THE POLITICS OF CONSULTATION IN DONOR-LED REFORMS:
The Case of Myanmar’s Investment Law

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MARCH 2020
The Developmental Leadership Program (DLP) is an international research collaboration supported by the Australian Government. DLP investigates the crucial role that leaders, networks and coalitions play in achieving development outcomes.

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INTRODUCTION

How do external actors effectively support and facilitate local leadership to work towards progressive reforms or social change? Despite a widespread commitment to making sure that reform processes in developing countries are locally-owned and locally-led, this is often hard to do in practice.

KEY FINDINGS AND IMPLICATIONS

• The importance of ‘thinking and working politically’ in general, and more specifically of supporting-not-shortcutting domestic political processes of contestation and deliberation.

• The centrality of politics to all sectors, no matter how technically specialised they are, in this case, the reform was private sector focused, and more specifically the legal drafting of an investment law.

• The necessity of carrying out political analysis both before and during reform processes to fully understand the context and flesh out competing constituencies and perspectives on the proposed reform.

• The potential for externally supported processes of meaningful consultation to make the most of (instead of avoiding and insulating themselves from) domestic processes of political contestation to improve the quality, legitimacy, and sustainability of reforms.

• The opportunities to learn from failures and see them as the ‘stepping stones to success’.

This paper uses a case study of the International Finance Corporation-led (IFC) and bilateral donor-supported passage of the Myanmar Investment Law (MIL) to illustrate the pitfalls and possibilities of how external actors can support domestic reforms and the tensions of local leadership in these processes. The MIL case study is particularly revealing as – by general consensus – throughout its passage, it came to represent the full range of positions from externally-imposed to locally-contested and went from being a problematic failure to qualified success. We conclude with a series of lessons learned and implications for external actors seeking to support and facilitate progressive developmental leadership and change.

The Myanmar Investment Law was approved in October 2016 and effectively came into force in 2017. The paper draws on interviews carried out by the authors in Myanmar in 2017 with key stakeholders from the IFC, law firms, civil society organisations, INGOs, the government of Myanmar, and international bilateral donors and multilateral actors.

WHAT’S AT STAKE? LOCAL STAKEHOLDER INCLUSION

The importance of locally-led and locally-owned reforms is, quite rightly, a touchstone of development thinking. In their comparative analysis across many programs, Booth and Unsworth (2014: 70) explain the logic and benefits:

‘locals are more likely than outsiders to have the motivation, credibility, knowledge and networks to mobilise support, leverage relationships and seize opportunities in ways that qualify as ‘politically astute’. Deliberation and negotiation in local networks and organisations are essential.
in reaching an adequate understanding of complex development problems, and in finding ways of addressing them that are practical, appropriate and sustainable.

But it is often easier said than done (Honig and Gulrajani, 2018; Craney and Hudson, forthcoming). How might external actors turn the rhetoric into reality? Booth and Unsworth (2014: 3) note that ‘donors, as outsiders, can play a supportive but not a leading role in facilitating progressive change’. However, they add, ‘many mainstream donor practices work strongly against this approach, encouraging poor choices based on imagined universal solutions and international ‘best practices’. Such practices undermine local ownership, initiative and capacity to find solutions’ (Booth and Unsworth, 2014: 4). Collectively, the Developmental Leadership Program’s evidence base has shown that sustainable change happens through processes of consultation and contestation (Hudson et al., 2018). That is to say, when leaders and coalitions debate, challenge and compromise over what the best course of action might be, the outcomes are more likely to be seen as locally legitimate and sustainable.

This paper uses a case study of the International Finance Corporation supported passage of the Myanmar Investment Law (MIL) to illustrate the pitfalls and possibilities of how external actors can support domestic reforms.

**WHAT HAPPENED?**

The Myanmar Investment Law (MIL) has to be understood against the background of, and as a part of, Myanmar’s ‘triple transition’ of democratization, marketisation, and shift away from conflict (Jones, 2014). Since then, the international condemnation of the Government of Myanmar (GoM) and Aung San Suu Kyi for documented abuses by Burmese security forces and the related refugee crisis, has shifted the agenda as well as undermining the potential returns of the triple transition.

