

FINANCIAL ANALYSIS

1. The Government of Myanmar will provide the funds from the proposed Asian Development Bank (ADB) loan as a grant to the states of Mon and Kayin. The Department of Urban and Housing Development (DUHD) under the Ministry of Construction (MOC) will be the executing agency for the proposed project; each state will be the implementing agency for its subprojects. Consistent with ADB's Operational Manual (OM) G2: Financial Management, Cost Estimates, Financial Analysis and Financial Performance Indicators (2014), financial due diligence was undertaken for each subproject as summarized Table A.6.1.

Table A.6.1: Financial Due Diligence

Townships	Subproject	EA	IA	Township Entity	Fiscal Analysis	Tariff Analysis	Affordability Analysis	Willingness to Pay Analysis ^a
MON STATE								
Mawlamyine	Water Supply	DUHD, MOC	MSG	Dept. of Electricity, Water Supply & Gardens	Yes	Yes	Yes	Yes
	Solid Waste	DUHD, MOC	MSG	Department of Cleansing	Yes	Yes	Yes	Yes
	Built Heritage	DUHD, MOC	MSG	Department of Urban Development	No	No	No	No
KAYIN STATE								
Hpa-An	Water Supply	DUHD, MOC	KSG	Dept. of Electricity, Water Supply & Gardens	Yes	Yes	Yes	Yes
	Solid Waste	DUHD, MOC	KSG	Department of Cleansing	Yes	Yes	Yes	Yes
Myawaddy	Water Supply	DUHD, MOC	KSG	Township will supply bulk water to private operators ^b	Yes	Yes	Yes	Yes
	Solid Waste	DUHD, MOC	KSG	Wards Administrators	Yes	Yes	Yes	Yes

DUHD = Department of Urban and Housing Development, EA = executing agency, IA = implementing agency, KSG = Kayin State Government, MOC = Ministry of Constructions, MSG = Mon State Government.

^a Details of the data collection and methodology for the willingness-to-pay analysis are included in Economic Analysis (accessible from the list of linked documents in Appendix 2 of the main text).

^b There is no public water supply system and two private operators are granted the right to distribute piped water. Source: Asian Development Bank.

2. **Fiscal decentralization vs. devolution.** The State and Region Governments Law of 2010 regulates the relationship between the union, states, and townships in accordance with Schedule V of the 2008 Constitution. The Ministry of Home Affairs oversees subnational governance through its state-based general administration departments. The townships of Mawlamyine, Hpa-An, and Myawaddy are administered by the ministry's general administration department officer and supervised by the Minister of Development Affairs at the state level. The states receive balancing grants from the union budget as needed. Townships directly collect local (albeit limited) revenues and operate with full autonomy within the budget estimate and revised estimate (i.e., with no specific support from the state or union government, except for a share of the union's dividend tax income). The Ministry of Planning and Finance may cover a fiscal deficit with a short-term loan. Surpluses are transferred to the ministry for consolidation.

3. **Fiscal analysis overview.** Since fiscal year (FY) 2013 (ended March 2014), the federal budget system has been allocating funds from the union government (Union Fund) to the states and regions (regional funds) through budget allocation to the decentralized ministry's offices.

State budgets mainly consolidate revenues and expenditures of (i) decentralized offices of union ministries, (ii) the state's townships, and (iii) state-owned economic enterprises (SEEs). Most state expenses are part of the union government budget, financed by allocations from central ministries. In FY2014, states and regions were allocated only 11.8% of total receipts and 6.7% of total spending (including townships' and cities' receipts, and budget allocations to decentralized ministry offices). Outside Yangon, Mandalay, and Nay Pyi Taw, urban services (water supply, sanitation, wastewater and solid waste management, urban road maintenance and construction, street lighting, land management, and housing) are operated by townships as primary municipal governance agencies. Revenues and expenditures are reflected in the townships' budgets and directly controlled by the State Minister of Development Affairs.

4. **Fiscal analysis—Mon State.** The Mon State budget for FY2015 is MK81 billion in expenditures. It heavily depends on balancing grants and loans from the union government (80% of total FY2014 expenditures and 92% for FY2015). Of total expenditures during FY2012–FY2015, 45% were incurred by decentralized offices of union ministries and 30% by the SEEs; the balance (25%) was shared by Mon State itself (11%) and by 10 townships (14%).

Table A.6.2: Fiscal Analysis of Mon State
(MK million)

	FY2011	FY2012	FY2013	FY2014	FY2015
Current revenue ^a	4,882	7,217	8,745	8,326	6,446
Less: operating expenses ^b	(6,839)	(16,145)	(15,012)	(14,626)	(52,270)
Operating balance	(1,957)	(8,928)	(6,267)	(6,300)	(45,824)
Less: capital expenditure	(2,736)	(5,146)	(10,935)	(27,682)	(29,589)
Capital revenue	53	18	192
Overall balance	(4,640)	(14,056)	(17,010)	(33,982)	(75,413)
Grants to M&D deficit	5,281	11,496	16,632	34,503	
Loans to SEEs & DAOs	297	581	
Balancing grants & loans from the union ^c	5,281	11,496	16,929	35,084	71,661
As a % of total expenditures	48%	66%	66%	80%	

() = negative, DAO = development affairs organization, M&D = ministries & development, SEE = state-owned economic enterprise.

