas of promoting forms of development that unintentionally stoke further conflict
<b>Programmatic risks</b>	
Risk of programme impact being undermined by weak donor coordination.	With growing donor interest in Myanmar there is a risk that ongoing efforts to promote common working through informal and formal coordination, trust funds, and other forms of joint funding will not be maintained. Currently, these risks are mitigated by relatively strong central government steering, and recognition by donors of the value of joint working.
Risk of programme impact being undermined by difficulties managing local relationships.	It is difficult to operate, especially in border areas, without good connections, relationships, trust, staff, and knowledge of institutions and of context. Newly arriving aid agencies have linked with existing initiatives in order to establish themselves.
<b>Institutional risks</b>	
Fiduciary risks	Concern over corruption and wider association with a widely unaccountable state, along with a fear of antagonising the state if promoting a strong external agenda, leads donors to be risk-averse.
Reputational risks	Within Myanmar there is a risk that aid agencies become seen as working against majority interests as a result of their support for often-victimised minority groups. Internationally, there is a risk that donors could be perceived as becoming too close to the military-linked government.

## 1.2 Background

Political reforms since 2011 have transformed the relationship between OECD donor governments and Myanmar. Despite continued uncertainty, Myanmar's recent transition is now generating significant political, economic and social change. After decades of military rule, 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 becoming more responsive to the needs of Myanmar's ethnically varied and predominantly poor population of almost fifty million.

In practice, some changes had already occurred over a longer period including improved economic management and ceasefire agreements that had reduced bloodshed in the long-running conflicts affecting most of the country's border regions. The country has developed gradually in recent decades. Between 1980 and 2012 Myanmar's HDI rose by 0.8% annually from 0.281 to 0.498 today, which gives the country a rank of 149 out of 187 countries with comparable data. The HDI of East Asia and the Pacific as a region increased from 0.432 in 1980 to 0.683 today, placing Myanmar well below the regional average.

Myanmar's recent transition may be genuine, but 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 compete freely in national, as well as local elections. Some political dissidents remain in jail or overseas. A small number of powerful businessmen with close links to the military, as well as military-owned companies, still control large parts of the economy. Outlying regions are affected by armed conflict, resource disputes and discriminatory practices, with violence in Rakhine and Kachin States serving as ongoing manifestations of deep-seated problems that will take many years to resolve. Ethnic discrimination against Muslims and other groups is widespread.

The 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 may improve the lives of millions of Burma's citizens yet tensions between the state and minority groups are likely to persist.

## 1.3 Aid flows

Aid flows have increased over recent years. In 2011, net ODA was calculated at \$376 million, although this figure is due to rise significantly. The Partnership Group for Aid Effectiveness listed 25 bilateral donors operating in Myanmar in September 2012, including non-OECD donors: China, India, Thailand, and Singapore. Some bilateral donors, including Norway and the United Kingdom, had been interacting with the government well before the change in government in 2011. Most donor programmes have been focused on humanitarian assistance for victims of disasters, poor communities, and ethnic minorities. The bilateral donors most active in promoting donor coordination and aid effectiveness are AusAID, the United Kingdom and the European Union.

The UN has been at the center of foreign aid to Myanmar for the past 40 years. In 2011, the UN agencies as a group were the country's largest aid donor, providing about \$150 million in the form of grants. This dominance of UN agencies is lessening as bilateral donors and the multilateral lending institutions start up or expand programmes. The UN has tended to work alongside state agencies, using funding from bilateral donors to build capacity while not directly funding the government's budget.

The Asian Development Bank and the World Bank have recently begun to re-engage and have developed interim strategies for 2013-2014. Both are preparing to resume normal grant and loan operations as Myanmar's past debt arrears are cleared.

Many aid agencies deliver assistance through international NGOs, some of whom have a well-established presence. Save the Children has been present since 1995, for example. Cyclone Nargis in May 2008 led to a sharp increase in international NGO engagement, with the increase concentrated on relief and recovery in the disaster-impacted Ayeyarwady Delta. As of mid-November 2012, according to the Myanmar Information Management Unit (MIMU), there were 87 international NGOs active in Myanmar. INGOs also work with Burmese refugees and Burmese civil society groups in Thailand and elsewhere.