Nevertheless, Myanmar’s initial opening from 2010 and the peaceful handover of power from the Union Solidarity and Development Party (USDP) to the National League for Democracy (NLD) following the 2015 election was the context in which the MIL proceeded. The context is crucial for understanding the international demand for investment reform and the incorporation of new pro-reform actors into the policymaking process (Dasandi and Hudson, 2017). The lifting of US and EU sanctions after the 2012 by-elections saw international investors, as well as bilateral and multilateral donors and development banks, become increasingly interested in Myanmar as an untapped market. At the same time, the country’s extended isolation meant that there was a real lack of bureaucratic and government capacity, making donor support crucial.

At the start of 2015, two separate investment laws had been introduced around the 2010–2012 period – the Foreign Investment Law (2012) and the Myanmar Citizen Investment Law (2013) – which governed foreign and domestic investment, respectively. As early as 2012 there was a growing impetus for creating a new single law. In particular, an influential 2014 OECD Investment Policy Review suggested a single law (OECD, 2014). At the same time, there were grumblings from foreign investors in Myanmar, and from local investors about the complications and unfairness of there being two separate laws.

Within the GoM, the key actor was the Directorate of Investment and Company Administration (DICA). At the time, DICA was a specialist agency within the Ministry of National Planning and Economic Development with a mandate to promote private sector development, enhance the investment climate, and regulate investment and companies. DICA and the World Bank’s International Finance Corporation (IFC) engaged one another on the possibility of creating a new single investment law. The IFC’s work on producing the new investment law was funded by Australia’s Department for Foreign Affairs and Trade (DFAT) and the UK’s Department for International Development (DFID).

An initial draft of a new investment law was produced in 2014 by an independent consultant brought in by the IFC. In January 2015 the draft was circulated for a hastily-convened meeting (two days’ notice) to discuss the proposed merging of the two existing investment laws. The draft prompted strong criticism for several reasons. First, legal experts were quick to criticize the Law on technical grounds. It was, by general consensus, judged to be technically a ‘bad’ law; many of the clauses were vague, and the document was poorly written. Second, there were strong concerns, both from legal experts and civil society organisations, that the provisions within the draft law were almost exclusively focused on protecting foreign investors with little regard for locals. Critics noted that this was entirely consistent with the IFC’s strong institutional view reflected in its 2010 Investment Law Reform Handbook, which provides guidance for development practitioners and also emphasises investor protection (World Bank Group, 2010). But, the proposed dispute settlement mechanism was unprecedented in any country and would allow investors the option of seeking private arbitration outside of the country. Third, the new
rules would place too much discretionary power in the hands of the Myanmar Investment Commission (MIC). Fourth, the Law, if implemented as proposed, would have prevailed over other existing laws and practices with detrimental effects. It would have come into conflict with and overridden other laws such as the Land Use Policy and customary land rights. As well as locking in the junta legacy by forcing the GoM to honour contracts made under the previous military government – many of which are deeply problematic, untransparent and which are understood to have entrenched existing resources being held by the existing elite – regardless of their social and environmental consequences. Finally, those present questioned the seriousness of the consultation process, given almost all present at the meeting were expats.

What happened next was that in March 2015 the draft of the law was released and a number of Burmese civil society organisations – alerted to the process and the implications of the Law as currently drafted by better-connected and better-resourced INGOs as well as individual expats based in Yangon – attended a second consultation meeting, again hastily convened (one week’s notice). This was much better attended because the original invitation was more widely circulated on a listserve and over 100 turned up to the consultation. The organisations in attendance, domestic and international, re-expressed the above concerns about the Law and that the process was moving too quickly for Myanmar organisations and civil society to systematically analyse and respond to the Law. The issue of land – land rights and land grabs – served as the rallying point for the organisations and the lens and narrative through which domestic civil society pushed back. The GoM was all too aware of the dangers of mobilisation and popular demonstrations around these issues. Critically, the DICA representative at the meeting was sufficiently moved and agreed to slow the process down and improve the consultation process. Individuals working closely with the IFC suggested that it was the driver behind opening up consultations as they were keen to adhere to best practice, with persuasion from other donors. Others have suggested it was the unexpected interest in the process and (critical) positions, collectively articulated by civil society that triggered this action to be taken.

From this point, Burmese civil society organizations, with significant technical and resource support from INGOs as well as individual expats based in Yangon, pushed back on DICA’s and the IFC’s proposed timeline, content and forced the opening up of discussions and debate. Heated discussions prompted significant changes to the MIL. Over time the Law was redrafted reflecting many of these concerns, and the key problematic clauses, such as the investor-state dispute mechanism, were removed.