^a Includes local taxes; receipts from SEEs; grants, subsidies, and loans from the union (excluding balancing grants).

^b Includes wages, salaries, allowances; goods, services; petrol, oil, and other imports; maintenance charges; and grants and subsidies.

^c FY2014: 69% allocated to ministries, 26% to the state government, 3% to SEEs, and 2% to townships.

Source: Mon State Ministry of Finance.

5. **Fiscal analysis—Kayin State.** For confidentiality reasons, the state only provided information about 16 townships forming the State Development Affairs Organization budget as part of the state's overall financial statement. Hpa-An and Myawaddy represent two-thirds of the FY2014 revenues of the state's townships (six of them do not have any revenues). Overall, the townships generated a surplus of about MK300 million.

6. **Fiscal analysis—Mawlamyine, Hpa-An, and Myawaddy Townships.** The three townships generated low revenues but generally balanced their budgets, albeit with very limited or no investments (unless funded from the state or union budget). Mawlamyine required support in FY2014 to help fund increased capital investments. During FY2012–FY2015, major sources of revenues were business licenses and market shop fees. Housing and lighting taxes generated low revenues because rental values have been flat since 1975. Water supply and sanitation revenues were low as well because of the poor level of service. All townships sold fixed assets (land, buildings, and equipment) to fund investments. It will be more and more difficult for these townships to maintain a fiscal balance, and new sources of revenues are needed to improve coverage and service delivery.

7. **Mawlamyine Township.** During FY2012–FY2015, the major sources of revenues were business licenses (54%), market shop fees (20%) and dividend tax (10%). Housing and lighting tax receipts generated only 5% on average. Water and sanitation revenues are about 15% of the current revenues, but water supply revenues increased only 5% over the same period, while sanitation revenues actually dropped by 1%. The budget is more or less balanced with little room for additional operating expenses, such as the operation and maintenance costs that the new infrastructure and services provided by the project will generate.

8. **Hpa-An Township. During FY2012–FY2015,** the major sources of revenues were business licenses (70%) and market shop fees (5%). Dividend tax is very erratic and didn't exceed more than 4% of the current revenues during FY2012–FY2015. Housing tax and lighting tax generated 4% on average. Water supply and sanitation represented less than 20% of the current revenues but increased annually by 3%, while sanitation revenues rose by 9%. Over the period, the Hpa-An township budget was mainly oriented toward capital investment (urban roads and drainage) and presented a surplus.

9. **Myawaddy Township. During FY2013–FY2014,** the major sources of revenues were business licenses (86%), dividend tax (7%), market shop fees (3%), and housing and lighting tax receipts (3%). Water supply and sanitation revenues were insignificant given the outsourcing to private sector operations. Revenues have been increasing rapidly thanks to the strategic location of the township on the border with Thailand.

Table A.6.3: Fiscal Analysis of Mawlamyine, Hpa-An, and Myawaddy Townships
(MK million)

	FY2012	FY2013I	FY2014	FY2015
Mawlamyine Township				
Current revenue ^a	1,691	1,627	1,883	1,640
Less: operating expenses ^b	(603)	(837)	(1,104)	(984)
Operating balance	1,088	790	779	656
Less: capital expenditure ^c	(1,020)	(982)	(1,245)	(466)
Capital revenue	3	188	101	...
Overall balance	71	(4)	(365)	190
Hpa-An Township				
Current revenue ^a	567	753	882	802
Less: operating expenses ^b	(240)	(281)	(341)	(371)
Operating balance	327	472	541	431
Less: capital expenditure ^c	(320)	(252)	(335)	(382)
Capital revenue	2	1	6	...
Overall balance	9	221	212	49
Myawaddy Township				
Current revenue ^a		547	625	
Less: operating expenses ^b		(219)	(175)	
Operating balance		328	450	
Less: capital expenditure ^c		(235)	(297)	
Capital revenue		0	1	
Overall balance		93	154	

() = negative.

^a Includes housing and lighting taxes, business and concession licenses, market shop fees, dividend tax, water and sanitation.

^b Includes wages, salaries, petrol and fuel, electricity, and repairs and maintenance charges.

^c Mainly urban roads and drainage, piped water expenses limited to meters, and civil works for new connections.

Sources: Finance Department, Mawlamyine Township; Finance Department, Hpa-An Township; and Finance Department, Myawaddy Township.

10. **Financial analysis—utilities of Mawlamyine and Hpa-An.** Each township's water supply system is overseen by the Electricity, Water Supply and Gardens Department of the Engineering Division. Water supply revenues (water tax,¹ tariffs, plus well licenses for Mawlamyine and connection fees for Hpa-An) and operating expenditures (OPEX) are tracked; only Hpa-An tracks capital expenditures. For both, water revenues are usually insufficient to cover OPEX, and other sources of funds are required for capital expenditures. The Cleansing Department is responsible for garbage collection, street cleansing, and night soil collection. Services are quite poor and revenues are low (such as cleansing tax² and garbage fees from commercial and business establishments).