Most international NGOs operate under memoranda of understanding with one or more government ministries, but deliver funds through local NGOs or by direct implementation. Given financial sanctions, reputational risks and related concerns over human rights, they have shied away from co-financing projects with the government. As the government has gained credibility in pursuing political and economic reforms, both donors and international NGOs have started to work more closely with them.

In the coming years, foreign aid will be dwarfed by flows of private capital to Myanmar.<sup>1</sup> Major investments include large ports, telecoms, electricity, plantations and farming, dams, and hotels. The inflow of private capital will probably have a larger impact on the country's development progress than foreign aid flows.

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<sup>1</sup> For example, Thailand's ambassador to Myanmar recently stated that four or five groups of Thai businessmen are arriving at his embassy in Yangon every day. (The Nation (Bangkok), 11 December 2012, *Thai investors eye 16 Myanmar industries*.)

## 2 Responding to ongoing conflicts (contextual risks)

### 2.1 Context

Myanmar is not only undergoing national political transition, but also continues to endure a string of long-lasting, low-intensity border conflicts with ethnic minorities. Conditions on the ground are different in each case and also change over time. Donors need to respond to the specific characteristics of each case, incorporating strong localised knowledge of context and institutions, as well as a recognition that minority leaders and the wider population in many conflict-affected areas do not regard the government as legitimate.<sup>2</sup>

In this context conflict sensitivity is essential to avoid 'doing harm'. Government efforts to support ceasefire agreements with development programmes have already created a backlash. Some groups representing minorities have stated that they will reject these initiatives as efforts to 'buy peace' that detract from the root causes of conflict and the need for political reform.

More directly there is a risk that increased economic activity and government involvement in minority border areas will further widen disparities.<sup>3</sup> Economic grievances among ethnic groups – largely tied to resources being extracted from the peripheral areas where they live to sustain the urban core controlled by the military and business elite – have played a central part in fuelling civil war. Foreign investment is likely to be as important as domestic politics in shaping Burma's future. Such investment is not conflict-neutral, however, and has in some cases fuelled local grievances and stimulated ethnic conflict. For example, recent conflict in Kachin State is linked to resentment at land capture and other negative impacts of investment in mining.

### 2.2 Gradual engagement to manage contextual risks

Donors are engaged in various initiatives to address these challenges. They have encouraged the government to join the Extractive Industries Transparency Initiative and have supported efforts to broker peace in border areas. One repeated comment from interviews with aid actors is that donors need to build up their engagement gradually on the basis of strong contextual knowledge.<sup>4</sup>

Aid agencies that are working effectively at the ground level have long track records of operating in Myanmar. Examples include: the INGO Save the Children, DFID (UK), and some UN agencies. Building engagement with local partners, negotiating with key actors and consulting more widely, gaining access to otherwise restricted areas, building government confidence and other critical steps all take time. These agencies gradually established programmes over at least a decade. So while some measures including lifting sanctions or

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<sup>2</sup> Some non-state actors are also not representative of their own population, operating principally as economic and political entrepreneurs.

<sup>3</sup> See John Buchanan, Tom Kramer and Kevin Woods (2013) *Developing Disparity* - Regional Investment in *Burma's Borderlands*. TNI / BCN.

<sup>4</sup> <http://eiti.org/news-events/myanmar-reaffirms-intention-implement-eiti> Experienced INGO staff stated in interviews that positive government policy commitments tend to evaporate unless followed through. See also next section on peace processes.

pledging funds can be rapidly undertaken, establishing effective aid programmes is much slower.

A combination of circumstances has meant that recently arrived donors are also following a gradual and incremental approach. Donor governments have reduced sanctions and pledged foreign aid, but they are not generally looking to increase their support as rapidly as possible because there is little concern over a rapid collapse of state institutions and no apparent external threats. Second, Myanmar is a difficult operating environment. It is difficult to establish programmes under government restrictions and with limited implementation mechanisms. Donors still have little trust in state systems, and must work through personal connections. There are few opportunities to work with civil society bodies. Third, foreign aid is a small proportion of the overall economy – with attention focused on private sector investment there is less pressure to provide rapid support. Fourth, the international Burma lobby makes donors wary of working too closely with the state, too soon. Specific problems in Rakhine state and anti-Muslim violence elsewhere have also made donors cautious about scaling up support.

