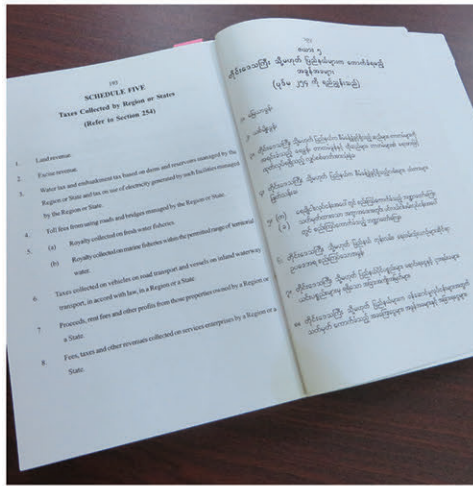


State and Region Public Finances in Myanmar



Giles Dickenson-Jones, S Kanay De, and Andrea Smurra

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The ***Subnational Governance in Myanmar Discussion Paper Series*** is a collaborative research initiative between MDRI-CESD and The Asia Foundation. The paper series aims to provide Myanmar policy-makers at national and local levels, civil society organizations, the business community, development partners and other interested stakeholders with timely research on subnational governance issues that directly inform policy and reform processes. The research behind the series incorporates the perspectives of a range of government, political, non-governmental, civil society, and community stakeholders in subnational governance, while also bringing to bear the most relevant policy analysis and international experience. MDRI-CESD and The Asia Foundation welcome input and suggestions on published, ongoing or future research.

The **Myanmar Development Resource Institute's Centre for Economic and Social Development** is an independent think-tank dedicated to the economic and social transformation of Myanmar. The Centre undertakes participatory policy research studies related to economic reform, poverty-reduction, sustainable development and good governance in Myanmar. It also provides training and education services for key institutions and organizations contributing to the ongoing process of reform.

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Foreword: Framing the Decentralization Debate

The Myanmar Development Resource Institute's Centre for Economic and Social Development (MDRI – CESD), is pleased to present this report on State and Region Public Finances in Myanmar in cooperation with the International Growth Centre and The Asia Foundation.

This research focuses on understanding the role of state and region governments in relation to Myanmar's public finances. This has been done to take stock of existing research, better understand the composition of subnational finances, and attempt to address whether, at this point in the fiscal decentralization process, state and region governments have sufficient resources to fulfil their constitutionally delegated responsibilities. Recognizing the complex and varied factors relevant to addressing these questions, a range of qualitative and quantitative approaches were employed, including semi-structured interviews of stakeholders, consultation with sector experts and analysis of published budget and socioeconomic data.

A common argument for a country engaging in fiscal decentralization rests on the idea that the provision of public goods and services at lower levels of government can encourage the more efficient and effective allocation of public resources. This was in part recognized in the 2013 Framework for Economic and Social Reforms which outlined the Government of Myanmar's intention to develop a participatory process of local budgeting which greater reflects local needs while also developing the appropriate legislative and regulatory frameworks to facilitate the appropriate transfer of powers and resources from centralized institutions.

While Myanmar's fiscal system still appears relatively centralized, it is imperative to recognize that both the outcome and process are equally important when pursuing fiscal decentralization objectives. That is, because an improperly managed fiscal decentralization agenda can encourage waste, exacerbate inequality and harm macroeconomic and political stability, how fiscal decentralization is pursued matters as much as the end goal. For Myanmar, this appears to have been largely recognized with many of the risks having been successfully managed despite significant movements of resources and authority having been transferred to subnational government in a relatively short time frame.

Despite this, there are still areas which can be improved. For instance financial transfers from the Union to states and regions have expanded considerably since the establishment of subnational government. While this research suggests that a variety of factors explain their allocation, the movement to a transparent formula-based system is suggested as being a vital next step. Although this is predominantly so the transfer of resources to subnational government can be managed in a fair and predictable way, such a system could also help move the debate from considering just how much is enough to ask which issues are important.

Although the impressive pace of fiscal decentralization is cause for optimism, particularly given how early Myanmar is in its reform process, it is critical that both the opportunities and risks are appropriately balanced. As has been outlined in this research, one imperative means of achieving this is to ensure that fiscal decentralization is considered within the wider context of Myanmar's political, economic and administrative reforms, so as to ensure both the means and ends are determined with reference to Myanmar's unique economic, political and historical context.

Dr. Zaw Oo
Executive Director
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Preface

The Myanmar Development Resource Institute's Centre for Economic and Social Development (MDRI-CESD), the International Growth Centre and The Asia Foundation are pleased to present this 8th volume in the Subnational Governance in Myanmar Discussion Paper Series.

The pace of change in Myanmar is rapid and constantly evolving, and decentralization and local governance are issues of critical importance to the country's long-term development and priorities in the government's reform agenda. As such, there is a real need for timely research and analysis on key reform areas related to decentralization and local governance.

As an extended collaboration between The Asia Foundation and MDRI-CESD, this series of discussion papers aims to provide Myanmar's policymakers at national and local levels, civil society organizations, the business community, development partners, and other interested stakeholders with research findings on subnational governance issues that directly inform policy and reform processes.

Historically, many of Myanmar's administrative and political structures have been highly centralized, in many cases having been inherited after the end of Colonial Rule under the British. The 2008 Constitution formally established the state and region parliaments, assigning state and region government legislative responsibilities and providing states and regions the right to collect and spend revenues.

Since then, there has been an emphasis on expanding the financial responsibilities and resources of state and region governments with the central government expressing a desire to engage in further fiscal decentralization. Although in theory decentralization can allow for the better allocation and more efficient use of public resources, for Myanmar, much of this hinges on subnational governments having the incentives and capacity to spend and raise revenue in the interest of their communities.

Furthermore, being a country undergoing a significant social and economic transition, in many cases both the extent and nature of government responsibilities are still being determined. In the interest of contributing to this debate, this research focuses on budgeting by Myanmar's state and region governments so as to better understand both the current and potential role of subnational government in the management of public finances.

This report was generously funded by the United Kingdom's Department for International Development (DFID). The opinions expressed in this report are solely those of the authors and do not necessarily reflect those of DFID, MDRI-CESD, IGC or The Asia Foundation.

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Acronyms

CDF	Constituency Development Fund
DAO	Development Affairs Organization
FESR	Framework for Economic and Social Reforms
GAD	General Administration Department
GDP	Gross Domestic Product
IMF	International Monetary Fund
MCDC	Mandalay City Development Committee
MDRI-CESD	Myanmar Development Resource Institute – Centre for Economic and Social Development
MEB	Myanmar Economic Bank
PRF	Poverty Reduction Funds or Poverty Eradication Funds
SOE	State Owned Enterprises
TA	Township Administrator
VERP	Village Elders and Respected Persons
VTA	Village Tract Administrators
WA	Ward Administrators
YCDC	Yangon City Development Committee

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We'd also like to thank the United Nation Development Program's Local Governance Mapping team and authors of their State of Local Governance reports for sharing insights and data from their work.

Although this research has sought to add to existing knowledge on state and region public finances in Myanmar, a key aim has also been to consolidate current information on the topic so as to assist future work in the area. We are therefore grateful to the many researchers who have contributed to the Subnational Governance in Myanmar Discussion Paper Series, with many of these papers being highly valuable for our research, in particular:

- *Administering the State in Myanmar: An Overview of the General Administration Department*, by Kyi Pyar Chit Saw and Matthew Arnold;
- *Fiscal Decentralization in Myanmar: Towards a Roadmap for Reform*, by Hamish Nixon, and Cindy Joelene; and
- *State and Region Governments in Myanmar*, by Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, and Matthew Arnold.

Lastly, the research team would like to acknowledge the UK Department for International Development for providing financial support for this research under a Programme Partnership Agreement with The Asia Foundation. Of course, any faults in substance or analysis rest with the authors.

A Note on Names

In 1989 the State Law and Order Restoration Council (SLORC) Government in Myanmar (Burma) adopted new transliterations and pronunciations of key place names, including that of the country itself. This report adopts these new spellings when referring to contemporary locations for consistency with current practice inside Myanmar, while making reference to alternative usage in the first instance. In reference to earlier historical eras it adopts the common historical usage. No position on the "correct" Anglicization of Burmese names is implied.

In order to avoid confusion, government entities are capitalized only when a specific organization or actor or a formal title is denoted.

Research Focus and Approach

The Myanmar Development Resource Institute's Centre for Economic and Social Development (MDRI-CESD), in cooperation with the International Growth Centre (IGC) and The Asia Foundation, developed this research as part of the Subnational Governance in Myanmar Discussion Paper Series.

This research focuses on understanding the role of state and region governments in public finance so as to take stock of existing research and help answer:

1. What revenues do state and region governments collect, from where, and how are they used?
2. Do state and region governments collect or receive enough revenues to effectively fulfill their constitutionally delegated responsibilities?

In the interest of addressing the underlying research questions and providing additional clarity about the role of subnational government in public finances, this research has also used a variety of complementary qualitative and quantitative research methods, including:

- A review of existing literature on public finance and governance in Myanmar;
- Semi-structured interviews of officials and village leaders from the village tract administrator level to the parliamentarian level, involving 21 people from three regions and one state¹;
- Analysis of state, region and Union budget data, with a particular focus on the 2013-14 fiscal year (being the most recent year publicly available);
- Statistical analysis of state and region budget data for the purpose of exploring financial relationships between departments, DAOs, State-Owned Enterprises (SOEs), and administrative bodies; and
- Discussions with subject-matter experts and both internal and external peer reviews.

Quantitative analysis in this paper is based primarily on the publicly available data from Union, state, and region budget projections. Although budgetary data were not available in enough detail or over a long enough period to undertake detailed analysis, this paper presents an important step in understanding the overall budgetary trends and resources available at the state and region level.

¹ In order to encourage open discussions with respondents, interviews were conducted under an understanding of anonymity. Referenced interviews in this paper therefore exclude personally identifiable information.

Executive Summary

Myanmar's administrative and political structures historically have been highly centralized. However, with the legal creation of state and region governments in 2008 and elections in 2010, there has been a greater emphasis on the role of state and region governments in Myanmar's overall public financial system.

Since their establishment, state and region governments have been allowed to prepare their own budgets, collect taxes and have been given authority to pass legislation and undertake expenditure in a range of areas outlined in the 2008 Constitution.

The 2008 Constitution includes a number of provisions aimed at increasing the degree of fiscal, political and administrative decentralization. For example, state and region Chief Ministers are directly responsible for the collection of a number of revenue items, subnational parliaments can promulgate laws according to a set schedule of responsibilities, and subnational executives have been assigned expenditure mandates.

However, while the 2008 Constitution provides some guidelines for the fiscal responsibilities of state and region governments, there is still uncertainty as to their envisioned role. As a result, it appears that some of the fiscal activities of state and region governments are based on past processes and informal understandings of the roles expected of them from the Union government.

Overall, it appears the 2008 Constitution provides a higher level of clarity as to the taxation rights of state and region governments than it does about expected expenditure responsibilities. The latter are very broad in nature and often overlap with (or are nested within) those of the Union government. This likely reflects the fact that many of the revenue sources listed in Schedule 5 already existed when the constitution was drafted, whilst a unified view as to the responsibilities of state and region governments is likely to have been in its infancy.

Revenue collected by state and region governments, though still a relatively small proportion of overall government revenue, has been increasing. In 2013-14, overall revenue for the Union government reached 13.2 trillion kyats, or 24 percent of GDP, compared to 1.2 trillion kyats, or 2 percent of GDP, for states and regions.

The rate of decentralization in Myanmar appears significant, with Union transfers increasing from 2.2 percent of Union expenditures in 2011-12 to 8.7 percent in 2015-16. However, there are still significant uncertainties in terms of the current and envisioned roles of subnational governments in Myanmar. **This makes it vital that the planned decentralization path is synchronized with wider political and administrative reforms to ensure that the provision of resources to states and regions is matched by subnational governments' capacities to employ them effectively.**

Taxes accounted for only 5 percent of subnational revenue in 2013-14, while self-raised revenue from Development Affairs Organizations, the Yangon City Development Committee (YCDC) and the Mandalay City Development Committee (MCDC) account for 17 percent.

In 2013-14, budgeted Union expenditures reached 16.1 trillion kyats, or 29 percent of GDP, compared to 1.2 trillion kyats, or 2 percent of GDP, for states and regions. **Despite this, subnational governments' overall share of expenditures is understood to have increased alongside Union transfers.**

The majority of departmental and state-owned enterprise expenditure is carried out by just five entities, with the Department of Public Works carrying out more than half of this. Specifically, 54 percent of state and region government expenditures were undertaken by the Department of Public Works, while 23 percent was accounted for by Development Affairs Organization, YCDC and MCDC.

Despite this, the deconcentration of infrastructure development through Public Works can represent a positive step in the right direction if this effort benefits from a more localized perspective. Moreover, deconcentrating these activities may allow for increased participation by communities and subnational stakeholders.

At current levels, Myanmar belongs to the group of least decentralized countries in South and South-East Asia, together with Thailand, Indonesia, the Philippines, Bangladesh and Pakistan. Despite this, among its neighbors, Myanmar's states and regions are among the most active in collecting revenues relative to their central government, accounting for 8 percent of total government receipts.

It is important to recognize that current levels of state and region expenditure and revenue collection are not accurate measures of decentralization but suggest key areas of focus. The majority of subnational expenditure is conducted through a minority of highly centralized entities, whilst the majority of revenue is transferred from the Union, earned by Public Works or collected through Union administrative infrastructure, such as the General Administration Department. Consequently, these organizations represent critical points where greater participation, transparency and accountability could deliver many of the benefits sought through decentralization.

Analysis suggested that differences in Union transfers across states and regions can be largely explained by a particular state's or region's characteristics, such as the number of townships, infrastructure needs and levels of poverty. Although promising, without knowing the explicit objectives and needs of the Union government and state and region governments, it is difficult to assess whether the extent to which these factors have been taken into account, implicitly or otherwise, is sufficient for driving economic and social development.

A formula-based system that explicitly allocates Union transfers according to a state's or region's needs and ability to self-raise revenue is suggested as preferable, particularly given the increasing magnitude of Union transfers. This is because it would allow for the explicit consideration of which factors are important in allocating government resources and would potentially allow budget negotiations to focus on policy issues, such as alleviating poverty, infrastructure development, improving health outcomes, and expanding education.

In order for state and region governments to target their management of public finances and plan over the long-term, a decentralization path should be set. While clarifying the current role of subnational governments in public finances is suggested as a priority, it is proposed that government plot a trajectory for fiscal decentralization for the medium term so as to provide subnational governments with sufficient clarity to engage in long-term planning.

Activities undertaken by ministries, departments and State Owned Enterprises and their costs should be made publicly available. A large proportion of subnational government expenditure is conducted by a small number of agencies, yet limited data is available to assess how this expenditure is allocated across states and regions.

Part of the movement to a more decentralized fiscal system requires that the community, officials and the business sector have an understanding of how and where taxation revenue is being directed so as to provide a means of enabling informed discussions about how and where public resources can be directed.

Efforts should be made to bring published budget data in line with international standards. Currently, state and region budgets reflect only a fraction of public financial activity, both as some activities are undertaken through 'Other Accounts' and realized expenditures are not published. As a result, outside of those with access to this information, it is difficult to adequately understand and evaluate the activities of sub-national governments.

Although steps are already underway to improve this, it is recommended in the interim that government budgets and supplementary budgets are released in a timely manner so as to allow discussion to be based on current information on public finances.

Greater access to the administrative data currently recorded as part of preparing state and region budgets should be made available. From interviews, it was determined that more detailed information is already collected on revenues and expenditures at the state and region level as part of the budget process.

It is therefore suggested this data be made available so as to allow more detailed analysis of public finances in the interest of assisting a move away from just asking "How much is spent?" toward asking the potentially more fruitful question of "How well are resources spent?" so as to provide invaluable guidance for the reforms ahead.

ONE: Introduction

Generally, democratically elected governments are expected to implement policies aimed at ensuring and improving the wellbeing of their citizens. While in Myanmar, a country undergoing a significant social and economic transformation, the need for governments to provide public goods and services such as infrastructure, defense, health, and education may be generally accepted, their precise nature and relative importance is still being determined.

Furthermore, just as the provision of public goods and services can have a range of social and economic implications, so too can its financing. For instance, although the construction of a road may benefit a wide range of households and businesses, they will not all benefit equally, nor are they likely to have the same ability to pay for its construction. Similarly, because governments have limited resources, the benefits of spending in one area need to be balanced against the alternatives in order to ensure these limited resources are applied as productively as possible.

As a result, an important role of Myanmar's government is to strike a balance between community needs and the management of the limited financial resources available to meet them. Effective public financial management, which describes the process of how and by whom public resources are managed, is therefore vital, requiring that policy questions are addressed across the three intertwined but distinct areas of **expenditure allocation**, **revenue mobilization** and the **distribution of fiscal power and responsibilities** [1].

Expenditure allocation is concerned with the extent and approach with which public financial resources are allocated. This might include funding to entities that assure law and order, national defense, and the provision of health, education, and infrastructure. However, since public resources are limited, the government has the responsibility to prioritize the allocation of public expenditure to ensure its best use. This requires taking into consideration not only economic and wider development objectives, but also how these fit into the needs of constituencies.

Revenue mobilization describes how and from where government revenue is sourced. Revenue mobilization is important both as it provides a means of financing government expenditure, and because the way in which revenue is raised can have a range of social and economic implications. For example, although citizens and businesses might be more willing to contribute to infrastructure benefitting them, their abilities to pay might differ, potentially requiring them to make different contributions. Consequently, effective revenue mobilization goes beyond simply determining how much is necessary to ensuring that it is being collected in an efficient and equitable manner.

Because of the importance of deciding how expenditures are allocated and how revenue is mobilized, a third set of policy questions then relates to who makes these decisions and how these responsibilities are shared between authorities, agencies, and different levels of government. For example, in some circumstances, institutions at the state or region level might be better at addressing the needs of their constituencies due to their proximity to the affected population. By the same token, taxpayers might be more willing to contribute to institutions that they perceive to be closer and more accountable to them. The **distribution of fiscal power and responsibilities**, therefore, represents a crucial third dimension of public financial management.