Table A.6.4: Utility Financial Analysis
(MK million)

	Mawlamyine			Hpa-An		
	FY2012	FY2013	FY2014	FY2012	FY2013	FY2014
Water						
Revenues	160.3	143.4	175.6	19.6	18.8	21.4
OPEX	94.0	150.0	325.8	26.8	28.4	32.0
Operating balance	66.3	(6.6)	(150.2)	(7.2)	(9.6)	(10.6)
<i>Revenues as % of OPEX</i>	171%	96%	54%	73%	66%	67%
CAPEX	Not recorded	Not recorded	Not recorded	-	-	29.2
Overall balance	Not recorded	Not recorded	Not recorded	(7.2)	(9.6)	(39.8)
Solid Waste Management						
Revenues	35.5	36.2	37.3	17.4	17.9	20.2
OPEX	77.5	150.3	191.4	29.0	36.6	46.7
Operating balance	(42.0)	(114.1)	(154.1)	(11.6)	(18.7)	(26.6)
<i>Revenues as % of OPEX</i>	46%	24%	19%	60%	49%	43%
CAPEX	Not recorded	Not recorded	Not recorded	-	-	-
Overall balance	Not recorded	Not recorded	Not recorded	(11.6)	(18.7)	(26.6)

CAPEX = capital expenditures, OPEX = operational expenditures.

Sources: Finance Department, Mawlamyine Township; and Finance Department, Hpa-An Township.

11. **Financial analysis—Myawaddy's utilities.** Myawaddy's water supply is currently operated by two private companies, which together serve 25%–30% of the population. The wards administrators organize solid waste collection on a community basis. Nothing is budgeted by the township.

12. To enhance the sustainability of the investments in water supply and solid waste management, the following covenants were discussed with the government and each state and township:

- (i) Each township's water, sanitation, and cleansing departments will be ring-fenced.
- (ii) A tariff road map will be implemented prior to full operation with regular tariff increases,

¹ 8% of the rental value of the house, retained even after the implementation of volumetric tariffs as a surcharge that is collected on the same invoice as the housing tax.

² 10% of the rental value of the house, and collected on the same invoice as the housing tax.

- to ensure that at least OPEX costs (including maintenance costs to achieve the expected life of the equipment and infrastructure components) are fully covered, while ensuring affordability by low-income households. For water, the various sources of water revenues (e.g., water tax, water tariff, well license fees) will be rationalized.
- (iii) For solid waste, all townships will enact a local regulation stipulating that those provided with collection services will pay garbage fees when operations begin.
 - (iv) For Myawaddy (where the town will supply bulk water to private companies for distribution in designated areas): (a) bulk water tariffs will be set at a level that ensures at least full recovery of OPEX; and (b) at least annually the township will monitor the tariffs and service performance of its private sector counterparts to ensure that their services meet agreed performance levels and that tariffs enable a fair return and are affordable by low-income households.
 - (v) Fiscal reforms: (a) the union government will establish a long-term vision for urban services and, consistent with that, will review the allocation of the share of urban development and service duties between MOC at the state level and the states and townships, and the budgetary ceiling regarding wages and salaries (currently 30% of current revenues); and (b) all states and townships will regularly update rental values used for calculating housing, lighting, water, and cleansing taxes.
 - (vi) To ensure that the townships have sufficient funds to cover OPEX (including maintenance costs to achieve the expected life of the equipment and infrastructure components), the union government and the states will jointly undertake to balance each township's budget through increased financial support, such as through additional transfers, as required.

13. **Affordability.** The indicative affordability benchmark for water rates of 3% to 5% of monthly income of the low-income households has been adopted by many government and international funding institutions. For water, the affordability analysis assumed that average monthly household consumption is 10 cubic meters. Proposed increases in water rates in subsequent years were also taken into consideration. In Mawlamyine and Hpa-An, the proposed tariffs for both water supply and solid waste management remain below 5% of the average low-income household income.

Table A.6.5: Affordability Analysis

Township	Ave. HH Income/month (MK)	Ave. Low Inc. HH Income/month (MK)	Subproject	Mo. HH Tariff/Bill (MK, 2020)	Mo. HH Bill as % of Ave. HH Mo. Income	Mo. HH Bill as % of Ave. Low Inc. HH Mo. Income
Mawlamyine	237,900	76,933	Water Supply ^a	1,922	0.8%	2.5%
			Solid Waste	800	0.3%	1.0%
Hpa-An	246,373	79,567	Water Supply ^a	3,135	1.3%	3.9%
			Solid Waste	1,200	0.5%	1.5%
Myawaddy	347,111	89,444	Water Supply ^a	1,922	0.6%	2.1%
			Solid Waste	1,400	0.4%	1.6%

^a for water supply, the monthly household bill assumes household consumption of 10 cubic meters/month.

Source: Asian Development Bank.