### **2.3 Risk management and addressing context**

The World Bank's development of an interim strategy as a step towards full engagement presents an example of risk management from an early stage. First, the World Bank has adopted the approach to addressing conflict outlined in the 2011 World Development Report with reference both to Myanmar's national transition and to minority conflicts in border areas. It emphasizes the important roles of three pillars: 'building confidence', 'transforming institutions', and 'preparing the road ahead'. This approach minimizes the risk of 'business as usual' by aiming to incorporate peacebuilding as a central part of the country approach. The Interim Strategy Note explicitly indicates key risks at the overall country level and associated responses.<sup>5</sup>

At the project and sector levels, further risk management measures are part of World Bank operations. These include the ORAF (Operational Risk Assessment Framework), a mandatory element of project development and sector strategy formulation. While there is no guarantee that these measures will tackle all risks in Myanmar, the central place that peacebuilding measures have been accorded within the overall strategy is a promising start.

### **2.4 Access challenges**

Large border areas of Myanmar remain inaccessible to foreign (and many domestic) agencies. While conflict has rarely been a direct threat to international agency staff themselves, government restrictions still limit freedom of movement. Foreign officials often need permission to travel within the country and various border areas remain fully out of bounds.

Donor approaches have changed as the Government pursues and builds on ceasefire agreements with non-state actors around Myanmar's periphery. Whereas previously the focus was on providing humanitarian support (on occasion via neighbouring China or Thailand),

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<sup>5</sup><http://documents.worldbank.org/curated/en/2012/10/16823059/myanmar-interim-strategy-note-period-fy13-14>

donors are now increasingly supporting government-led peace processes and development by responding to government requests for participation in a Peace and Development Needs Assessment. The long-term value of this approach may have its merits (although some non-government groups dispute that), but it means that some areas are no longer receiving humanitarian aid and yet still cannot be reached with development aid. For example, in one conflict-affected part of Shan State, fewer INGOs operate than several years ago.

Donors are trying to address this gap in various ways. They are working to support various peace processes that aim to address the underlying conflict drivers (see next section). They back a more consultative process for the Peace and Development Needs Assessment and aim to use the opportunity to address structural problems rather than simply support economic development projects. In cases they continue to push for access and support cross-border groups. Donors' increased scope to engage with the Government has on occasion been used to encourage a change in policy on humanitarian issues. For example, donor governments were able to influence policy over the location of displacement camps in Rakhine State in order to alleviate a humanitarian crisis. More negatively, donors have had little influence over the intrinsic institutionalised discrimination that sparked the humanitarian crisis in Rakhine State.



### **3. Coordination and harmonisation (programmatic risks)**

#### **3.1 Common working around peacebuilding**

Aid agencies demonstrate considerable capacity to coordinate in Myanmar, recognizing the importance of good aid practice. This takes place in several ways. Formal working groups encourage collaboration. In the peacebuilding field, the Peace Donor Support Group plays this role, enabling donor coordination and facilitating interchange with government (and non-state actors from minority groups). The Peace Donor Support Group was first convened in June 2012 by the Government of Norway at the request of President U Thein Sein. The Government of Myanmar asked that the Group be initially composed of Norway, Australia, the United Kingdom, the European Union, the United Nations, and the World Bank. To date approximately US\$30 million has been pledged by the members of the Peace Donor Support Group to fund interventions that support conflict-affected communities and peace-making.<sup>6</sup>

The Peace Donor Support Group is part of the Myanmar Peace Support Initiative, a Norwegian-led international initiative to support the ceasefires in Myanmar through humanitarian and development assistance. In parallel with continued political efforts, it provides communities in the ceasefire areas with the needed assistance in order to recover from conflict and build momentum for peace on the ground. The programme has funded a range of small-scale initiatives in conflict-affected parts of Myanmar. A further body is the donor-funded, but government-led, Myanmar Peace Center, which provides a convening forum for peace initiatives.

These initiatives have received support for their innovative, risk-taking yet government-led approach. While Norway was in the lead, other donors were rapidly brought on board, reducing the risk of uncoordinated peace promotion that can otherwise undermine fragile negotiations.

Criticism has been targeted at the weak consultation processes employed during what some say was a rushed process to establish initiatives. Some non-government groups contend that the rapid establishment of these groups demonstrates that donors are too willing to support a government agenda aimed at gaining support for future elections. In this view government is seeking foreign support and endorsement, while showing little interest in reforms or other steps that would tackle the root causes of unrest.