Governments in the Asia-Pacific region have increasingly recognized the importance of this reform agenda, and Myanmar is no exception. Recent reform efforts focused on the country's public finance management system have delivered some initially encouraging results, with government revenues overall increasing, thereby providing the potential for more resources to be shifted toward policies that are aimed at generating growth and enhancing the welfare of Myanmar's citizens.

However, to complete this transition, fiscal reforms need to be supported by a restructuring of responsibilities and authorities within the government so as to ensure that public resources are being

employed as effectively as possible. Although preliminary steps in this direction have been taken, with the establishment of state and region governments and efforts to provide them with greater political and fiscal authority, building upon this and deepening ongoing reforms is an important stepping stone for Myanmar to balance the management of limited public resources with meeting broad-ranging community needs [1].

1.1 The Decentralization Agenda

Decentralization describes the movement of fiscal resources, administrative processes and political authority from the Union, or national, government to subnational governments and lower administrative levels (Box 1). Although there are several reasons for pursuing decentralization, a common economic argument rests on the ‘subsidiarity principle’, which suggests that the provision of public goods and services at lower levels of government can encourage the more efficient and effective allocation of public resources [2].

Box 1: Multiple Dimensions of Decentralization

Administrative decentralization encompasses distributing managerial responsibilities among different levels of government or administration.

Political decentralization involves the transfer of decision-making power and accountability to local levels.

Fiscal decentralization describes the process of releasing control over central expenditure and revenue raising authority to lower levels of government.

Source: [3], [4]

While there are a range of reasons for this, it is generally thought that by more widely distributing political power and narrowing the distance between communities and public institutions, governments will become more accountable and receptive to community needs, thereby improving the way government expenditure is allocated and revenue is mobilized. Although conceptually appealing, success in practice will depend on factors such as the resources, capacity, and authority government entities hold and the ability of the wider community to influence public policy [5]. Because of this, it is important that both the level and rate of decentralization is viewed in a holistic fashion.

Similarly, the success of decentralization depends not just on the outcome, but also on the process. An improperly managed decentralization process has the potential to exacerbate inequality, aggravate conflict and disrupt macroeconomic stability [2], [6]. Recognizing this, governments often manage this risk by pursuing fiscal decentralization through a combination of delegating, devolving, and deconcentrating resources, political authority, and fiscal authority (Box 2).

Box 2: Delegation, Devolution, and Deconcentration

Delegation is the shifting of functions to semi- or wholly-independent organizations outside the core government sector (for example, to independent authorities, or in privatization, to private firms).

Devolution is a situation in which local government has autonomy over decisions and functions and is usually held accountable for those decisions by local people through elections.

Deconcentration, or vertical decentralization, is the assignment of functions and resources to lower administrative levels of a central organization (typically a ministry), with accountability for these functions still being to the central authority.

Source: [4]

Despite these caveats, the movement of expenditure and revenue collection responsibilities closer to the affected population is one of the most crucial elements of a decentralization agenda, and one that, if properly managed, can potentially deliver many benefits both for governments and communities through increasing overall accountability, allowing greater participation, and reducing waste, and by improving the allocation of resources, achieve an overall improvement in community wellbeing.

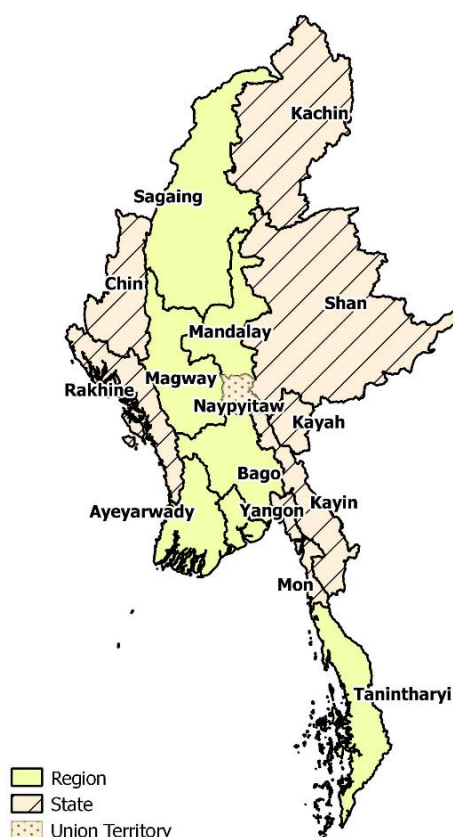
TWO: Decentralization in Myanmar and the Structure of the State

Historically, Myanmar's fiscal, administrative and political structures have been highly centralized [1]. However, more recently, economic and political reforms have attempted to directly address this, with Myanmar's 2008 Constitution formally establishing subnational governments (states and regions), each with a Legislature, Judiciary and Executive [3].

Subnational government, as outlined in Myanmar's 2008 Constitution, comprises seven regions, seven states, and one Union territory, Nay Pyi Taw. While states and regions are constitutionally equivalent, states cover areas with large ethnic minority populations and are located along Myanmar's borders, while regions encompass majority "Burman" areas [3].

Figure 1 – States and Regions in Myanmar

The 2008 Constitution formally established state and region governments.



Based on the Myanmar Information Management Unit's subnational boundaries, April 2014

Myanmar's subnational legislatures are made up of two elected officials per township and military representatives equivalent to one third of each state or region's elected officials. States and regions are also entitled to an additional elected representative for each of the 'national races' that make up more than 0.1 percent of their population [3]. State and region hluttaws, or legislatures, have the right to enact laws in areas outlined in Schedule 2 of the Constitution (Annex I). The first sessions of state and region hluttaws were held in January 2011 [7].

Under the 2008 Constitution, a state's or region's Chief Minister is nominated by the President and confirmed by state and region hluttaws. The selection of state and region ministers is then

predominantly in the hands of a state's or region's Chief Minister, in consultation with the President.² Day-to-day executive authority is then exercised directly via those subnational government departments whose mandates align with the areas prescribed in Schedule 2 [3] (see Annex 1).³

From a public finance perspective much of a subnational government's authority over expenditures stems from Schedule 2, while Schedule 5 (Annex II) provides a state's or region's rights to mobilize revenue. Despite this, Myanmar is still in the early stages of its planned decentralization, with the government of President U Thein Sein expressing a desire to develop this through a number of reforms, such as the implementation of more participatory processes for local budgeting [1] (Box 3).

Box 3: Government Statements on Fiscal and Political Decentralization in the Framework for Economic and Social Reforms

The Government of Myanmar "is planning to streamline managerial responsibilities between centralized ministries and local departments, clarifying roles and responsibilities between different levels of governance, and is developing appropriate legislative and regulatory frameworks to facilitate devolution and deconcentration of powers and functions of centralized institutions."

Framework for Economic and Social Reforms, Para. 105.

The Government of Myanmar "attaches high priority to developing a participatory process of local budgeting, which should reflect local priorities and needs while corresponding with national policy directions, by delegating decision-making authority over expenditure compositions (between recurrent and capital expenditure) as well as inter-sectoral allocations (between sectors) under the guidance of local parliaments."

Framework for Economic and Social Reforms, Para. 106.

The Government of Myanmar "plans to conduct necessary studies and analyses of the functioning of subnational governance institutions in a range of regions, states and local units, as well as analysis of international experience, to improve Myanmar's decentralization policy. Based on such studies, it will develop a comprehensive policy that can explore ways to bring administrative and fiscal decentralization into closer balance while strengthening the responsibility and responsiveness of sub-national units to the local population."

Framework for Economic and Social Reforms, Para. 107

Source: The Framework for Economic and Social Reforms, January 14, 2013.

This has also been mirrored by directives for greater coordination between the Union and state and region governments and the creation of consultative bodies at the district, township, village tract and ward levels. Furthermore, there has also been an overall increase in the share of national expenditures included in state and region budgets, although it is unclear to what extent this represents merely an 'on paper' assignment of resources [4].

Despite this, Myanmar is clearly at the early stages of decentralization, with the state and region governments still being heavily reliant on the Union government's administrative infrastructure, such as the General Administration Department (GAD) for collecting taxes and the subnational departments for exercising executive authority [8].

² Section 17 (b) of the 2008 Constitution also states "In the executive of the Union, Regions, States, Union Territory, Self-Administered Areas and districts, Defence Services personnel, nominated by the Commander-in-Chief of the Defence Services to undertake responsibilities of the defence, security, border administration, so forth, shall be included."

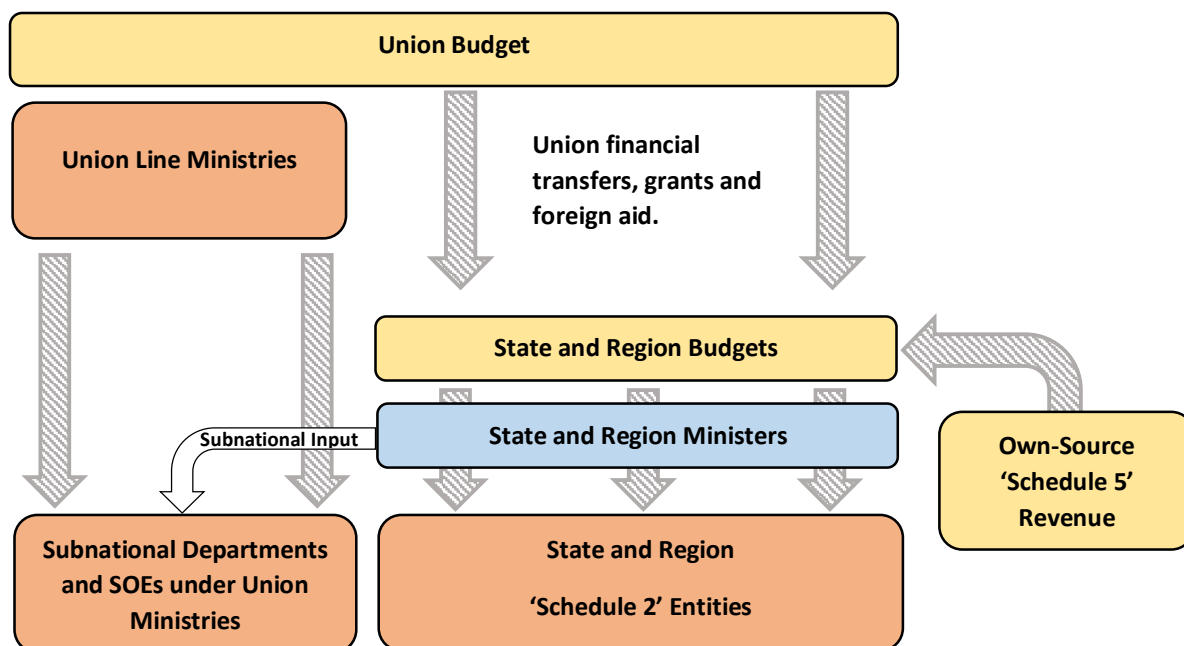
³ Subnational departments typically represent Union ministries that maintain offices in states, regions, districts, and townships.

2.1 Administrative, Political, and Fiscal Structures of Subnational Finances

The structure of state and region public finances can broadly be described through a combination of administrative, political, and fiscal structures that relate to the sourcing and use of subnational public financial resources. Figure 2 provides a simplified illustration of this with a particular focus on how subnational finances relate to the flow of funds from the Union and subnational revenue sources and on the expenditure of these resources through subnational entities.

Figure 2: Structure of State and Region Public Finances

The structure of state and region public finances can broadly be described through a combination of administrative, political, and fiscal structures.



Adapted from: Fiscal Decentralization in Myanmar, by Hamish Nixon and Cindy Joelene, June 2014

Fundamentally, the size of state and region revenue depends on the extent of financial transfers provided by the Union and resources sourced by the state or region, such as taxes, fees, and revenue from SOEs. Currently, financial transfers from the Union represent a significant source of revenue for state and region governments. These transfers are recorded as ‘aid/transfers’ under the Union budget and rely on Union approval via normal budget processes. As a result, revenue provided through Union transfers is determined by authorities balancing the needs and objectives of the states and regions with those of the Union.

Government expenditure is then predominantly undertaken by a range of ‘subnational entities’ such as government departments, Development Affairs Organizations (DAOs), and State Owned Enterprises (SOEs). While most subnational entities are accountable to Union ‘parent ministries’, their levels of independence vary, with some also being under the authority of state or region ministers, while others are operational departments of Union ministries. On a practical level, this means government entities have varied levels of accountability to subnational governments.

In applying this framework, it is important to recognize that conceptually separating the operation of Union and subnational budgets can be complex. For instance, although the subnational departments of Union ministries may conduct expenditures in areas similar to those outlined in Schedule 2 of the 2008 Constitution, it does not necessarily follow that these will be reflected in subnational budgets. Similarly, even where expenditure is recorded at the subnational level, these activities may not reflect

independent activities of the state or region government, with the levels of authority and coordination likely differing across activities and entities.⁴

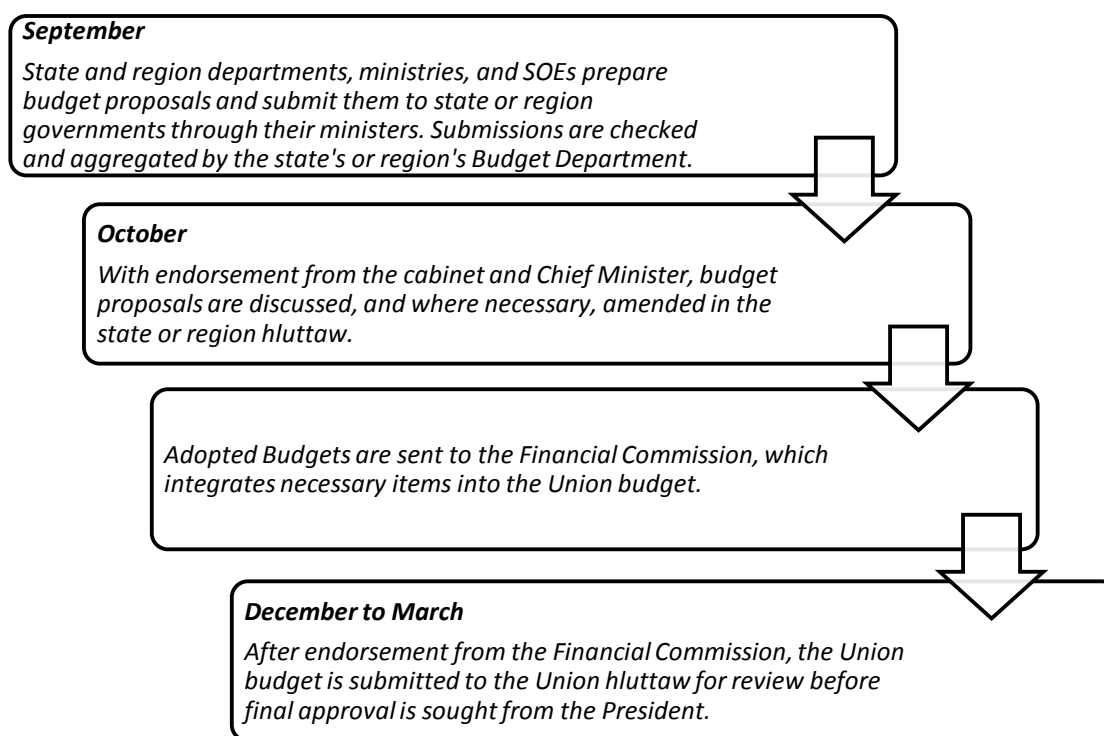
2.2 The Budget Process in Myanmar

Myanmar’s budget process begins around August, when the Ministry of Finance and the Ministry of National Planning and Economic Development issue a budget schedule outlining the expected timelines for submitting budget proposals for Union ministries, departments, administrative entities, and SOEs.⁵

Around November, Union budget proposals are submitted to the Financial Commission, led by the first Vice President⁶, for initial review and amendment where necessary (Box 4). Upon endorsement, the Financial Commission then submits the budget to the Union Hluttaw for review and approval before final approval is sought from the President [9].

Figure 3: State and Region Budget Preparation Process

Final approval of state and region budgets comes from the President.



Source: [3]

State and region departments, administrative entities, and SOEs generally submit their individual budget proposals to their respective Budget Departments in September. The Budget Department, under the direction of the state or region Finance Minister, then consolidates these proposals and, where necessary, makes changes before submitting them to the Chief Minister.

⁴ An indicative list of the entities as they relate to the 2008 Constitution is provided in Annex X, while an illustrative table of ministerial responsibilities has been provided in Annex XI.

⁵ The fiscal year in Myanmar runs from April 1 to March 31.

⁶ Myanmar’s 2008 Constitution requires three Vice Presidents to be nominated, one by the Pyithu Hluttaw (lower house), another by the Amyothar Hluttaw (upper house) and a third by military representatives. The individual with the highest number of votes is elected as President, while the two Vice Presidents are elected as the First and Second Vice Presidents, according to the number of votes they received.

Box 4: Key Duties and Functions of the Financial Commission⁷

The Financial Commission was established under the 2008 Constitution as part of wider decentralization efforts. Key roles of the Financial Commission are to harmonize the Union budget with state and region budgets, to recommend the provision of supplementary funding, and to advise on financial matters. Core duties of the Financial Commission as outlined in Section 230 of the 2008 Constitution include:

(a) The budgets of the Union ministries and Union level organizations are to be vetted by a Vice-President assigned by the President, and the estimated budgets of the Union level organizations including the Union ministries are to be submitted to the Financial Commission.

(b) The budgets of the region or state are to be vetted by the other Vice-President assigned by the President, and the estimated budgets of the region or state are to be submitted to the Financial Commission.

(c) The Financial Commission shall:

(i) submit to the Pyidaungsu [Union] Hluttaw with recommendation for the Union Budget which includes the expenditure of the Union territory, a supplementary finance as suitable to the regions or states from the Union Fund, giving grants as a special matter and permitting loans;

(ii) to advise financial matters that should be undertaken;

(iii) carry out the duties assigned by the Pyidaungsu Hluttaw through the promulgation of law for the emergence of a substantial financial system.