The final outcome was a law that was far from perfect but was more considered and improved. The Law was more contextually located, for example containing clauses that (to some degree) accounted for localised challenges around land ownership. After being enacted by parliament and signed by the President in October 2016, it effectively came into force in April 2017, in parallel with the approval of the Myanmar Investment Rules (by-laws) governing the law’s implementation. It is notable, though, that investment in Myanmar remains complicated. Challenges for investors persist, and institutions for holding investors to account for their practices also remain elusive, which continues to be the concern for civil society organisations.

**ANALYSIS OF THE MYANMAR INVESTMENT LAW**

Interviews clearly demonstrated the IFC’s frustrations with what, in their mind, was simply a case of trying to do the right thing by getting a technically sound law passed to boost foreign investment into Myanmar, which would benefit the country as a whole in a context where local bureaucratic and legal capacity was low. Plus, the relationships between a more nimble and ambitious DICA and slower, less-resourced and more conservative government ministries meant that some interviewees felt the IFC was blindsided by internal government politics and was unfairly made the scapegoat. Nevertheless, the interviews also made clear that the IFC was working with a very partial view of the task. The fact that the IFC initially tried to introduce a provision in the Law that stated the investment Law would trump all other laws was deeply problematic.

The ideas that the IFC held were problematic for several reasons, all of which reinforced one another. First, in several interviews, respondents argued that the IFC’s approach lacked understanding of the Myanmar context. As we note below, this changed over time, which was critical to the eventual success of the reforms. In interviews, Myanmar was repeatedly referred to as a ‘blank slate’. This meant that investors and other external actors suffered collective myopia regarding the complex context and realities of land rights, multiple conflict-affected regions, parallel governance systems, the legacy of contracts made under strict military rule. Second, the approach to drafting the investment law – its logic, objectives, scope – was also fixed and characterised by a deep ideological commitment to, and institutional bias for, serving (foreign) investors; ultimately an uncompromising free-market
approach. Third, the IFC had a strong bias towards keeping the drafting process within the technical sphere and away from ostensibly diversionary interests and agendas; for example, local investors and businesses due to their ‘protectionist’ tendencies, and civil society organisations and politicians who ‘lack understanding’ about questions of investment and the economy.

The desire to insulate the process from these diversions and the idea that the Law was mostly technical meant that there was often a discrepancy between the commitments of donors to consultation, and civil society participation and the reality on the ground. For example, the Australia Investment Plan 2015-2020 for Myanmar, in the Performance Benchmarks, states that the participation of civil society is explicitly noted as part of the indicator: ‘Draft investment law finalised for submission to parliament. Investment procedures clarified, including through consultation with business and civil society’ (DFAT, 2015: 10). However, from our interviews and the email correspondence at the time, it is clear that for the first of the consultations (January 2015), only one civil society actor, the Myanmar Centre for Responsible Business, was invited to participate. The rest of the consultations were driven mainly by civil society gate-crashing (‘claiming the invited space’) of the process (see Brock et al., 2001 on invited spaces).

A plausible version of events might be that this was an attempted ‘technical’ imposition, but a more nuanced understanding emerged through our interviews. Any nascent desires to make the process locally-led were considerably complicated by an absence of experience on policy formulation and legislative drafting. The law firm that was engaged to provide legal advice and drafting noted how they were consistently consulted far beyond their technical remit, stating that they were time again drawn into questions of content, turning their role into that of a policy actor – a political role.

The main challenge of the MIL was that it meant different things to different people. The same is true of any intervention, initiative and process that is new and/or is not indigenous in provenance. While the drafting process needed to be technically sound, it also needed to be politically informed. What became clear was that the universe of multiple actors, with their own interests, incentives, ideas and narratives, was never sufficiently consulted or brought together. And in a context of a decades-long military regime, under which space to question and understand policy reforms was so limited; the briefest of political analysis would have flagged the importance of consultation on such an important law. The lack of analysis to understand how legislation might play out in this country context was startlingly absent and confirmed in interviews.

The necessary process – a process of contestation, where ideas and worldviews are shared, challenged, clarified, and compromised – is an inherently political one (DLP, 2018). This could have been partly mitigated through better and more thorough political analysis as well as better processes of contestation. As Saku Akmeemana (2018), DFAT’s Principal Specialist, Governance, has noted, one of the challenges facing any external intervention is that it is always having to try and replicate all the feedback loops, checks and balances, diverse constituencies, and contestation, that naturally sit within a domestic polity and society. Donors and other external actors have to recreate these processes from scratch and from a distance.
LESSONS LEARNED

POLITICS MATTERS: AND SO DOES THINKING AND WORKING POLITICALLY

And this means that development organisations, in addition to being technically sound, need to ‘think and work politically’.