#### **3.2 Multi-donor funds including LIFT**

In a controversial and high-profile environment, joint funding reduces the level of exposure of any single agency. In addition, limited delivery mechanisms exist and so donors often see advantage in 'piggy-backing' ongoing programmes. Some agencies are also motivated to follow through commitments made at Busan and elsewhere on aid effectiveness.

Disincentives to coordination and joint funding also exist. Several agencies aim to promote high profile initiatives or fund isolated projects for domestic political and economic reasons. Most Western and Asian bilateral donors wish to support private investment in Myanmar, leading to a

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<sup>6</sup> See <http://www.mmpeacemonitor.org/#!/peace-donor-support-group/c15fn>

continual need to monitor potential conflicts between commercial interests and principles of aid effectiveness.

Some small examples of donor cooperation include sharing office space. The World Bank and the ADB have established adjacent offices, while AusAID and DFID have set up a Joint Liaison Office in the capital, Naypyitaw. Still more significant is the role of multi-donor trust funds. At least four multi-donor trust funds have been formed in Myanmar, three of which were operating at the beginning of 2013. The “3MDG (Three Millennium Development Goals) Fund” is expanding its scope of activity from HIV, Tuberculosis and Malaria to include maternal and child health. It is supported by six bilateral donors and the European Union with roughly \$300 million offered in the first four years. The “Multi-Donor Education Phase II Fund,” focusing on primary school education, is supported by four bilateral donors, the European Union, and UNICEF, with roughly \$65 million over four years (Phase Two 2012-2016).

The “Livelihoods and Food Security Trust Fund (LIFT)” was formed in 2009 with the aim of helping Myanmar eradicate extreme poverty by increasing food availability, income generation opportunities, and food use for two million target beneficiaries. This 7-year fund was supported initially by seven bilateral donors and the European Union. Together they intend to contribute at least \$170 million. In late 2012 USAID and AFD announced decisions to join the LIFT fund. LIFT is managed by UNOPS. It has worked with 32 partners that include INGOs, local NGOs, and UN agencies. However, most LIFT-funded projects are implemented directly or indirectly by local NGOs.

LIFT incorporates measures to reduce risks of mistargeting beneficiaries and fiduciary loss. It has carefully devised monitoring and evaluation measures including a focus on baseline data, external evaluation, further survey research, and efforts to learn from ongoing experiences. Its Financial Risk and Fraud Policy is carefully devised and openly published.<sup>7</sup> Finally, LIFT focuses on the poorest households and landless people. For all its activities, LIFT must be able to: (a) demonstrate how activities will benefit the poor and vulnerable; and (b) develop baselines and conduct evaluations that focus on vulnerable households as ultimate beneficiaries. This information is critical to demonstrating results, to showing value for money, and also to informing subsequent programming.

### **3.3 Localising Busan**

Multilateral and bilateral donors to Myanmar have shown a keen interest in coordination. As early as 2009 the Partnership Group on Aid Effectiveness (PGAE) operated as a forum where donors could work toward shared objectives and principles. Informal coordination meetings have also taken place regularly. Some key donors, including the United Kingdom, Australia and the EU have been prominent in efforts to encourage aid effectiveness. Following encouragement by aid donors, the Government established ministerial committees and advisory groups for aid management in 2012.

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<sup>7</sup> See <http://lift-fund.org/sites/default/files/downloads/LIFT%20Financial%20Risk%20and%20Fraud%20Policy%20-%20June%202012.pdf>

The First Myanmar Development Cooperation Forum took place on January 19-20, 2013. It was led by the Government of Myanmar. Participants signed the “Naypyitaw Accord for Effective Development Cooperation.” Drafted in consultation with donor representatives and inspired by the New Deal, it is a non-binding agreement that sets out guidelines on government-donor cooperation (See Annex).

One recent review finds that the government’s performance in managing and cooperating with foreign aid agencies is positive in comparison with experience elsewhere. The performance of donor governments is also viewed positively, but with various reservations.