(d) The Financial Commission shall submit with recommendation to the President, the Bill of Union Budget, which includes Union Budget, the distribution of suitable funds from Union Fund accounts to regions or states, the provisions or funds as a special case and disbursing of necessary loans for submission them to the Pyidaungsu Hluttaw.

Source: 2008 Myanmar Constitution and [10]

The Chief Minister, after discussion with the state or region cabinet, will submit a proposal to the state or region hluttaw for discussion (generally in October). If approved, state and region budget bills are then sent to the Union Finance Minister, who submits them to the Financial Commission, led by the second Vice President, for checking and, where necessary, amendment. Funding required by states and regions are incorporated into Union expenditure by the Financial Commission through grants/aid before being submitted to the Union Hluttaw for discussion and final approval by the President.

More than halfway into the fiscal year, the government prepares a supplementary budget which, following a similar process to the regular budget, allows for additional financial resources to be requested by government entities and SOEs.⁸ It is understood that similar to the normal budget process the 'Supplementary Appropriation Law' (or supplementary budget) is reviewed by the Financial Commission and once approved by the Union government will form the basis for state and region supplementary budgets. Although the supplementary budget incorporates revised estimates of expenditure, revised revenue figures are not explicitly released as part of this process.

After parliamentary approval, funds are allocated to Union departments and ministries by the Union level Ministry of Finance, via the Myanmar Economic Bank (MEB). At the state and region level,

⁷The Financial Commission is comprised of the President, two Vice-Presidents (one representing state and region governments, and one for the Union), the Auditor and Attorney General, the Minister of Finance, the Nay Pyi Taw Council Chairman, and each of the 14 Chief Ministers [2]. Amendments to budgets made by the Financial Commission may be made according to macroeconomic or political imperatives.

⁸ Section 103 (e) of the 2008 Constitution states "If in respect of the relevant financial year a need has arisen to authorize the estimated receipts and authorized expenditures in the Union Budget Law enacted by the Pyidaungsu Hluttaw and in addition to estimate receipts and to authorize expenditures, the Supplementary Appropriation law shall be enacted in the above manner." Where the 'above manner' refers to the procedures for submitting the Union Budget Bill.

approved resources from the Union are first transferred to state and region Budget Departments before being distributed to subnational entities through the MEB.⁹

2.3 State and Region Legislative Responsibilities

The 2008 Myanmar Constitution provides state and region governments with the right to enact laws, collect tax revenues and manage entities under their control (see Box 5). Provided it is in accord with Union law, states and regions can enact laws for the entire or any part of the state or region for matters which are prescribed in Schedule 2 (Annex I).

Box 5: Roles and Duties of State and Region Government

Section. 188.

The Region or State Hluttaw shall have the right to enact laws for the entire or any part of the Region or State related to matters prescribed in Schedule Two of the Region or State Hluttaw Legislative List.

Section. 249.

Subject to the provisions of the Constitution, the executive power of the Region or State Government extends to the administrative matters which the Region or State Hluttaw has power to make laws. Moreover, it also extends to the matters which the Region or State Government is permitted to perform in accord with any Union Law.

Section. 254.

(a) The Region or State shall collect the taxes and revenues listed in Schedule Five in accord with law and deposit them in the Region or State fund.

(b) The Region or State has the right to expend the Region or State fund in accord with the law.

Section. 256. The Region or State Government:

(a) shall, in carrying out the functions of the Region or State Ministries, their subordinate governmental departments and organizations, manage, guide, supervise and inspect in accord with the provisions of the Constitution and the existing laws;

(b) may, relating to the performance of the civil service organizations discharging duties in their Region or State concerned, supervise, inspect and coordinate in accord with the law.

Source: 2008 Myanmar Constitution

Although the specific areas prescribed under Schedule 2 are meant as a means of distributing the duties of the Union government to state and region governments, they are also relatively broad, covering eight categories, including:

1. The Finance and Planning Sector;
2. The Economic Sector;
3. The Agriculture and Livestock Breeding Sector;
4. The Energy, Electricity, Mining and Forestry Sector;
5. The Industrial Sector;
6. The Transport, Communication and Construction Sector;
7. The Social Sector; and
8. The Management Sector.

⁹ It is important to note that published state and region budgets do not necessarily reflect the final destination of Union transfers as revenue received from the Union is only recorded under the Budget Departments rather than the final entity that receives it.

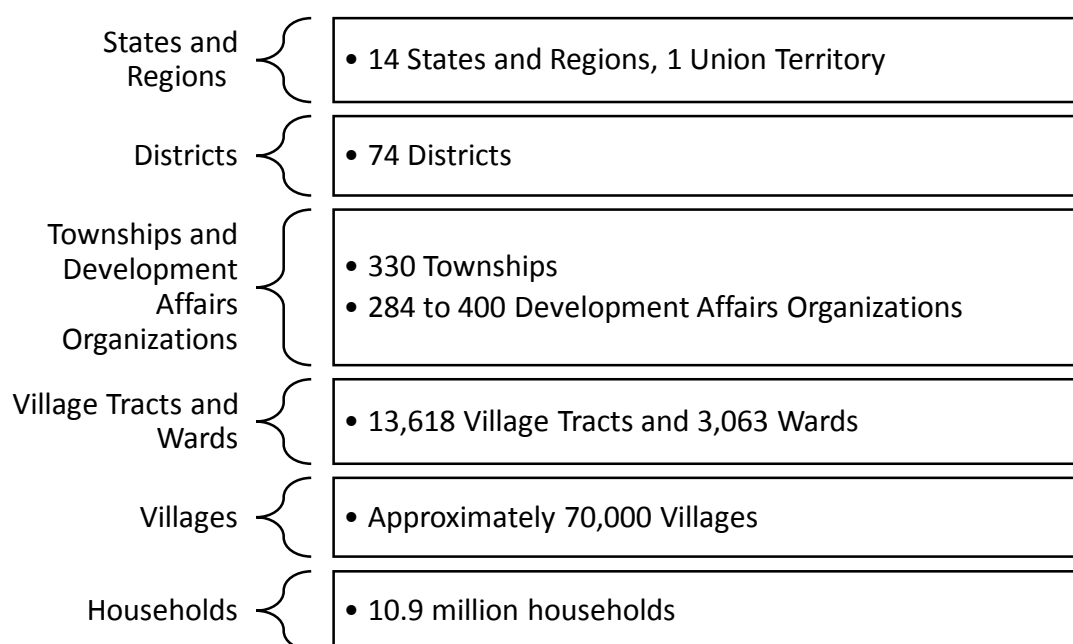
Under each of these sectoral categories, Schedule 2 also lists areas of responsibility, such as ‘Cottage industries’ under the Industrial Sector. The number of areas of responsibility varies across the eight categories. For instance, the Management Sector includes three sub-categories, whilst the Finance and Planning Sector includes 11 [11]. In addition, in some instances, there appears to be a high level of overlap between state and region responsibilities, with areas such as the economy and commerce being potential responsibilities of both the Union and subnational governments.

2.4 Administrative Groups of Subnational Governments

Within states and regions, there exists a range of subnational groupings that are also used to divide political, administrative, and fiscal responsibilities such as districts, townships, village tracts, wards, and villages (see Figure 4). Although revenue is collected by a range of SOEs and subnational departments, the GAD represents a central administrative structure across these subnational groupings, with fiscal tasks, such as tax collection and budgeting being undertaken through District Administrators (DAs), Township Administrators (TAs), Village Tract Administrators (VTAs), and Ward Administrators (WAs).

Figure 4 – Subnational Groupings in Myanmar ¹⁰

There are a number of subnational groupings below the Union level.



Source: Myanmar Information Management Unit Baseline Dataset and 2014 Myanmar Population and Housing Census – The Union Report [8]

2.5 Districts

Districts are collections of around four townships on average and are the largest administrative grouping below the state and region level. District Administrators from the GAD are responsible for the administration and coordination of townships within their areas. A key component of this involves the aggregation of budget proposals from Township Administrators, which are subsequently provided to the relevant state or region Budget Director and Auditor General for verification and incorporated

¹⁰ Broadly, the number of divisions appeared to relate mainly to a state’s or region’s land area, with larger states or regions, such as Shan State, tending to have a higher number of districts than smaller states, such as Mon. On the other hand, subnational groupings below the district level tend to follow a state or region’s population, with states and regions with higher populations tending to have a higher number of townships, village tracts, and wards.

into the wider budget process [3], [12]. Although tax collection is predominantly undertaken by Township Administrators, District Administrators are ultimately accountable to the Chief Minister for this task.¹¹

At the time of writing district-level authorities had no authority to allocate funds, being chiefly responsible for monitoring, administration, and reporting. However, according to Union Minister U Soe Thein, the Union government intends to transfer greater financial authority to districts and townships so as to allow them to manage funds at the district and township levels [13].

2.6 Townships

Townships describe groupings of village tracts and are headed by Township Administrators (TA) from the GAD. The TA is typically assisted by a Deputy Township Administrator and a Township Clerk. TAs manage and assign tasks to Village Tract Administrators and Ward Administrators in order to fulfill their administration, coordination and tax collection responsibilities.¹² Interviewees noted that TAs do not have a direct role in deciding over the use of project funds; rather, these funds are controlled by the departments to which they were assigned (such as Public Works). TAs are replaced by the GAD every three years.

The TA, with assistance from the Deputy Township Administrator and Township Clerk, is responsible for managing the finances of the office, such as the preparation of the budget. Township budgets predominantly include operational costs and projected tax receipts. Budgets are provided to the District Administrator and, after consolidation, submitted to the Budget Department as part of the overall budget process.¹³ Township offices are each assigned an account at the Myanmar Economic Bank (MEB), where they receive funding and can remit tax revenue.

Although TAs cannot conduct expenditures outside their approved budgets, they can request emergency funds from state or region authorities in exceptional circumstances, such as natural disasters. If a response is not provided in time, they can also request assistance from a specific ministry or department, such as the Department of Agriculture and Irrigation or Union-level authorities.

Interviews suggested that where taxes are remitted can vary by township, with it being reported that taxes were in some instances remitted to the GAD, while in other instances were transferred directly to the state or region government. Although in both instances, the revenue is eventually transferred to the state or region, it was unclear why different processes exist. Revenue receipts are always reported to both the Union and district authorities. Taxpayers are generally required to pay for excise licenses at the MEB and receive the approval of District Administrators.

TAs who were interviewed often stated that since the establishment of state and region governments, subnational government officials became more consultative, resulting in them being asked for their preferences in what is needed in their areas, where before these decisions were made without their input.

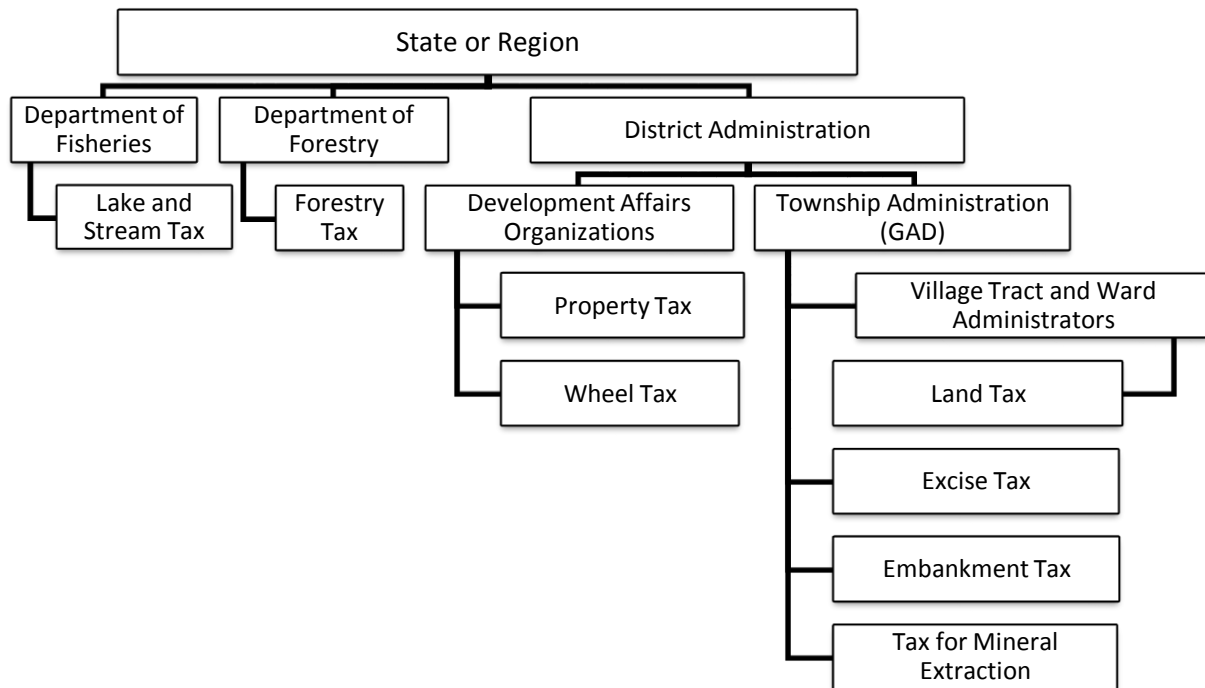
¹¹ Interview response.

¹² Within this section, although the term Village Tract Administrator is used, the described responsibilities and relationships also apply to Ward Administrators.

¹³ Interview response

Figure 5: State and Region Tax Collection Points

The majority of state and region taxes are collected at the township level.



2.7 Village Tracts and Wards

Village tracts are groupings of around five villages, and each is administered by a Village Tract Administrator (VTA), while Wards and Ward Administrators (WA) describe their urban equivalent. VTAs, though not formally employed by the GAD, receive limited financial support for office and personal expenses. In addition, they are typically required to report to their Township Administrators on a monthly basis, meaning they provide one of the closest points of communication between the administrative structure of government and the community [3].

Although VTAs are the lowest formal level of Myanmar's administrative structure, they are typically advised by groups of Village Elders and Respected Persons (VERPs). VERPs, as the name implies, tend to be respected members of the community who help advise the VTA and, where necessary, the TA on issues relating to village administration and development [14].

VTAs are responsible for government-related administration and security matters within their assigned village tracts. This involves the settlement of disputes, the collection of land taxes and, when required, excise taxes [14]. Since 2012, VTAs have been selected via secret ballot, although information as to the extent to which this is currently applied is not available [15].

VTAs usually have an office and a Village Clerk assigned to assist them in their role, particularly with budgeting. However, their expenditure and revenue responsibilities are minimal (mainly receiving funding for operational costs). Despite this, their closer contact with households and VERPs makes them an important actor in administrative structures of government, particularly when considered within the context of wider decentralization reforms.

Although VTAs have no expenditure authority outside of their core role, interviewed VTAs noted there are a range of instances where they may collect ‘no-name taxes’, or voluntary contributions by households, if there is a specific development need, such as ad-hoc repairs of shared infrastructure, village celebrations, or sporting events. This revenue and expenditure is not explicitly reported in the official budget.

2.8 Development Affairs Organizations (Municipal Offices)

Generally, each of Myanmar’s townships have at least one Development Affairs Organization (DAO), or municipal office. Although the precise number of DAOs is not known, it is thought there are likely to be between 284 and 400.¹⁴ DAOs are mainly responsible for the delivery of public services, such as waste removal, street lighting, and water supply, and they receive no financial support from the Union government. DAO taxes and fees include property tax, wheel tax, and others service fees and license charges.

Box 6: Examples of Municipal Taxation and Services in Yangon City

General tax is a tax collected to cover the cost of construction and maintenance of public streets, bridges, drains, parks, markets, and playgrounds.

Lighting tax is a tax collected to cover the cost of public lighting of streets, bridges, markets, parks, playgrounds, and municipal buildings.

Water tax is collected on buildings and land that use water from lakes, booster pumping stations, and water sources on public roads belonging to YCDC.

Cleansing tax is levied by YCDC’s Engineering Department at the rate of 8.5 percent in the downtown area, where underground septic systems are used.

Source: Adapted from YCDC’s Website <http://www.ycdc.gov.mm>

DAOs are required to remit all revenue to the MEB and report collections to the relevant state or region government. At the end of the fiscal year, revenue in excess of budgeted amounts is required to be remitted to the relevant state or region Budget Department and ultimately to the Union fund. Conversely, DAOs running a deficit are required to seek financial support from their state or region in the form of loans.¹⁵ As DAOs cannot retain surplus funds and must repay deficits at high rates of interest, there tends to be an incentive for them to attain an overall balanced budget at the end of the fiscal year [8].

Although the terms ‘municipal office’, ‘Development Affairs Organizations’, and ‘Development Committee’ are often used interchangeably, it is important to note that DAOs are not strictly comparable to the Yangon City Development Committee (YCDC) and Mandalay City Development Committee (MCDC). Specifically, although both YCDC and MCDC undertake tasks that have been typically designated to DAOs, they have been provided greater independence and a wider mandate, being responsible for the collection of a wider range of taxes, fees, and charges and having wider discretion as to the types of expenditure to conduct [16].

¹⁴ The lower range of this estimate is based on the number of townships outside Nay Pyi Taw, Mandalay City and Yangon City.

¹⁵ It was noted by one interviewee that DAOs are typically entitled to ask for funds at least equivalent to their projected revenues.

THREE: Fiscal Responsibilities of State and Region Government

Focus Question: What are the constitutionally delegated taxation rights and expenditure responsibilities of state and region governments in Myanmar?

Key Points

- Although the 2008 Constitution provides some guidelines for the revenue and expenditure responsibilities of state and region government, there is still significant uncertainty around subnational governments' envisioned roles in public finances.
- Expenditure responsibilities of state and region government are predominantly defined by the areas over which they have legislative authority as defined in Schedule 2 of the 2008 Constitution.
- Although taxation rights of state and region governments are defined in Schedule 5 of the 2008 Constitution, the right to set their own rates and taxation bases are restricted to areas on which the subnational parliaments can legislate.