Thinking politically means doing better political analysis and using it to underpin support to legislative processes and reforms. The absence of such analysis was conspicuous here. In the case of Myanmar, this was apparent in the prevalent ‘blank slate-ism’. The existing constellation of interests and power was not sufficiently interrogated through thorough political analysis nor even a more straightforward stakeholder analysis. More problematically, the relevant formal and informal institutions remained a blind spot, e.g. with regard to land rights and the potential impact of the MIL on existing informal land tenure.

Working politically means – in this case – building channels of consultation and facilitating the process of contestation. In a different context or on a different issue, it could mean something else; building a broad-based popular coalition; or in another, elite lobbying in the corridors of power. The characteristics of the investment law, which were technical but socially impactful – mean that open but not popular consultation was fundamental.

Institutions (and laws) do not always rule. Politics is about the interaction between the rules and how actors, behave within those rules (Leftwich, 2011). On which point, it is notable that investment in Myanmar remains complicated: challenges for investors continue and institutions for holding investors to account for their practices also remain elusive, a concern for civil society organisations. This indicates the importance of ‘thinking and working politically’ beyond the legislation. Despite being frequently acknowledged, too often the action stops when the legislation ends, leaving high expectations but little capacity to move forward. This has the potential knock-on effect of undermining confidence – from all sides: international and domestic, government, private sector and civil society – in the value of such reform processes in general as well as eroding the capital of the specific reform. External actors should be realistic about the functionality of reform processes against the institutions that are in place to work with and consider what this means for sequencing. Good legislation is only a means not an end – and the acknowledgement of this must also be reflected in how external actors message the realities of what a proposed policy reform will deliver, to all actors.

CONSULTATION MATTERS: FOR INCLUSION, HIGH-QUALITY REFORMS, LEARNING AND LEGITIMACY

Consultation matters, and not just for its own sake or for the principle of inclusion. Consultation matters for buy-in, for the quality of reform, and for capacity building and learning (both ways). This was particularly important in this specific country context and this issue context: for historical reasons, there was a clear lack of experience and expertise.

In a fluid and uncertain country context, a reform process will always face significant challenges as to whether the key actors have sufficient expertise, experience, and frankly time and resources, to contribute to it. This needs upfront thought and consideration when a reform process is being designed. In the case of the MIL, through challenging (and expanding) the planned process, the consultation enabled actors to learn from one another’s experiences/expertise to make up for this (to an extent). The consultation also actively helped the Burmese bureaucracy and DICA in particular to gain insights from the various CSOs during the consultation process. And, this was a two-way process. At the outset of the process, interviewees suggested that the IFC had not developed a full enough understanding of the political context in Myanmar, especially with respect to land use and land rights. As things progressed, it became clear that the Law needed to be grounded in a less narrow understanding of the political context; a change that proved key to the progress of the reforms.

Naturally, getting a process to work like this and in these ways takes time and will not happen automatically or always be targeted: it is clear, for example, that some local actors did use the consultation process under the MIL to air grievances about issues not directly linked to the Law, which was one of the original worries of the IFC. But that’s probably inevitable in any process and serves its own purpose (see the multiplier effect discussion, below), and shouldn’t necessarily take away from the consultation. Accepting that the consultation process will take longer and will never be perfect are essential lessons.
Another lesson that emerged from the analysis was that when a consultation is permitted around a key piece of legislation (e.g. the MIL), it opens up space for other important issues (e.g. land) which, if tackled, can in theory garner public support for the governing body, national development priorities and the interventions of donors to support those. In this case, the discussions around land issues through the MIL consultation process chimed with parallel discussions taking place on the development of a Land Use Policy being developed to address some of the land-related problems the country faced. Linking these issues together created something of a multiplier effect, something that domestic and external actors could explicitly look for when considering consultations and the role they might play.