- Many sources including interviewees contacted as part of research for this case study stated that aid agencies have excessively burdened Government with a deluge of assessments, official visits, representational meetings, and design missions.
- Promotion of country ownership is complicated by donors’ continued reluctance to work too closely with the Government. This is understandable given the continued role of the military and ongoing problems including human rights abuses and continued pursuit of armed conflict.<sup>8</sup> The reputational risk of close association with the Government remains. Some donors continue to fund opposition groups outside Myanmar, a situation that is likely to continue at least until elections planned for 2015.
- Donors continue to channel funding primarily through INGOs or the UN for these reasons.<sup>9</sup> As donors develop further large projects over the next 2-3 years, it is likely that many will seek to retain some distance from mainstream government implementation mechanisms.
- Donors have also been seen to conduct cosmetic consultation that risks failing to reflect domestic opinions and instead prioritising their own agendas. One interviewee stated that donors like to consult as part of project or portfolio design, but do not actually listen to what people say. Such ‘box-ticking’ exercises appear to be common.

### **3.4 Innovations and risk-taking**

Coordination offers a chance for donors to spread risk. However, it can also lead to more conservative programming choices that meet the lowest common denominator of risk taking. Some measures to reduce risk-averse practice while still promoting harmonization are outlined here:

- Interviewees repeatedly emphasise that long-term, incremental engagement enables donors to engage in more innovative approaches. By gradually building trust, establishing relationships, increasing knowledge of institutions and the operating context, and setting up operational capacity, it is possible to launch programs that would otherwise be impossible given government restrictions and a lack of implementing capacity. Examples include the long-term work of agencies such as Save the Children and the approach of LIFT.

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<sup>8</sup> See for example Human Rights Watch, 21013: *"All You Can Do is Pray": Crimes Against Humanity and Ethnic Cleansing of Rohingya Muslims in Burma's Arakan State*. April 22. Also TNI, 2013. *The Kachin Crisis: Peace Must Prevail*. Burma Policy Briefing 10, March 2013.

<sup>9</sup> . Even the World Bank’s recently designed \$80 million Community Driven Development programme, which was criticised for its close association with the Government, incorporates technical assistance from NGOs as well as private firms.

- Some Asian bilateral donors appear more willing to step up funding rapidly. This may be attributable to different perceptions of risk rather than a risk-taking approach. With less need to respond to vocal civil society lobbies on Burma, and stronger respect for government sovereignty, it may be easier to implement rapidly. In other words, it is a result of different policy approaches and domestic political economic incentives.
- The LIFT Multi-Donor Trust Fund has established an 'innovations window'. This enables the Fund to support small, higher risk activities that can lead to immediate benefits, fill gaps in the LIFT portfolio, provide learning opportunities and a basis for policy dialogue, as well as and setting the path for future interventions.

## Annex: Key points of the Naypyitaw Accord for Effective Development Cooperation<sup>10</sup>

“The Government of the Republic of the Union of Myanmar and its development partners agree to take concrete actions to make their cooperation more effective.

“... the Accord has been informed by deliberations at the Fourth High Level Forum on Aid Effectiveness and takes forward the principles of ownership, focus on results, inclusive development partnerships, and transparency and accountability, embodied in the Busan Partnership for Effective Development Cooperation.

“The Government of the Republic of the Union of Myanmar commits to:

- Continue to deepen consultation on development priorities and plans.
- Focus on achieving national priorities.
- Enable effective decision making.
- Further develop coherent and efficient aid management systems.
- Strengthen public administration to enhance the transparency and effectiveness of government programs and foreign assistance.

“Development partners commit to:

- Take the unique local context in Myanmar as the starting point.
- Align development assistance with national priorities.
- Participate in and be guided by country-led coordination processes.
- Use conflict-sensitive and inclusive approaches to support peace and state building.
- Focus on maximizing development results for the people of Myanmar.
- Work with government to strengthen institutions, build capacity, reduce transaction costs and increase aid effectiveness.

“Performance Assessment. A joint Government of the Republic of the Union of Myanmar-Development Partner working group will be formed to prepare a performance ... framework or action plan to guide implementation of this agreement. This framework will include a manageable number of key indicators of the standards and benchmarks that will be used to assess the extent to which its commitments are being kept. They will be reasonable, achievable, and monitorable.”

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<sup>10</sup>Reproduced from Lex Rieffel and James W. Fox, March 2013. *Too Much, Too Soon? The Dilemma of Foreign Aid to Myanmar/Burma*. Nathan Associates Inc.