3.1 State and Region Taxation Rights

States and regions are permitted to collect taxes and revenues listed in Schedule 5 of the 2008 Constitution, which are to be deposited in the state or region fund. These include, but are not limited to, excise, toll fees, registration fees, fines imposed by judicial courts, and contributions by Development Affairs Organizations (see Annex II).¹⁶

Although Schedule 5 seemingly provides far-reaching revenue-collection authority to states and regions, in many cases, the constitution's prescriptions on the rights to collect revenue contain insufficient detail to ascertain how such rights are to be applied in practical terms. For instance, some tax rules include direct references to the activity to be taxed, such as 'toll fees', whereas others, such as 'land revenues' or 'excise', could potentially be more broadly interpreted.¹⁷

There is also uncertainty surrounding the extent to which these constitutional provisions relate to those items reported in the state and region budgets, with only nine categories of revenue having been included in the 2013-14 state and region budgets, including excise tax, land tax, embankment tax, tax for extraction from forests, tax for mineral extraction, lake and stream tax, DAO revenue, property tax, and wheel tax. The nature of these taxes and the constitutional prescriptions for their collection are detailed below:

- **Excise tax** (Schedule 5, Article 2) includes taxes collected on the production, bottling, distribution, and selling of alcoholic beverages. In most cases, excise is an annual fixed fee on the production, bottling, or distribution of alcoholic beverages, with the fee varying from 5,000 kyats to 4,500,000 kyats, depending on the nature of the business. In some instances, retail licenses may be auctioned [17]. There are a range of excise licenses, with fees depending on factors such as the source of alcohol being consumed, whether the alcohol is being consumed onsite, and the type of establishment (example schedule in Annex III) [18].¹⁸ New excise licenses are approved by the

¹⁶ At the time of writing it is understood that amendments to Schedules 2 and 5 had been submitted for consideration to parliament. Proposed changes will potentially provide state and region governments with new revenue streams and additional areas of legislative responsibility.

¹⁷ It is also important to note that the practical interpretation of these rights can differ between what is implied by the English, as opposed to the Burmese text.

¹⁸ Currently the Union government also collects tax on alcohol which is calculated at 50 percent of the price of an alcohol product.

District Administrator. Excise license extensions are typically approved by the Township Administrator and are paid for at the MEB.

- **Land tax** (Schedule 5, Article 1) is collected on cultivated lands and in some urban areas.¹⁹ In some cases, rates of land tax will vary according to the type of land, how the land is used, and land tax laws of the relevant state or region. Generally, it amounts to between 0.25 to 25 kyats per acre [19]. Village administration receives 10 percent of land tax collections, which is transferred after the tax is remitted to the Township Administrator [3].
- **Embankment tax** (Schedule 5, Article 3) is collected on the use of water from dams and reservoirs that are managed by the state or region government. Embankment taxes are based on the area of land being irrigated and are collected by the GAD.²⁰
- **Tax for extraction from forests** (Schedule 5, Article 12) is collected on extraction of all woods other than teak and other restricted hard woods from the forest. Taxes are collected on firewood, charcoal, rattan, bamboo, bird nests, cutch, thanakha, turpentine, eaglewood, and honey-based products. This tax is predominantly collected by the Department of Forestry.
- **Tax for extraction from minerals** (Schedule 5, Article 7) includes revenue collected on the use of mineral resources, considered the property of the state or region, such as tax collection from quarries, sand extraction, and the production of bricks. One TA interviewed stated that the tax was charged both on the number of bricks produced and sand or rock used (measured by the number and size of holes dug during extraction). This tax is collected by Township Administrators.
- **Lake and stream tax** (Schedule 5 - Article 5) is revenue collected on the use of public resources, such as royalties collected from fresh water fisheries. Royalties are collected based on the area of water and the profitability of the business. Business license rates for fresh water fisheries are typically set by auction, although they can also be set according to the type of vessel and fishing method.

This tax is typically collected by the Fisheries Department and remitted to the state, region or Union government, depending on the location of the vessel.²¹ Generally, state and region governments hold the right to tax vessels fishing in fresh water and within a certain distance from the coast, while the Union government holds the right to tax vessels beyond that distance but still within Myanmar's sovereign territory.

- **Property tax (not specifically assigned in Schedule 5)** is collected by DAO authorities on the value of property, water use, the provision of public lighting, and waste removal. Although it depends on the DAO authority, in Yangon, the rate of property tax is based on the type of building and business. An illustrative excerpt of a property tax schedule for YCDC is provided in Annex IV.

Although there are some provisions in the 2008 Constitution that could potentially provide states and regions with the right to collect property tax, such as Articles 1 and 17 of Schedule 5, the only specific reference to it is in Schedule 2, where under Article 1(e) states and regions are given the right to legislate in the area of DAO taxes. Based on this, it appears that states and regions are not directly prescribed the right to collect property taxes under the 2008 Constitution, except indirectly through them having authority over DAOs.

- **Wheel tax** (Schedule 5, Article 6) is revenue collected on vehicles and road transport vessels or inland water way transport by DAOs (or an authority they nominate in accordance with the law) within a region or state. Although wheel tax is applied at the location where a vehicle is registered,

¹⁹ Interview response.

²⁰ Interview response.

²¹ Some of those interviewed noted that VTAs may collect revenue under this category if requested by the Fisheries Department. This is typically done for smaller fees, such as 'boat and net' licenses for individual fishermen.

it is also collected in the form of road tolls. As a result, wheel taxes on vehicles can be levied twice, once when a vehicle is initially registered and again if the vehicle crosses a toll booth outside the state or region in which the vehicle is registered [8]. The tax rate depends on the type of road and the weight and type of the vehicle.²²

In addition to these taxes, state and region budgets also include a number of additional areas of revenue collection authority explicitly outlined in Schedule 5, including:

- Revenues earned from State Owned Enterprises under state and region control (Schedule 5, Article 8);
- Revenue received from the Union fund account (Schedule 5, Article 16), such as Union aid/transfers to states and regions;
- Fines imposed by judicial courts (Schedule 5, Article 9), including the Taya Hluttaw (state or region High Court), such as fines for disrespectful acts in court, theft, gambling, fighting, etc.
- Revenue from DAOs (Schedule 5, Article 17), such as revenue collected to pay for the cost of building, maintaining, and repairing public roads, bridges, parks, play grounds, markets, and sewage infrastructure [20]. DAOs also generate significant revenue from licensing fees for businesses, hotels, motels, markets, shops, and jetties.

Based on this, it appears that only 12 revenue types listed in Schedule 5 are explicitly listed in state and region budgets. At first glance this might suggest that state and region governments are currently not collecting revenue across their constitutional mandate. However, it is difficult to determine this conclusively due to the low level of detail currently presented in publicly released state and region budget data.

In addition, despite states and regions being given the right to collect these taxes under Schedule 5, they do not appear to be given the right to set their own rates, except where it has been specified under the State Legislative List (Schedule 2). Consequently, it is unclear whether state and region governments have the authority to set the rates of taxation other than for land, excise and DAO taxes, which are all explicitly mentioned in Schedule 2.

3.2 An Overview of State and Region Expenditure Responsibilities

In the 2008 Constitution, both the day-to-day administration of states and regions, as defined by its executive powers (Chapter V, Sections 249-253), and the submission of bills to the state and region hluttaws are restricted to those items prescribed under Schedule 2 of the Myanmar Constitution (unless otherwise specified by other Union laws). Consequently, the expenditure responsibilities of states and regions are generally those in areas in which they have a right to legislate, including:²³

1. **The Financing and Planning Sector** – includes investment in Myanmar from state and region funds, development of local plans, and loans to small business.
2. **The Economic Sector** – includes economic, commercial, and cooperative matters (provided they are consistent with Union laws).
3. **The Agriculture and Livestock Breeding Sector** – includes the protection of agriculture against disease, the use and production of fertilizer, livestock breeding, and fresh-water fisheries.

²² Although wheel taxes collected via tolls are retained by DAOs, YCDC, and MCDC, it is unclear to what extent vehicle registration fees are retained by state and region governments.

²³ There are some exceptions to this, such as Section 250 in Chapter V of the 2008 Constitution, which requires states and regions to assist the Union government in “the preservation of the stability of the Union, community peace and tranquility and prevalence of law and order.”

4. **The Energy, Electricity, Mining and Forestry Sector** – includes small and medium scale electricity production and distribution, salt, salt products, gemstones cutting, village firewood plantations, and recreational centers.
5. **The Industrial Sector** – includes cottage industries and industries not prescribed by law as being the responsibility of the Union government.
6. **The Transport, Communication and Construction Sector** – includes ports, jetties, pontoons, roads, and bridges (as managed by the region or state) and the running of private vehicles within a state or region.
7. **The Social Sector** – includes traditional medicines, social welfare works, preventative measures against natural disasters, stevedoring, theatres, cinemas, museums, and libraries.
8. **The Management Sector** – includes town, housing, and other development matters.

Although expenditure responsibilities are not explicitly mentioned in the constitution, it is important to note that these areas of legislative responsibility, while seemingly broad, tend to determine the roles of departments and SOEs included in state and region budgets (see Annex V and VI). In fact, one official noted that they decide which areas of expenditure to directly manage according to the departments under their authority. This, coupled with the fact that the majority of entities in state and region budgets are under Union ‘parent’ ministries, may suggest that departments ascribed to states and regions reflect informal understandings of the expectations of state and region governments from the Union government.

3.3 A Note on State and Region Budget Data

State and region budgets are structured similarly to Union budgets, with revenue and expenditure recorded under their respective departments, entities or SOEs, such as ‘Public Works’, or under specific revenue streams, such as excise and wheel tax. Although this is unsurprising on one level, given their similar sources of financial information that feeds into budget estimates, it is also likely a reflection of the early stages of decentralization, with the majority of entries in state and region budgets representing subnational departments or SOEs under Union parent ministries (Annex VI).

Released figures also represent ‘budgeted’ rather than actuals, with the data indicating planned expenditures and projected revenues, as outlined in the 2013-14 state and region budget law. From a practical standpoint, this means that the actual levels of revenue collected and expenditure conducted is likely to differ from what is presented in the budget.²⁴

Although the extent of this can be partially determined through incorporating additional funding requested via state and region supplementary budgets, at the time of writing, this was not available for the 2013-14 fiscal year. As a result, the extent to which budgeted expenditures might differ from actuals is not known, although past Union and subnational supplementary budgets have resulted in expenditures being between 9 to 20 percent higher than that which was originally budgeted.²⁵

In addition, ministries and SOEs sometimes use ‘other accounts’ for the management of their self-sourced revenue, which are not included in released budgets. In the 2011-12 fiscal year ‘other accounts’ were equivalent to 44 percent of budgeted revenue and 28 percent of budgeted

²⁴ At the time of writing, the state and region supplementary budgets for the 2013-14 financial year were not publicly available. In the past, supplementary budgets have been approved in state and region hlttaws near the final quarter of the financial year, but they are not necessarily released publicly for all states and regions.

²⁵ In 2012-13, state and region supplementary expenditures were 17 percent higher than originally budgeted, while in 2011-12, 2012-13, and 2013-14, Union supplementary expenditure was respectively 19 percent, 20 percent, and 9 percent higher than originally budgeted.

expenditure [10]. Although information on the extent and nature of such financial transactions is not publicly available, it suggests that even with supplementary budget figures, published budgets provide an incomplete picture of the fiscal activities of government.

Finally, for Myanmar's budget data to meet international standards, such as the International Monetary Fund's (IMF) Government Financial Statistics framework, it should accurately report both the 'stock' and 'flow' of a government's economic resources and activities by entity and type so as to allow analysis of government activity, fiscal sustainability and liquidity [21]. Although it is important to recognize that adopting such standards will take time, it should be noted that Myanmar's published budgets represent amounts that have been aggregated from individual government entities, so more detailed financial data already exists that could provide greater clarity for policy makers, civil society, and businesses in the interim.

Summary and Takeaway Points

Historically, the Myanmar government's fiscal system has been highly centralized, with limited levels of transparency, and local taxation and expenditure priorities largely determined centrally by government officials at the Union level.

The 2008 Constitution includes a number of steps aimed at increasing the degree of fiscal, political, and administrative power held by state and region governments. For example, Chief Ministers are directly responsible for the collection of a number of revenue items, state and region parliaments can promulgate laws according to a set schedule of responsibilities, and subnational executives have been assigned expenditure rights.

Although the 2008 Constitution provides some guidelines for the revenue and expenditure responsibilities of state and region governments, there is still significant uncertainty in regard to their envisioned role, with interviews suggesting that some of the current fiscal activities of state and region governments are based on past processes and informal understandings.

It is unclear whether state and region governments have the authority to set the rates of taxation outside the areas explicitly mentioned in Schedule 2. That is, while the taxation sources of state and region government are defined in Schedule 5 of the 2008 Constitution, the right to set their own rates and taxation base appears to only extend to areas in which they can legislate.

Overall, it appears the 2008 Constitution provides a higher level of clarity as to the taxation rights of state and region governments than it does about expected expenditure responsibilities. The latter are very broad in nature and often overlap with (or are nested within) those of the Union government. This likely reflects the fact that many of the revenue sources listed in Schedule 5 already existed when the constitution was drafted, when a unified view as to the responsibilities of state and region governments was likely to have been in its infancy.

The publication of subnational budgets has increased transparency, but several additional steps are needed. For example, public understanding of subnational-level activities and fiscal management would benefit from the availability of more disaggregated and annotated data, following internationally recognized public accounting standards.

FOUR: State and Region Revenues

Focus Question: *What revenues do state and region governments collect?*

Key Points

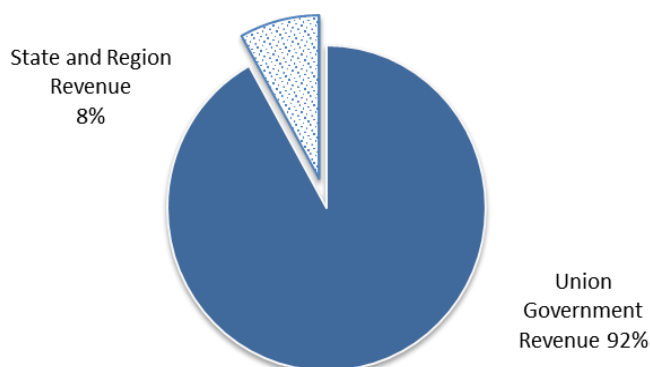
- In 2013-14, Union government revenue was 13.2 trillion kyats, equal to 24 percent of Myanmar's GDP. For states and regions, revenue was 1.2 trillion kyats, or approximately 2 percent of GDP.
- 74 percent of state and region revenues were recorded under Budget Departments and Public Works Departments, while taxation revenue accounts for only 5 percent of state and region revenues.
- Union government support income is still a significant contributor to state and region government revenues, accounting for 48 percent of subnational revenue in 2013-14.

4.1 Overview of State and Region Revenues

Since the establishment of state and region governments, efforts have been made to expand their role in public finances, such as through the consignment of specific taxes and the provision of increasing levels of financial support from the Union government.

Figure 6: State, Region, and Union Revenues²⁶

State and region revenues represent a minority of overall government revenues.



Despite this, subnational governments' overall role in public finances appears to be limited, particularly relative to the Union government's role, with 2013-14 state and region revenues reaching 1.2 trillion kyats, or approximately 2 percent of GDP for states and regions, relative to Union government's revenue of 13.2 trillion kyats, or 24 percent of GDP.²⁷

4.2 State and Region Revenues by Function

Individual entries into state and region budgets are categorized according to three broad themes, including; *'High Court, Advocate General, Auditor General'* (Governance and Administration), *'Ministries, Administrative Departments and Municipalities'* (Departments and DAOs) and *'State Owned Enterprises'* (SOEs). Of these three categories, 73 percent of revenues have been recorded under 'Departments and DAOs', with SOEs and the 'Governance and Administration' categories accounting for 24 and 3 percent, respectively. A detailed list of the line items included under each

²⁶ All Union and subnational revenue has been included in recognition of both the central role of SOEs in Myanmar's government operations and uncertainties around the budgetary distinction applied between SOEs and other government entities.

²⁷ The IMF's 2014 Article IV Consultation with Myanmar placed 2013-14 GDP at 54,756 billion kyats.

category has been include in Annex V, while the stated roles, responsibilities, and objectives of subnational entities, departments, and SOEs has been provided in Annex VI.

Much of the revenue under the Governance and Administration category is attributed to the state and region hluttaws and cabinets, with relatively small amounts recorded for Accounting Offices, Courts, and Legal Offices. Interviews suggest that in 2013-14 revenue recorded under this category can be in part accounted for by transfers from the Union government as part of the Poverty Reduction Fund (PRF), a lump sum development grant provided by the Union government to address needs identified by each state and region. Unlike previous years, in 2013-14, the funding was divided equally across states and regions, with each receiving 1 billion kyats through special drawing rights [3].

The first round of funding under the PRF was provided in 2012-13, with fixed amounts of approximately 1 billion kyats provided for each state and region, except Chin State, which received 3 billion kyats in recognition of its remoteness and lack of infrastructure. In 2012-13, the fund was administered by the GAD in cooperation with township authorities, but it has since been placed under the control of state and region governments [3]. In 2014-15, states and regions no longer received equal shares [4].

Although not included within the 2013-14 state and region budgets, interviewees noted that an important source of funding at the township level was the Constituency Development Fund (CDF). The CDF is a 100 million-kyat annual grant provided by the state and region parliament to each township. The fund is a relatively recent innovation, having been established on November 15, 2013.

Funding provided under the CDF is designed to be spent under the guidance of representatives from both houses of the Pyidaungsu Hluttaw and the state or region hluttaw for projects that relate to water supply, the restoration of rural roads and bridges, school buildings, health facilities, and other township needs [4]. Although the CDF was established in the 2013-14 fiscal year, it was recorded in the Union budget rather than in state and region budgets.

SOEs accounted for approximately 24 percent of state and region revenues in 2013-14, with 99.7 percent of this coming from the Public Works Department, while the Myanmar Motion Picture Enterprise and Myanmar Salt & Marine Enterprise make up the remaining 0.3 percent. A summary of total revenues by state and region has been provided in Table 1 below.