EXTERNAL ACTORS MATTER: DO NO HARM, SUPPORT CAPACITY AND DIALOGUE

Even though many aspects of the case illustrated the limits of external technical expertise – in particular, that the IFC did not sufficiently understand, or see the risks associated with, the various political issues in Myanmar that the Law impacted on, e.g. land rights, junta legacy, conflict – the process overall highlighted a set of key, probably essential, roles that external actors can and do play. These come with the strong caveat that there is a need for humility and to be open to recognising if and when there is a lack of sufficient contextual knowledge to support a reform process. If this is not how external actors engage, then they can matter in all the wrong ways. It is incumbent on external actors to be honest and recognise that they are not ideologically neutral. The IFC had a clear ideological bias, and this meant trying to push through a law that was more pro-investor (or anti-people) than any investment law elsewhere in the world. That said, external actors can and do matter.

Ultimately, the role of external actors here was twofold. First, they provided much needed technical support. This was as much through the role of international NGOs in supporting local NGOs as the role played by the IFC or other donors in-country. The eco-system of external actors, from INGOs to legal experts, helped boost capacity as well as facilitate the consultation process. Second, they provided the essential spaces for politics (collaboration and contestation) to work, specifically through the consultation process. Too often there is a tendency to approach consultations as a tick-box exercise, but in this case, the consultation process had a considerable impact on the Law. This was in part due to leadership within DICA, in part due to the support of international NGOs, and in part due to strong efforts of local civil society actors, working with those INGOs. Crucially, the fact that the processes of contestation and conflict around the law played out iteratively, rather than being short-circuited to save on time, was both important for making the consultation politically meaningful and also substantively useful.
IMPLICATIONS FOR EXTERNAL ACTORS

- Know your limits; be humble. Start with (and regularly update) an excellent political economy or power analysis, and use it to inform the legislative or policy reform process or programming. Take into account all narratives and perspectives, from all stakeholders and be sensitive to adjacent issues that the reform will impact upon, e.g. land rights. Look for alliances between a broader group of stakeholders of the committed as well as the powerful.

- Do not try to shortcut domestic processes, instead catalyse and incubate them. Political deliberation and contestation are key. That’s the donor’s role. It might not go where the donor would expect or want, but embracing dissent is vital. It is not about looking for the right answer through a search process or trial and error, but about encouraging voice, compromise, understanding, and ultimately legitimacy (Hudson et al., 2018). Politics matters. The Silicon Valley ideal of failing fast and learning fast is nice, but not relevant. Doing development is not software engineers trying to fix code – it is a living and contested process that doesn’t necessarily have a bug and/or ‘fix’. In this case, organisation, action and accountability were crucial in forcing failure to be recognised – so build this in, don’t try and insulate the process.

- Make consultation meaningful and build in sufficient time to allow contestation productively. This means taking seriously the importance of practical issues, such as: the language used in consultations and documents (and the translation of these); who is invited; how long in advance materials are circulated and workshops are publicised; who runs the consultation (in this case the IFC vs DICA); and, indeed, how long all of this takes. It also means taking stock along the way and being humble enough to accept a change of direction might be incurred by a more promising approach. While it might take more time at the outset, if done well it is a good investment (or will become necessary anyway!).

- The extra time and resources consultations take can be seen as an investment in local capacity-building. Consultations – when done well – can have a multiplier effect on local capacity, both political and technical, e.g. legal. In this case, the consultation actively helped the Burmese bureaucracy and DICA, in particular, to gain insights from the various CSOs during the consultation process, as well as develop a shared language and trust for future consultations.

- Reforms or new legislation should not be ‘institution-blind’. Closing your eyes and hoping for the best (that institutions will intuitively behave differently once laws are reformed) is not good enough. A law (or indeed a reform) needs to take account of the institutional constraints within which it will operate and build in safety measures/mitigations (e.g. inserting language around commitment to bring relevant national legislation, upon which a law such as this depends, up to international standards for it to function). And new legislation, no matter how good it is, won’t deliver with weak institutions. Think of the next step post legislation.

- Failure – as opposed to incompetence – is to be embraced. Understandably, fears around renewal or future funding lead to bias against being open about failure. But this case study shows how important and productive it can be. Most things fail. Don’t take it personally.

The Silicon Valley ideal of failing fast and learning fast is nice, but not relevant. Doing development is not software engineers trying to fix code – it is a living and contested process that doesn’t necessarily have a bug and/or ‘fix’. In this case, organisation, action and accountability were crucial in forcing failure to be recognised – so build this in, don’t try and insulate the process.
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This publication has been funded by the Australian Government through the Department of Foreign Affairs and Trade. The views expressed in this publication are the authors' alone and are not necessarily the views of the Australian Government, the Developmental Leadership Program or partner organisations.

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