Table 1 – 2013-14 State and Region Revenue by Category (Total in millions of kyats)

	Governance and Administration (<i>High Court, Advocate General, Auditor General</i>)	Departments and DAOs²⁸ (<i>Ministries, Administrative Departments and Municipalities</i>)	State Owned Enterprises	Total
Ayeyawady	1,754	63,661	34,519	<u>99,934</u>
Bago	3,056	44,874	19,076	<u>67,006</u>
Chin	2,066	33,802	14,102	<u>49,970</u>
Kachin	2,414	35,870	17,160	<u>55,444</u>
Kayah	1,214	14,692	8,317	<u>24,223</u>
Kayin	1,499	19,075	9,454	<u>30,028</u>
Magway	1,954	114,124	25,035	<u>141,113</u>
Mandalay	3,353	85,480	10,989	<u>99,822</u>
Mon	2,401	20,042	9,331	<u>31,774</u>
Rakhine	1,110	52,097	25,684	<u>78,891</u>
Sagaing	2,337	64,330	29,770	<u>96,437</u>
Shan	2,845	105,358	64,002	<u>172,205</u>
Tanintharyi	2,045	31,004	13,572	<u>46,621</u>
Yangon	1,492	164,480	2,711	<u>168,683</u>
Total	<u>29,540</u>	<u>848,889</u>	<u>283,722</u>	<u>1,162,151</u>

²⁸ This category also includes other state and region revenues such as taxes.

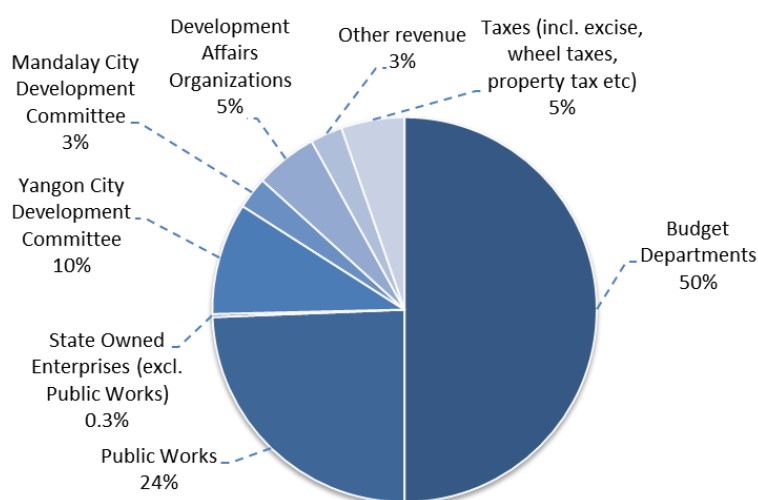
Overall, in 2013-14, Shan State had the highest level of budgeted revenue, followed by Yangon and Magway regions, with the majority of this being revenue recorded under ‘Departments and DAOs’. Under SOEs, Shan State, Ayeyawady Region, and Sagaing Region have recorded the largest revenues, with the majority accounted for by the Public Works Department.

4.3 State and Region Revenue by Source

The sources of state and region revenue are limited, with 74 percent being recorded under Budget Departments and the Public Works Department. Taxation accounted for only 5 percent in 2013-14. This has been illustrated in more detail in Figure 7 below.

Figure 7 – 2013-14 State and region Revenue Composition

Public Works and Budget Departments account for 74 percent of state and region governments’ revenues.



Budget Departments accounted for approximately half of the revenues recorded in the 2013-14 budgets, with the majority a result of Union transfers/aid. State and region Budget Departments are administrative departments under the Ministry of Finance and Revenue and are responsible for drafting state and region budgets and transferring Union grants to individual municipalities, departments, and other relevant entities.

Although the revenue provided to Budget Departments is recorded in the 2013-14 budget, subsequent transfers to subnational entities were not. As a result, Budget Departments record large surpluses, while subnational recipients of these funds typically report deficits. Therefore, caution must be exercised when interpreting subnational budgets, which are not sufficient to ascertain the net financial position of many subnational entities that are likely to rely on this funding.

Following transfers from the Union recorded by Budget Departments, the Public Works Department accounts for 24 percent of subnational revenue. Formed under the Union Ministry of Construction in 1965, the Public Works Department plays a key role in the construction of transportation infrastructure. With a staff of 23,000, almost half of whom are engineers, it is one of the largest government departments in Myanmar with offices located in every state and region. Financially, it is also one of the most deconcentrated, recording almost the same level of expenditure at the state and region level as at the Union level [22].

Although it was not possible to conclusively determine the composition and source of Public Works’ revenue, it is understood that it predominantly relates to conditional grants from the Union government for infrastructure development, with projects largely determined by state and region

hluttaws. While details were not available to confirm this, the use of conditional grants is the commonly applied means of delivering subnational transfers and can be a useful means of managing the process of decentralization. In Myanmar’s case, this may reflect wider attempts to develop infrastructure while also building subnational governments’ infrastructure construction capacity more generally.

Box 7: Conditional and Unconditional Transfers

Conditional transfers describe financial resources that are transferred with the agreement that they are to be used for specific purposes, such as infrastructure.

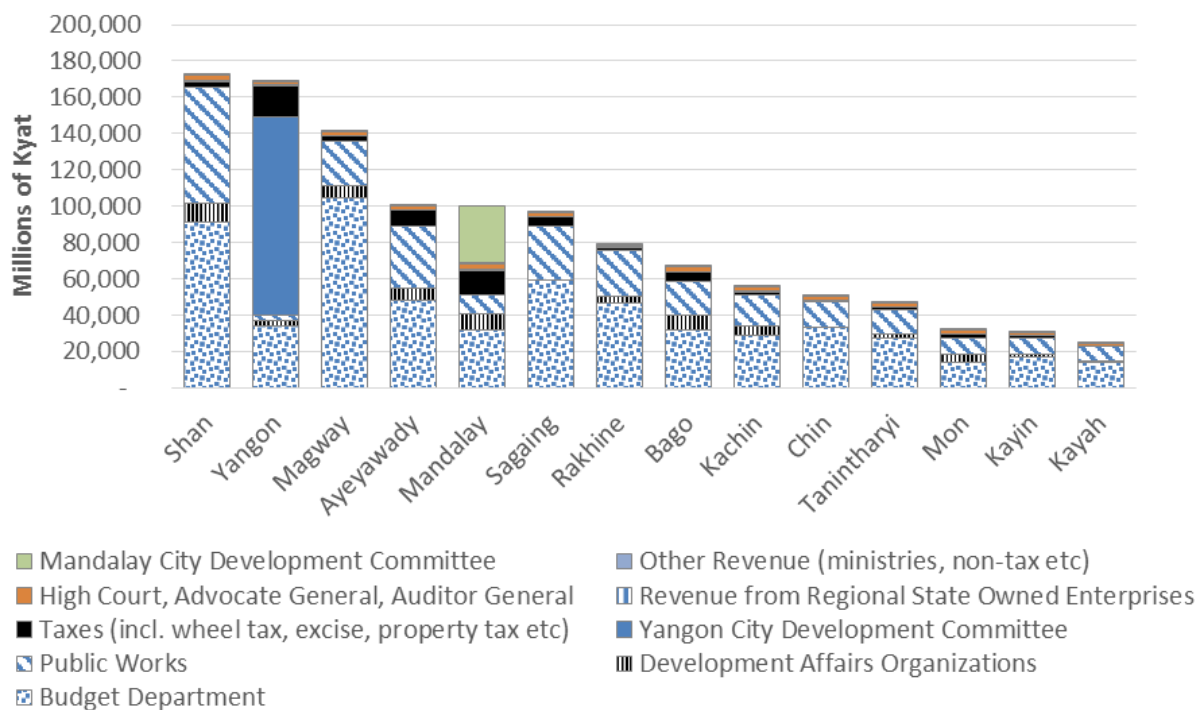
Unconditional transfers are financial resources that are transferred with their use being at the discretion of the beneficiary.

Adapted from [4]

DAOs, YCDC, and MCDC are the third-largest source of revenue for states and regions, at around 17 percent, with 70 percent of this being sourced from YCDC and MCDC.

Figure 8 – 2013-14 State and Region Revenue Composition (total in millions of kyats)

The Public Works Department and the Budget Department account for approximately 75 percent of state and region government’s revenues.



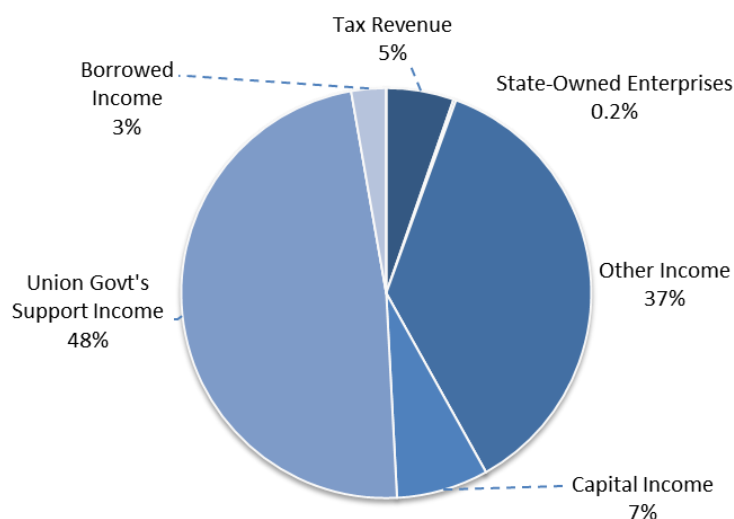
Tax revenue accounted for five percent of subnational revenues, with half of this coming from the Yangon and Mandalay regions. Although this is perhaps unsurprising given their higher levels of urbanization, it does provide an illustration of the differences in states’ and regions’ abilities to self-finance their expenditures. While it is unclear whether this has been explicitly taken into account when allocating funds, it is notable that Yangon’s and Mandalay’s higher self-sourced revenues appear to be offset by lower revenues from Public Works and their Budget Departments.

4.4 State and Region Revenue by Type

Revenue has been recorded against six categories in the 2013-14 budget, including Borrowed Income, Capital Income, Other Income, SOE Income, Tax Revenue, and Union Government Support Income.²⁹ Revenue shares based on these classifications have been included in Figure 9 below.

Figure 9 – 2013-14 State and Region Revenue by Budget Category

‘Union government support income’ and ‘Other Income’ account for 85 percent of revenue.



As illustrated, 48 percent of revenue has been recorded as ‘Union Government Support Income’, with most of this falling under the Budget Departments as part of the aid provided from the Union government. The only other revenue recorded under this category was listed under state and region cabinets, presumably as part of the PRF, with 1 billion kyats listed against all states and regions except for Ayeyawady Region, Kayin State, Magway Region, and Mon State, which appear to have reported the PRF revenue under ‘Other Income’.

Although accounting for a lower proportion of revenue, ‘Other Income’ was applied by a wide range of subnational entities in the 2013-14 state and region budgets. Overall, 67 percent of revenue under this category was listed under Public Works, followed by 14 percent for DAOs, and 11 percent for YCDC.³⁰ Interestingly, all revenue recorded by DAOs used this category in 2013-14.

‘Capital Income’ was almost entirely recorded against YCDC and MCDC. The main exception to this was the 1 billion kyats for Bago Region, Chin State and Kachin State, which were recorded against the cabinet. Although details on the source of this revenue were unavailable, this category is sometimes used for revenue from auctioning the right to manage public services and use capital assets, such as land [23].

The majority of revenue recorded as ‘Tax Income’ has been listed against specific revenue sources, such as excise or land taxes. Exceptions to this are Mandalay Region and Kachin State, which have recorded tax revenues of 8 million kyats and 35 million kyats, respectively, in their cabinets. As a

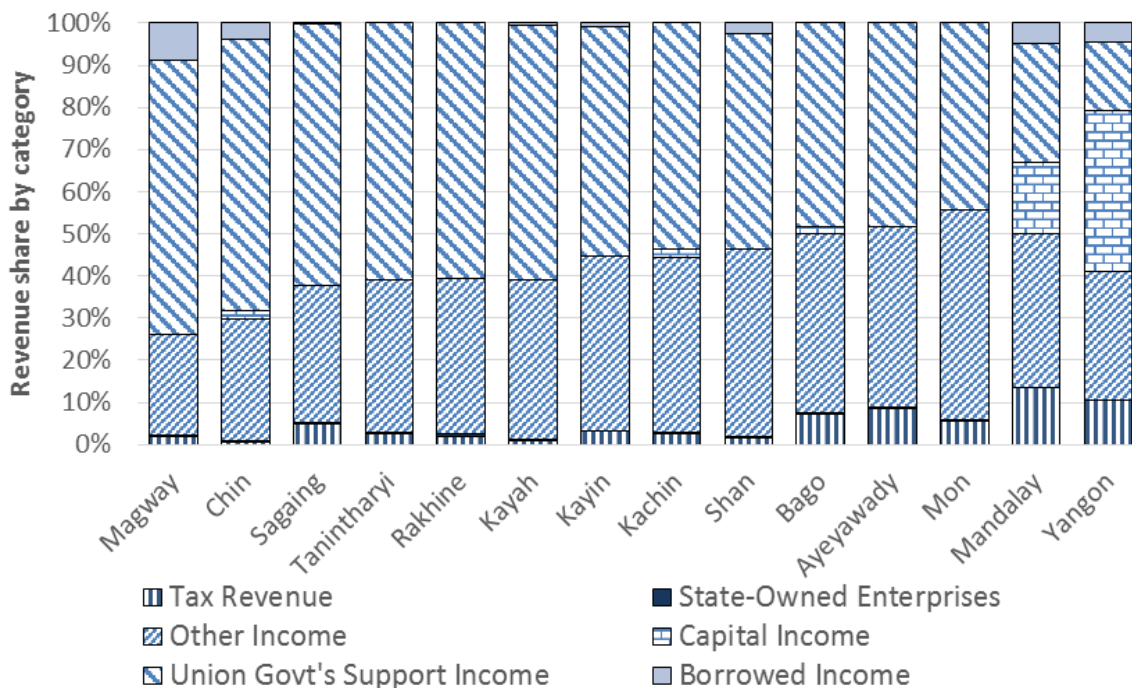
²⁹ Assumed definitions of these categories of revenue have been provided in Annex VII. Although state and region budgets included eight categories of revenue, no revenue was recorded under the categories ‘Interest’ and ‘Income from Loans’ in 2013-14.

³⁰ Although formal definitions of the budget categories were unavailable, interviews suggested that ‘Other Income’ is commonly used for recording revenue from the sale of non-capital assets, fees, and fines. Interviewees noted this category was used when revenue was received from selling ‘non-capital’ assets, such as office equipment and goods. Fines recorded under this category might include penalties imposed on individuals and businesses violating contracts with government entities.

percentage of revenue, Mandalay, Yangon, and Ayeyawady regions have recorded the highest level of tax revenues in 2013-14 (see Figure 10).³¹

Figure 10 – 2013-14 State and Region Revenue by Category

A lower proportion of Yangon’s and Mandalay’s revenues are Union transfers.



In 2013-14, all budget revenue classified as ‘Borrowed Income’ has been listed under Budget Departments. Since these amounts have also been listed in the 2013-14 Union budget under ‘Aid/Loans to States’ under ‘Borrowing’, this category appears to be loans provided by the Union government to states and regions.

Income listed under ‘State-Owned Enterprises’ has mainly been recorded against ‘Revenue from Regional State Owned Enterprises’. One exception to this was Sagaing Region, which has revenue under this category recorded under its Budget Department.

In 2013-14, all states and regions generally received a large proportion of their revenues in the form of Union transfers, with only Yangon Region, Mandalay Region, Mon State, Ayeyawady Region, and Bago Region obtaining more than 50 percent of their incomes from others sources. Outside of aid from the Union government and revenue from Public Works, the largest sources of revenue across states and regions are DAOs, YCDC, and MCDC.

4.5 Tax and Non-Tax Revenues

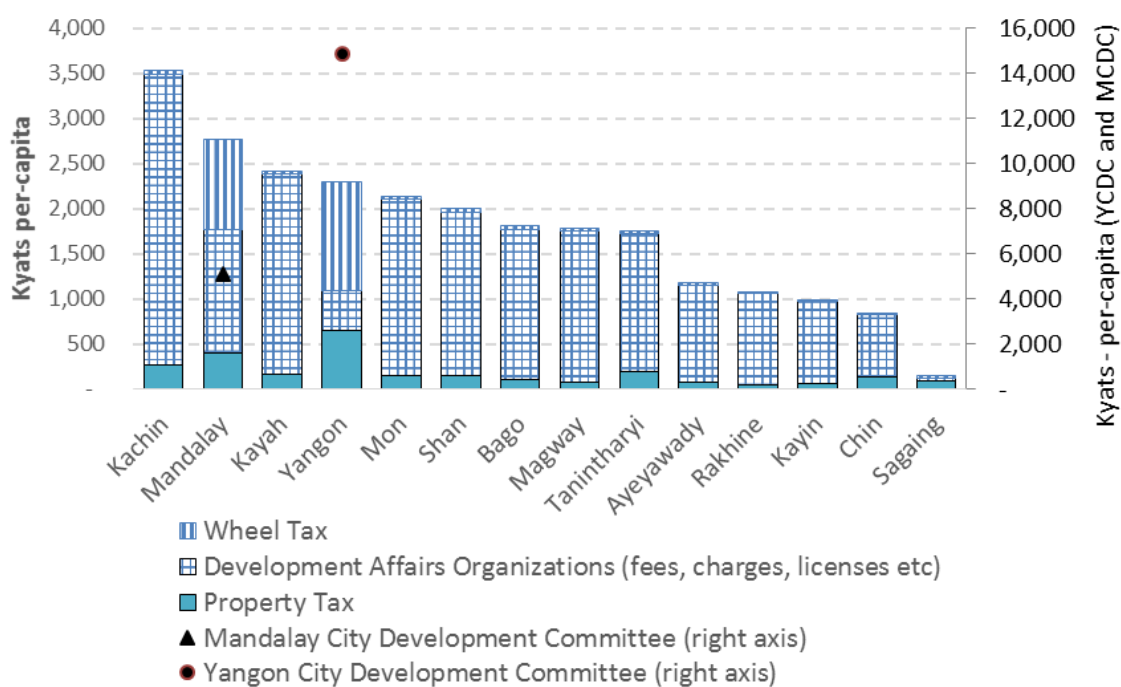
DAOs are mainly responsible for the delivery of public services, such as waste removal, street lighting, and water supply. Revenue sources include property and wheel taxes and other service fees, license fees, and charges, typically for the rendering of DAO goods and services [24].

³¹ In 2013-14 land taxes (or ‘land revenues’) included the costs of users of farmland acquiring newly introduced ‘Land Use Certificates’. It is uncertain to what extent land tax will remain at current levels in future years with land taxes typically being a minor proportion of state and region revenues.

Although examining total revenue is useful for understanding the overall source and composition of state and region revenues, when comparing states and regions, it is important to recognize that both the size and composition of revenue is likely to reflect a range of characteristics, such as their differing populations. For this reason, 'per-capita' figures have been used to provide a means of comparing the level of revenue collected 'per person' across states and regions.³² Results of this have been presented in Figure 11 below.

Figure 11 – 2013-14 Per-Capita Development Affairs Organization Revenue

Kachin, Mandalay, and Kayah collect significant DAO revenues per-capita.



As illustrated in Figure 11, at the DAO level, Kachin State, Mandalay Region, and Kayah State collected the highest levels of per-capita revenue in 2013-14 at 3,500 kyats, 2,800 kyats, and 2,400 kyats, respectively. At the other end of the scale, Kayin State, Chin State, and Sagaing Region all collected the lowest levels of per-capita revenue at 983 kyats, 842 kyats, and 155 kyats respectively.

As can be seen for DAOs, most revenue is sourced from licenses, charges, and fees rather than wheel or property taxes. There is also a number of interesting variations when revenue is viewed by source, with Mandalay and Yangon regions receiving larger proportions of their revenue from wheel taxes than many other states and regions, while Sagaing Region receives a large proportion of its DAO revenue from property taxes, despite collecting DAO general revenues well below average levels. Although more detailed data would be required to determine the source of these differences, it is likely a reflection of a combination of factors, such as population density, economic activity, property prices, and vehicle ownership.

As illustrated in Figure 7, YCDC and MCDC together account for more subnational revenue than the DAOs of all states and regions. It is therefore unsurprising that on a per-capita basis YCDC and MCDC represent significant sources of revenue at approximately 15 thousand and 5 thousand kyats per capita, respectively. Although YCDC and MCDC likely represent special cases given their wider legislative mandate and their management of areas with relatively high levels of economic activity and

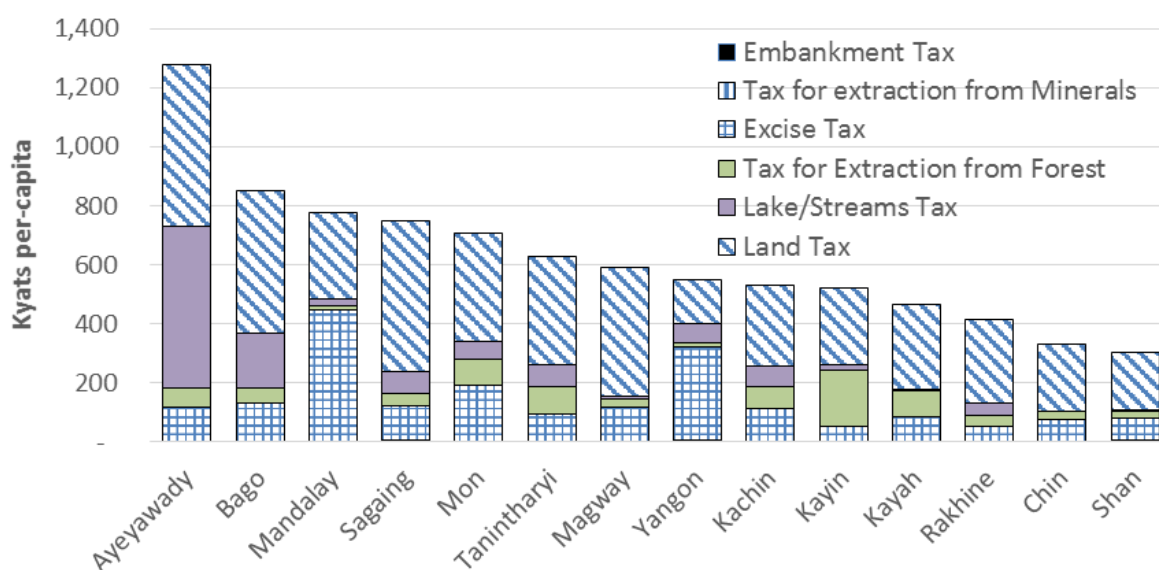
³² Although this is a common means for comparison, it is important to recognize that it does not correct for factors such as population density, transport infrastructure, and different taxation base endowments. Therefore, this is meant as an indicative guide only.

population, it is interesting to note just how uneven revenue collections are across states, regions, and subnational entities. While sufficient data to investigate the reasons underlying these differences were unavailable at the time of writing, it is suggested that a more detailed investigation of the sources of these differences may reveal wider lessons for subnational government [25].

When compared to DAO revenues, taxes in many cases are a smaller form of revenue for states and regions. To demonstrate these differences, per-capita tax revenue for 2013-14 has been provided in Figure 12.

Figure 12 – 2013-14 Per-Capita Tax Revenues

On a per-capita basis, land and excise taxes are large sources of tax revenue for subnational governments.



As shown, in 2013-14, land and excise taxes generally accounted for the majority of non-DAO revenues, with the main exception being Mandalay and Yangon regions, which both collect relatively higher levels of excise revenue.³³ Aside from land taxes, Kayah State mainly collects its taxes through forestry and excise taxes, while Ayeeyawady Region collects most of its tax revenue from lake and stream taxes.

It is also important to note that when per-capita tax revenues (Figure 12) are viewed in comparison to per-capita receipts collected by DAOs (Figure 11), there is a high level of dissimilarity. Specifically, many of the states and regions that collect the highest levels of per-capita tax revenue collect relatively low DAO revenues. While this is perhaps predominantly a result of the taxation bases being different across states and regions, it may also be suggestive of other demographic and organizational factors, which may be instructive for understanding and improving revenue mobilization.

4.6 Trends in Tax Receipts

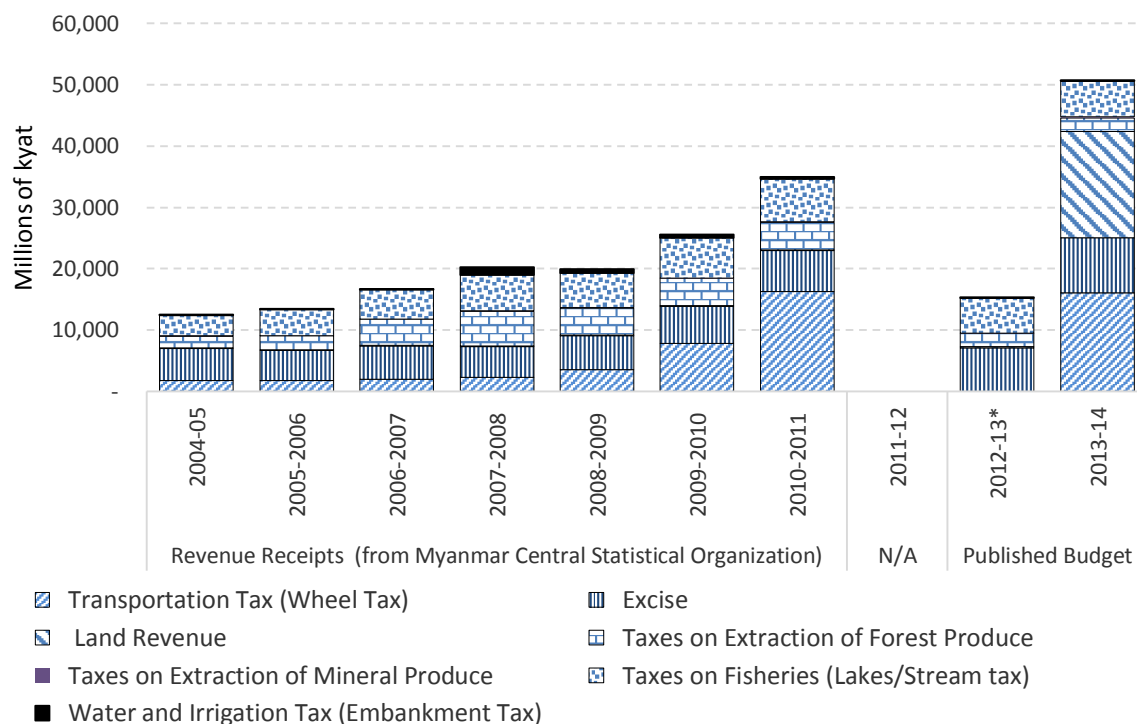
Although subnational governments' relatively recent establishment and the limited availability of comparable budget data make it difficult to get a sense of historical revenue trends, it is possible to get some sense of trends in the composition and overall size of tax receipts over time by comparing

³³ Although land taxes accounted for a large proportion of budgeted per-capita revenues in 2013-14, this is understood to be mainly a result of revenue from one-off land registration certificates.

more recent state and region budget data with historical data provided by the Myanmar Central Statistical Organisation (see Figure 13).

Figure 13: 2004-05 to 2013-14 Trends in Subnational Government Revenue

Transportation, excise, and fishery taxes still contribute the majority of state and region tax revenues.



*Source: Published budget data and recorded receipts from Myanmar Central Statistical Organisation. *Please note, wheel tax has been excluded, as it was not published separately in the 2012-13 budget.*

While it is important to interpret such analysis with caution given potential changes in the nature of these taxes and their distribution between the Union government and subnational governments, it does provide a means of assessing the level and distribution of tax revenues in historical context.

Based on the comparison, it appears that transportation tax, excise tax, and lake/stream taxes have accounted for proportionally similar levels of revenue across the period. In fact, of the seven sources of revenue listed, excise and wheel taxes have accounted for more than half of receipts, while taxes like embankment tax and taxes on mineral extraction have contributed relatively small amounts of overall revenue over the period examined.

On the other hand, forestry and land taxes appear to differ substantially both in terms of size and their relative contribution to subnational revenues. In particular, while forestry tax has historically been an important source of revenue, since the establishment of state and region governments, its relative size has declined, perhaps as a result of the rights to this revenue being divided between both the Union and subnational governments under the 2008 Constitution.

The significant increase in land taxes in 2013-14 appeared to be predominantly a result of users of farmland being required to apply to the Township Land Records Department for a Land Use Certificate.³⁴ Although it is difficult to know precisely how this might affect future state and region revenues, it is understood that all land owners were asked to register for Land Use Certificates in the

³⁴ The Farmland Act, Chapter II, Section 4, states that “a person who has the permission of right to use farmland shall have to apply for getting the Land Use Certificate to the Township Land Records Departments Office, passing it through the relevant Ward or Village Tract Farmland Management Body.”

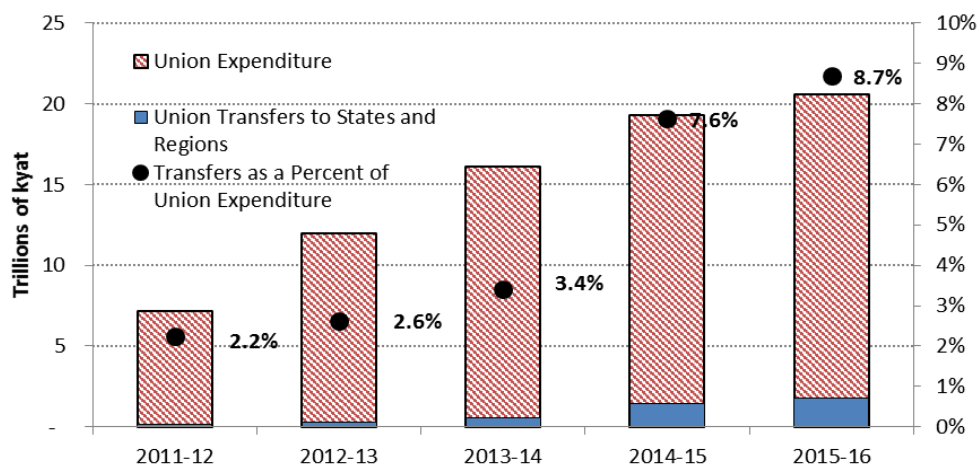
2013-14 fiscal year. Given this, the increase in revenue from land taxes observed in 2013-14 is not likely to be repeated in future years.

4.7 Union Transfers: 2011-12 to 2015-16

The Union government has been a significant source of funding for state and region governments since their establishment. Despite only having separate budgets from the Union since the 2012-13 fiscal year, the extent of budgeted funding to state and region governments has been recorded in the Union budget since 2011-12 [3]. This is illustrated in Figure 14 below.

Figure 14 – 2011-12 to 2015-16 Union Transfers to States and Regions

Transfers to states and regions have increased as a percentage of overall Union expenditures.

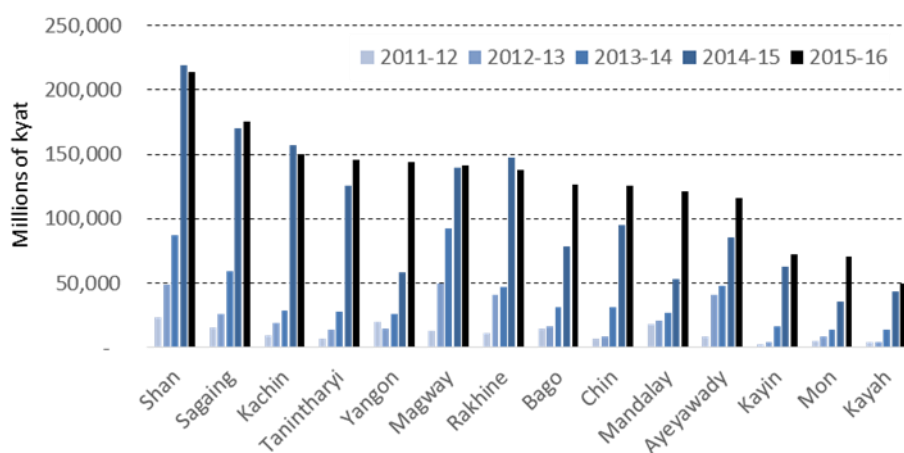


Note: All data excludes supplementary expenditure and was sourced from published Union budgets, except for 2015-16, which was taken from the April 13, 2015, edition of the Mirror Daily (Kyaymon), published by the Ministry of Information.

As illustrated, since 2011-12, budgeted transfers to states and regions increased relatively rapidly, moving from 2.2 percent of Union expenditures to 8.7 percent in 2015-16. Although this suggests that states and regions have been receiving increasing levels of financial resources from the Union government, when examined across states and regions there is some variation, with Shan State, Sagaing Region, and Magway Region, having received higher-than-average transfers from the Union government since 2011-12.

Figure 15 – 2011-12 to 2015-16 Budgeted Union Transfers to States and Regions

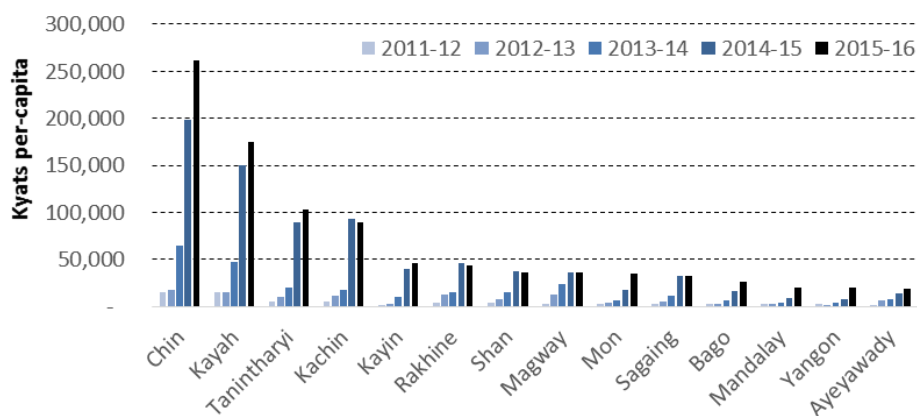
Shan State, Sagaing Region, and Kachin State had the highest level of Union transfers in the 2015-16 Budget.



Although this might suggest some level of disparity, it is important to recognize that, in terms of population, these regions are among the largest. To account for this, Figure 16 presents Union transfers as ‘per-capita’ (or per-person) amounts, providing an indication of the average level of Union transfers received per person in a state or region.³⁵

Figure 16 – 2011-12 to 2015-16 Per-Capita Union Transfers to States and Regions

On a per-capita basis, Chin State, Kayah State, and Tanintharyi Region receive the highest level of Union transfers.



From this it can be seen that in 2015-16, Chin State, Kayah State, and Tanintharyi Region received the highest levels of per-capita transfers from the Union government. These were equivalent to approximately 262 thousand kyats, 174 thousand kyats, and 103 thousand kyats per person, respectively. Although the underlying reasons for these allocations are unclear, it is notable that some of the states and regions receiving the highest per-capita transfers also suffer from higher levels of disadvantage and larger infrastructure gaps [25], [26].

4.8 Understanding Union Transfers

As noted, financial transfers from the Union government account for a significant proportion of revenue for subnational governments. Although it is understood that the relative size of transfers is determined as part of the overall budget process, it is not known how the needs of different levels of government and different states and regions are balanced and what factors might be relevant in determining this.

To provide a means of exploring possible explanations for differences in Union transfers/aid to states from 2011-12 to 2015-16, the association between Union transfers to states and regions was tested against a range of socioeconomic and demographic factors using regression analysis (detailed in Annex VIII). This analysis showed that around 90 percent of the differences in the level of Union transfers over the period could be explained by five factors, including a state’s or region’s:

- number of townships – hypothesized to proxy for local governments’ administrative fixed costs (such as the number of employees and the amount of assets needed);
- land area – hypothesized to reflect a state’s or region’s funding needs for the construction and maintenance of public infrastructure, such as roads, schools, and healthcare facilities;

³⁵ Per-capita figures have been calculated by dividing the Union transfers by the population of the relevant state or region. Population figures were from “Population and Housing Census of Myanmar, 2014, Provisional Results – Census Report Volume 1” from the Ministry of Immigration and Population, August 2014.

- proportion of people living under the poverty line – hypothesized to reflect a state’s or region's human development needs;
- subjective measures of the severity of infrastructure gap and lack of economic opportunities; and
- time period being considered – reflecting that Union transfers have increased, albeit at a decreasing rate, since 2011-12 alongside an overall increase in the availability of public funds.

On a practical level, this suggests that over the period examined, Union transfers were allocated to states and regions according to a range of factors likely to proxy their needs for funding. Although this does not suggest that these factors have been explicitly considered when determining the level of transfers, it is promising to see that budgeted transfers are higher for states and regions with greater relative funding needs (holding other factors constant).

Despite this association, without knowing the explicit objectives and needs of the Union and state and region governments, it is difficult to assess the extent to which the size and relative allocation of Union transfers is appropriate for driving economic and social development. Additionally, while it is expected that states and regions with higher populations and a larger number of townships would require greater funding, this may also reflect the tendency for funding to be allocated equally, a tendency noted by a Chief Minister in a previous study:

"[The] central government still views things in its traditional way, in terms of equal shares, not in terms of good allocation across regions."[3]

This view finds confirmation in our analysis, which highlights that, although these funds include a variable component, they are mostly allocated on a fixed basis. From this perspective, resources would likely be better allocated by gradually increasing the components that take into account localized needs, while reducing the fixed component.

Given this, a formula-based system that explicitly allocates Union transfers according to a state’s or region’s needs and ability to self-raise revenue is suggested as preferable, particularly given the increasing magnitude of Union transfers. This is particularly important now as a formula-based system provides a means of ensuring a stable and predictable flow of resources to subnational governments, while also allowing for the explicit consideration of which factors are important in allocating government resources. Finally, such an arrangement would also allow budget negotiations to focus on policy issues, such as alleviating poverty, infrastructure development, improving health outcomes, and expanding education [4].

Although details were not available at the time of writing, it is understood that as of 2015-16, the Union government is intending to move towards a formula-based system where the level of aid provided to a state or region is based on factors such as its population, per-capita GDP, and the level of poverty [27].

Summary and Takeaway Points

Revenue collected by state and region governments, though still a relatively small proportion of overall government revenue, has been increasing. In 2013-14, overall revenue for the Union government reached 13.2 trillion kyats, or 24 percent of GDP, compared to 1.2 trillion kyats, or 2 percent of GDP, for states and regions.

The rate of decentralization in Myanmar appears significant, with Union transfers increasing from 2.2 percent of Union expenditures in 2011-12 to 8.7 percent in 2015-16.

The budgets seem to highlight some discrepancies between different states and regions, which can be rooted either in the lack of common practices or accounting rules. For example, tax revenues do

not always accrue to the same subnational agencies or departments, while the final destination of Union transfers are not explicitly recorded in published budget figures.

The Budget Department accounted for approximately half of the revenues recorded in the 2013-14 state and region budgets. Of this, the vast majority is sourced from aid/transfers from the Union government.

A significant share of the funds provided to the Budget Department is understood to be transferred to subnational departments, entities, and SOEs. However, there is a lack of clarity regarding inter-departmental fiscal relationships, making it difficult, if not impossible, to ascertain the projected financial position of individual subnational entities from published budgets.

Additionally, the transparency of the budget would benefit from increased data disaggregation. For example, it is difficult to discern between revenues stemming from recurrent taxation and the awarding of one-off licenses, the two having very different implications from a fiscal policy perspective. This is also the case for the 'Other Revenues' budget line, which aggregates a number of different revenue sources.

While taxation revenue accounts for 5 percent of state and region revenues, Union government support income is clearly still significant, accounting for 48 percent of state and region government revenues in 2013-14.

Unsurprisingly, the most decentralized agencies from the fiscal, political, and administrative perspectives, DAOs, are also the ones generating the highest amount of self-raised revenues. However, current restrictions, such as their inability to carry revenue forward into future fiscal years, are potentially inhibiting the financial operation of DAOs.

Union transfers to states and regions, which have accounted for an increasing proportion of Union expenditures, seem to vary according to states' and regions' needs. However, the bulk of these funds still appears to be allocated on a fixed basis. Given the growth of these transfers and their importance to subnational finances, **the transparency of the process would benefit if it were based on an explicit and publicly available formula.**

FIVE: State and Region Expenditures

Focus Question: How are state and region revenues used?

Key Points

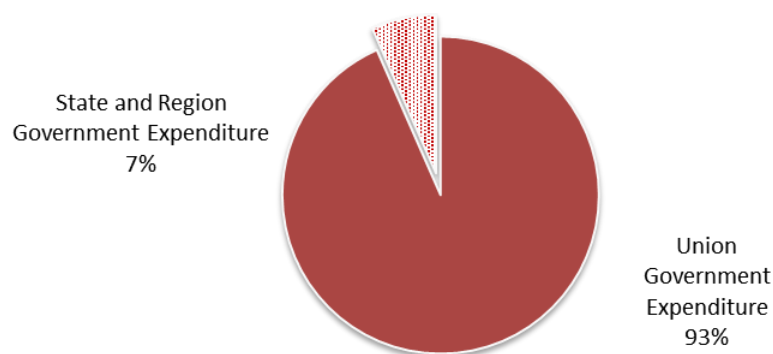
- In 2013-14, the overall Union budgeted expenditure was 16.1 trillion kyats, equivalent to 29 percent of GDP. For states and regions, the total expenditure was 1.2 trillion kyats, or approximately 2 percent of GDP.
- In 2013-14, 54 percent of state and region government expenditure was undertaken by the Department of Public Works. DAOs, YCDC, and MCDC account for the second largest proportion of budget expenditure at 23 percent.
- Overall, 62 percent of state and region expenditures in 2013-14 were classified as 'ordinary', while 'capital' accounted for 36 percent. Both the size and proportion of capital expenditures appear to vary greatly across states and regions.

5.1 Overview of State and Region Expenditure

Since the formal establishment of state and region governments, significant efforts have been made to expand their role in public finances through the assignment of specific legislative responsibilities and the transfer of departments and SOEs to the authority of subnational decision makers. Subnational expenditure currently accounts for 1.2 trillion kyats, or approximately 2 percent of GDP, compared with 16.1 trillion kyats, or 29 percent of GDP, for the Union.

Figure 17 – 2013-14 State and Region Expenditure as a Proportion of Total³⁶

State and region government expenditure accounts for a small proportion of overall government expenditure.



Individual entries in state and region budgets are categorized according to three broad themes: 'High Court, Advocate General, Auditor General' (Governance and Administration), 'Ministries, Administrative Departments and Municipalities' (Departments and DAOs) and 'State Owned Enterprises' (SOEs). Of these three categories, 66 percent of expenditures have been recorded under 'Departments and DAOs', with SOEs and the 'Governance and Administration' categories accounting

³⁶ The Union government's total budgeted expenditure, excluding the supplementary budget, was 16.141 trillion kyats in 2013-14. Although it is common for quoted expenditure shares to exclude SOEs in the overall calculations, this paper has retained them due to the strong contribution of SOEs to the activities of Myanmar's government. Figures represent budgeted amounts as of the first day of the fiscal year and not executed amounts.

for 25 and 9 percent, respectively.³⁷ A breakdown of total expenditure for 2013-14 has been provided in Table 2:

Table 2 – 2013-14 State and Region Expenditure by Category (Total in millions of kyats)

	Governance and Administration <i>(High Court, Advocate General, Auditor General)</i>	Departments and DAOs <i>(Ministries, Administrative Departments and Municipalities)</i>	State Owned Enterprises	Total
Ayeyawady	4,543	61,225	34,165	99,933
Bago	5,424	41,701	18,882	66,006
Chin	10,611	23,961	14,398	48,969
Kachin	3,598	33,971	16,875	54,444
Kayah	4,770	13,197	8,236	26,204
Kayin	3,726	16,777	9,524	30,028
Magway	4,948	110,244	25,922	141,113
Mandalay	8,092	80,795	10,934	99,822
Mon	3,610	18,972	9,191	31,773
Rakhine	12,971	40,497	25,424	78,892
Sagaing	11,562	63,600	29,274	104,436
Shan	7,463	96,080	68,662	172,205
Tanintharyi	8,689	24,416	13,347	46,453
Yangon	18,368	146,373	3,942	168,683
Total	108,376	771,808	288,778	1,168,961

Expenditure under the ‘Governance and Administration’ category accounted for the smallest portion of state and region expenditure. Within this category, 69 percent is accounted for by Cabinets, with Courts and Accounting being two other large contributors at 11 percent each.

The ‘Departments and DAOs’ category was the largest contributor to state and region expenditure, with 44 percent of this accounted for by Public Works departments, 16 percent by YCDC and 11 percent by the GAD. Reflecting its different functions, Public Works was listed in the 2013-14 budget both as a department and as an SOE, with its SOE listing accounting for 99.6 percent of total state and region SOE expenditures.³⁸

Although ‘Departments and DAOs’ accounted for 66 percent of the 2013-14 state and region expenditure, the majority of this was from five departments. Specifically, of 21 departments with spending recorded in the 2013-14 budget, 89 percent was accounted for by GAD, Public Works, DAOs, YCDC, and MCDC. Interestingly, there were also a number of departments relevant to the areas prescribed to states and regions in Schedule 5 of the 2008 Constitution, which represented relatively small proportions of total expenditure, such as Agriculture (2 percent), Forestry (1.6 percent), Human Settlement and Housing (1.4 percent), Water Resource Utilization (1.3 percent), and the Cooperative Department (1.3 percent).

5.2 Budget Balance

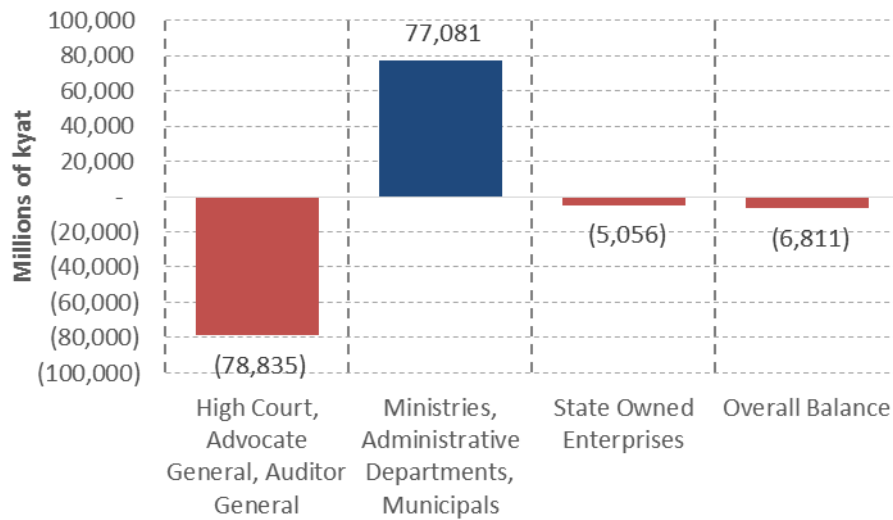
Although it is difficult to determine the financial position of individual entities within the 2013-14 budget, by bringing together revenue and expenditure across the three categories, it is possible to determine the overall financial position of subnational governments. Results of this have been provided in Figure 18:

³⁷ A detailed list of the line items included under each category has been include in Annex V, while the stated roles, responsibilities, and objectives of major entities, departments, and SOEs has been provided in Annex VI.

³⁸ One official who was interviewed noted that ‘Public Works’ is scheduled to be recorded as a single entity in future budgets.

Figure 18 – 2013-14 Overall State and Region Budget Balance

In 2013-14, the state and region budgets recorded a net deficit of 6.8 billion kyats.



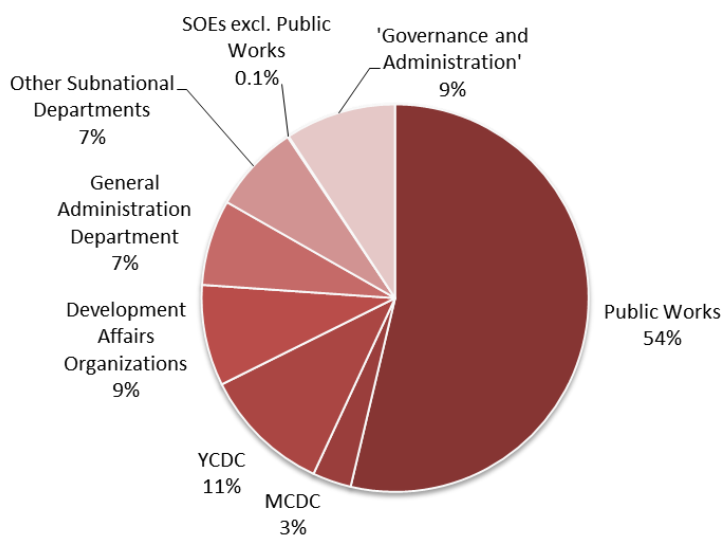
Although it is important to remember figures used in this research represent budgeted amounts rather than actual outlays, this analysis shows that in 2013-14, a modest deficit of 6.8 billion was projected, with net losses projected by SOEs, and the majority of the projected deficit of 79 billion kyats for 'Governance and Administration' being offset by a projected 77 billion-kyat surplus from 'Departments and DAOs'.

5.3 State and Region Expenditures by Function

Overall Public Works (as a department and an SOE) accounts for the majority (54 percent) of state and region expenditure, followed by YCDC at 11 percent and DAOs at 9 percent. A more detailed breakdown has been provided in Figure 19 below.

Figure 19 – 2013-14 State and Region Expenditure by Source

More than half of state and region expenditure is undertaken by Public Works.



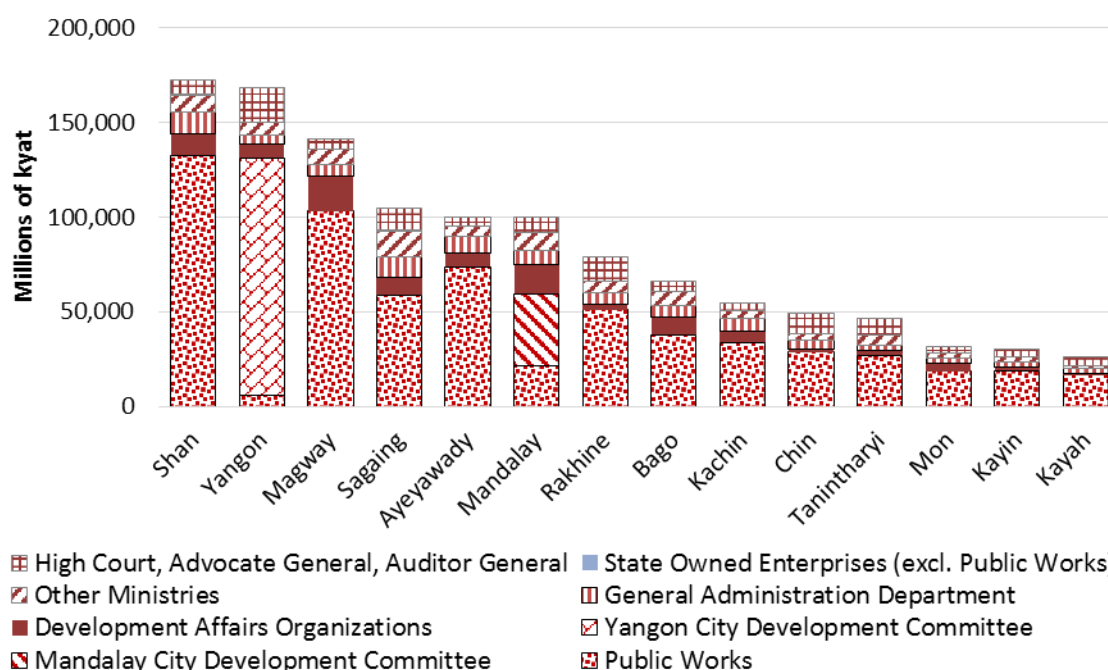
Although information on the activities of Public Works by state and region were not available for 2013-14, a key reason for the department’s dominance likely relates to efforts to develop Myanmar’s infrastructure, with Public Works being predominantly responsible for the construction and maintenance of public-owned infrastructure, such as roads, bridges, airports, and buildings.³⁹

When viewed together, DAOs, YCDC, and MCDC account for the second-largest proportion of budget expenditure, at 23 percent. DAOs are mainly responsible for the delivery of public services such as waste removal, street lighting, and water supply. Both YCDC and MCDC undertake tasks similar to this, but have greater independence and wider discretion as to the types of expenditures to conduct. Interviews with officials suggested that aside from the provision of DAO services, road construction makes up a large proportion of YCDC’s expenditures. YCDC’s strong involvement in this area is also a plausible explanation for Public Works’ relatively smaller size in Yangon, as has been demonstrated in Figure 20.

The level of budgeted expenditure allocated across states and regions varies considerably, with Shan State, Yangon Region, and Magway Region having the highest levels of expenditure at 172 billion kyats, 169 billion kyats, and 141 billion kyats, respectively. This is in stark contrast to Kayah, Kayin, and Mon states, whose expenditures range from 26 billion to 32 billion.

Figure 20 – 2013-14 State and Region Expenditure Composition (total in millions of kyats)

Public Works accounts for a large proportion of expenditure across states and regions except for Yangon and Mandalay



Except for Yangon and Mandalay regions, Public Works appears to be the main source of expenditure across all states and regions. Again, the significantly lower proportion of expenditure conducted by Public Works in Yangon and Mandalay seems to be a consequence of YCDC and MCDC being responsible for the majority of infrastructure development and maintenance in their respective regions and is mirrored by lower levels of revenue received through Union transfers and revenue listed against the department of Public Works.

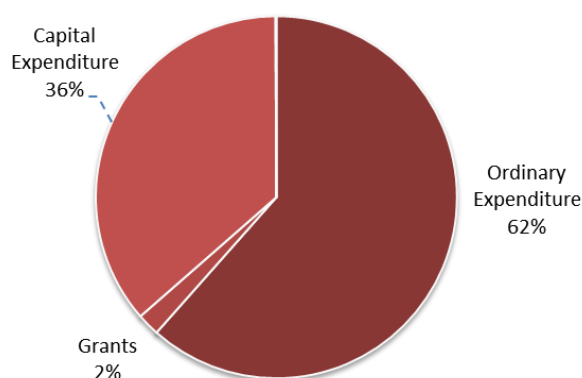
³⁹ For larger projects, they can also be involved in design, the production of construction materials, and budget management.

5.4 State and Region Expenditures by Type

The majority of expenditures have been recorded across six categories in the 2013-14 state and region budgets: 'Capital Expenses', 'Expenses Paid for Interest', 'Grants', 'Loans', 'Ordinary Expenditure', and 'Returns from Loans'.⁴⁰

Figure 21 – 2013-14 State and Region Expenditures by Type⁴¹

The majority of state and region expenditures have been classified either as 'Capital' or 'Ordinary expenditure.'



Capital Expenditure, which is meant to signify expenditure that is allocated to the acquisition of long-term assets (such as infrastructure), accounted for 36 percent of state and region expenditures in the 2013-14 state and region budgets. Of this, more than 75 percent of state and region capital expenditures are accounted for by Public Works, YCDC, MCDC, and DAOs.

There is only one entry under the 'Expenses Paid for Interest' category – a 25 million-kyat entry under YCDC. 'Loans' listed under YCDC and MCDC accounted for 371 million kyats.

Funds categorized as 'Grants' account for 2 percent of state and region expenditures and were often listed against Cabinets and GAD. GAD offices have also recorded grant expenditures ranging from 15 to 20 million kyats against all states and regions other than Ayeyawady Region and Rakhine State. It is understood these amounts represent expenditure managed by the GAD as part of the Rural Development Fund (RDF). The RDF is used to fund a wide range of projects in areas which include (but are not limited to) health, education and transportation.

Ordinary Expenditure, which as a category is meant to indicate day-to-day or operational expenses, accounted for 62 percent of state and region expenditures in 2013-14. Of this, Public Works accounted for more than half of the total. Entities listed under the category 'Governance and Administration' recorded most expenditure as being 'Ordinary', likely a reflection of the nature of their work, with the exception of Cabinets, who recorded around a third of their expenditures as capital.

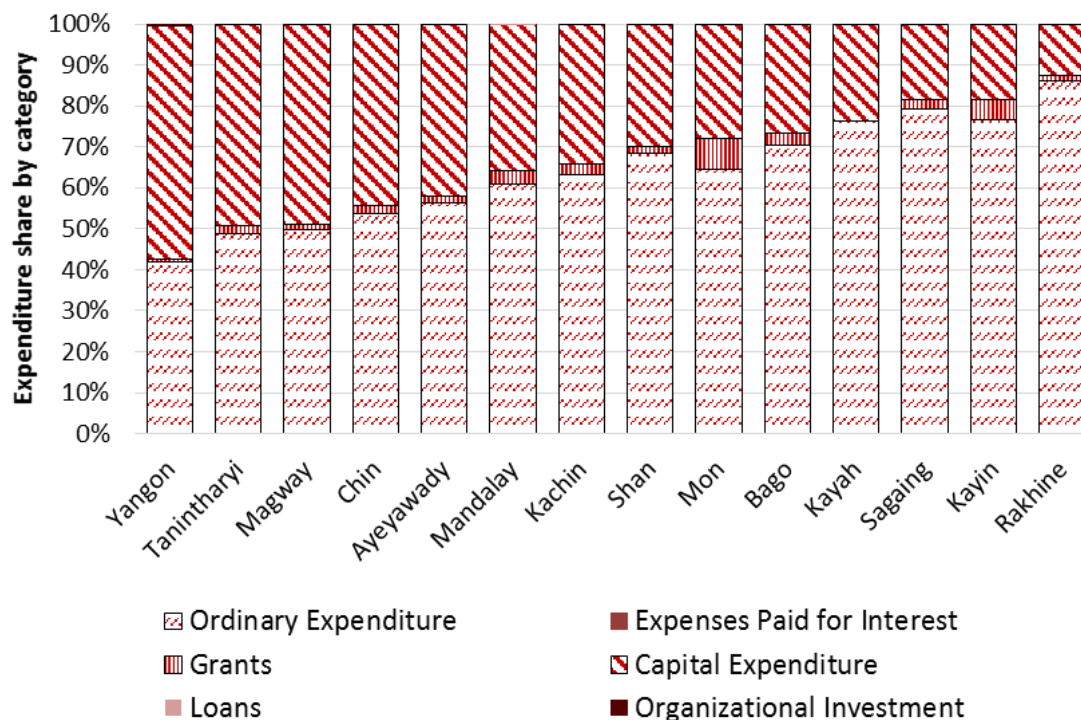
While normally, one would interpret the Cabinet's budget line as part of the fixed costs of administering the provision of public goods and services, the relatively large amounts of capital expenditures and grants disbursed by the Cabinet suggest that these offices and their budgets are related to activities outside the daily administration of executive power within the states and regions. This was confirmed by interviews, which suggested that some discretionary spending is recorded under this category, such as the Poverty Reduction Fund and Constituency Development Fund.

⁴⁰ Assumed definitions of these categories have been provided in Annex VII.

⁴¹ All Union and subnational expenditures have been included in recognition of both the central role of SOEs in Myanmar's government operations and uncertainties around the budgetary distinction applied between SOEs and other government entities.

Figure 22 – 2013-14 State and Region Expenditure by Type

The share of capital expenditure is below 50 percent for most states and regions.



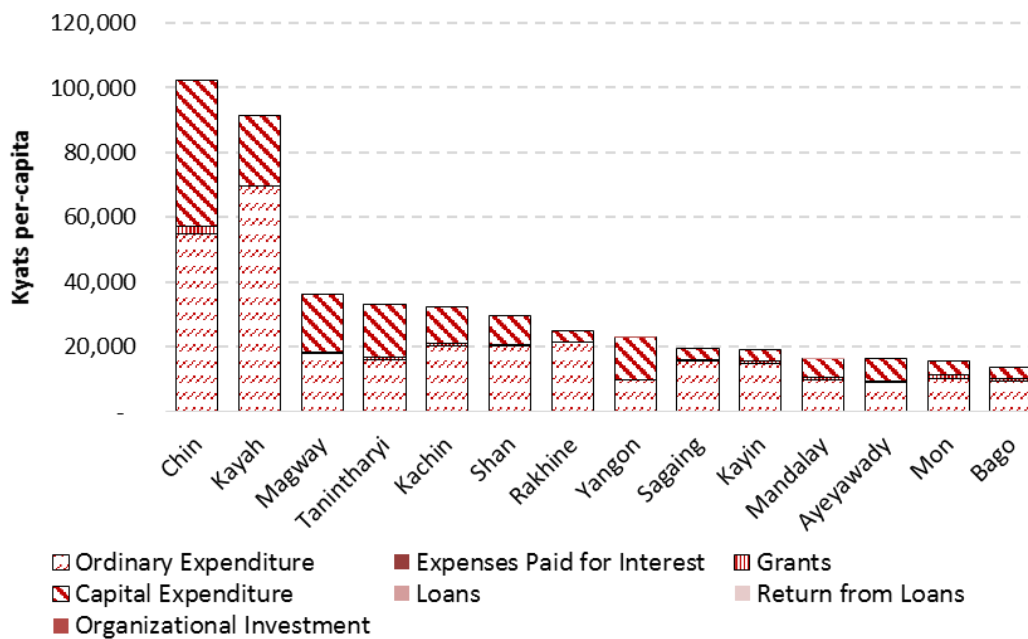
When viewed across states and regions, there are clearly wide variations in the proportion of expenditures allocated to investment in longer-term capital assets relative to funds recorded as ‘Ordinary Expenditure’, with Sagaing Region and both Kayin and Rakhine states spending 20 percent or less on capital, as opposed to Yangon, Tanintharyi, and Magway regions, which have recorded capital expenditures of 50 percent or more in 2013-14. While it is difficult to make conclusions about the drivers and adequacy of these expenditures without more detailed information, it is a potentially fruitful area for more detailed analysis, as effective investment in capital assets can provide a means of driving economic and social development.

5.5 Per-Capita Expenditure by State or Region

Given their geographic, demographic, and economic differences, it is not unexpected that states and regions would show different levels of expenditure, both in reflection of their different needs and access to resources. Recognizing this, the following section uses ‘per-capita’ figures to provide a means of comparing across states and regions with different populations.

Figure 23 – 2013-14 Per-Capita State and Region Expenditure by Type

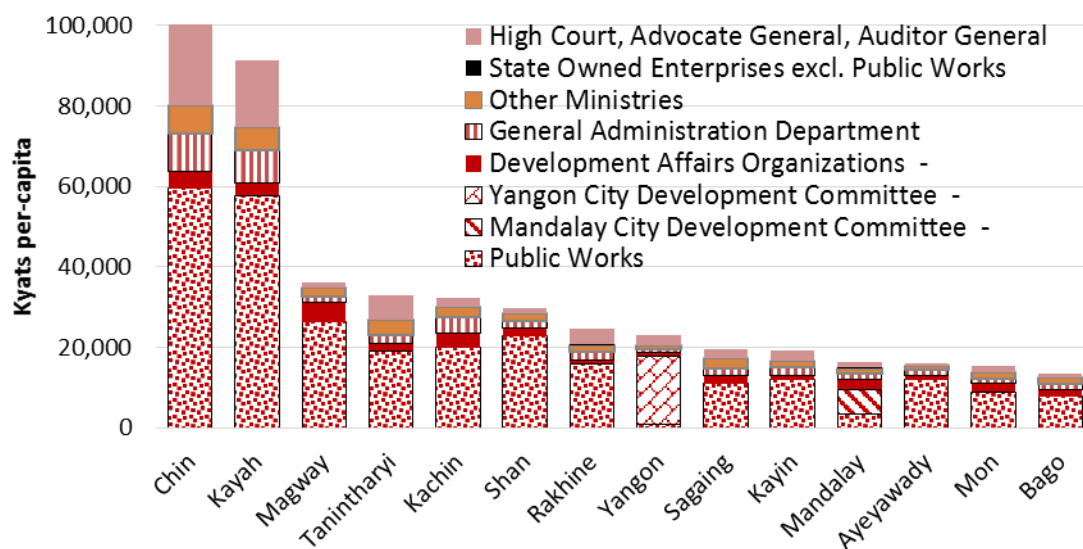
On a per-capita basis Chin and Kayah have higher levels of expenditure than most other states and regions.



As shown, Chin and Kayah states both have the highest levels of expenditure per-capita, with relatively high proportions of this being ordinary expenditure. Although it is difficult to assess the reason for this, it is likely a combination of factors. First, of Myanmar’s states and regions, Chin State and Kayah State have relatively low population densities, which likely raises the average costs of providing government services. Second, some of these states have higher levels of need and are more remote, likely necessitating higher levels of investment in public services and infrastructure [26]. Figure 24 appears to confirm this, with Public Works having relatively larger level of per-capita expenditure for the two states.

Figure 24 – 2013-14 Per-Capita State and Region Expenditures by Source

Per-capita expenditure in Chin State and Kayah State from Public Works is significantly higher than other states and regions.



It is worth noting that, while per-capita expenditures differ across states and regions, the proportional allocation of expenditures across departments in states and regions is generally not significantly different from the average, with the main exceptions being Yangon and Mandalay regions, which have a large amount of their expenditures listed under YCDC and MCDC.

Given that levels of expenditure are strongly dependent on revenues, this evidence tends to confirm earlier analysis, which suggests that the Union government does not solely look at population size when determining the size of budget transfers. Although this does not suggest that the relative allocations are optimal, it is encouraging that the states and regions with the highest expenditures in terms of kyats per-capita also tend to be those with greater needs.

5.6 Capital Expenditure and Public Works

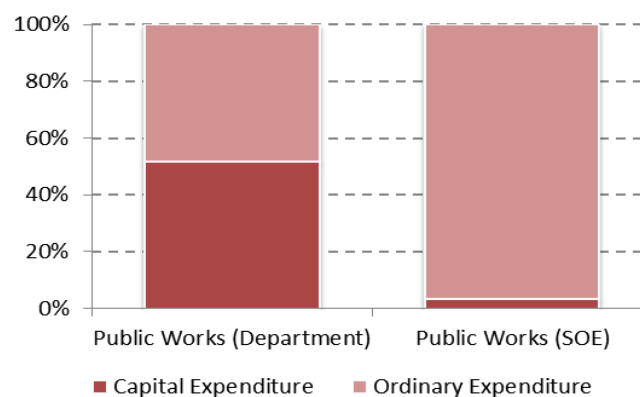
The Department of Public Works accounts for a large proportion of state and region expenditure, being responsible for constructing and building public infrastructure. Given this, it is predominantly this department’s activity that has driven differences in capital expenditures across states and regions. While its substantial contribution to state and region expenditure is likely a result of Myanmar’s commitment to close its infrastructure gap, it also raises important questions around the distribution, nature, and governance of this expenditure.

Interviewed officials noted that Public Works and the Ministry of Construction choose which expenditures to conduct according to the nature and size of projects, with the Union government focusing on larger infrastructure projects, such as those that cross state and region boundaries, while Public Works focusses on smaller projects, such as those that connect townships and villages. Generally, specific projects are selected by either the Ministry of Construction, state or region cabinets, or state or region hluttaws.

In the 2013-14 fiscal year, Public Works expenditures have been recorded in both department and SOE categories. Public Works revenue was predominantly recorded under the SOE category, resulting in Public Works having recorded a surplus as an SOE and a deficit as a department. Overall, this means Public Works as a subnational entity of the Ministry of Construction reports an overall deficit of 344 billion kyats, although much of the expenditure relating to this has been recorded under the department category. Expenditure conducted by Public Works as an SOE is almost entirely ordinary, while its expenditures as a department are more evenly split between capital and ordinary (Figure 25).

Figure 25 – Public Works Expenditure by Type (Department vs. SOE)

The types of expenditures appear to differ greatly between Public Works as a department and as an SOE.



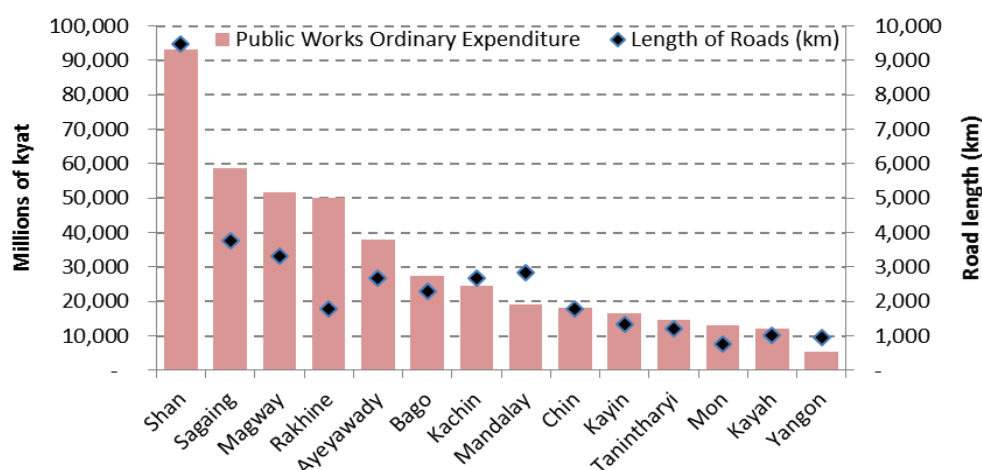
Interviewees noted that Public Works expenditures as a department predominantly relate to longer-term work, such as construction, whereas maintenance and repairs are recorded under Public Works as an SOE. While the precise reasons for allocating expenditures this way are unclear, such practices

have been noted as a means for state and region governments to attempt to “...increase [Union] grants by shifting SOE expenses to ministerial departments” [4].⁴²

The tendency for the expenditures of Public Works as an SOE to be mainly made up of ‘Ordinary Expenditure’ is broadly consistent across states and regions, with the maximum proportion of Capital Expenditure being nine percent in Shan State. Although it is not possible to conclusively determine the source of these differences, in 2013-14, expenditures did generally tend to be higher in states and regions that tend to have larger land masses and transportation networks (Figure 26).

Figure 26 – Public Works Ordinary Expenditures by State or Region

Larger states and regions with greater road infrastructure tended to have the highest ordinary expenditures.



Source: Road data based on total length of roads 2010-11, Central Statistical Organisation, Myanmar.

While this tendency for the ordinary, or operational, expenditure of Public Works to follow the size of a state or region’s land area/transportation network is to be expected, without more detailed information around the activities of Public Works, it is not possible to conclusively determine the factors driving subnational investments. Given the Public Works department’s potential role in driving the economic and social development of Myanmar, more transparent reporting of departmental outputs and activities is therefore suggested as a priority that will help inform discussions around the use of public funds.

5.7 Deconcentration, Delegation, and Decentralization

The evidence collected and reviewed up to this point is aimed at providing an overview of Myanmar’s subnational finances, but this analysis needs to take into account some important caveats. In particular, the decentralization of responsibilities has to hinge not only on the transfer of resources and duties to lower levels of government but also on a shift of authority that renders subnational entities independent and able to make decisions (and be held accountable) on well-identified policy areas. From this perspective, the restructuring of Myanmar’s governance observed over the past five years seem to fall much more under the definition of deconcentration rather than decentralization, with subnational entities being strongly dependent on resources transferred from the Union, while subnational departments and SOEs represent subnational agencies of Union ministries.

As a result, it is difficult to interpret the relative size of the state and region budgets as an accurate measure of *decentralization* of fiscal authority. Independent decision making over the allocation of

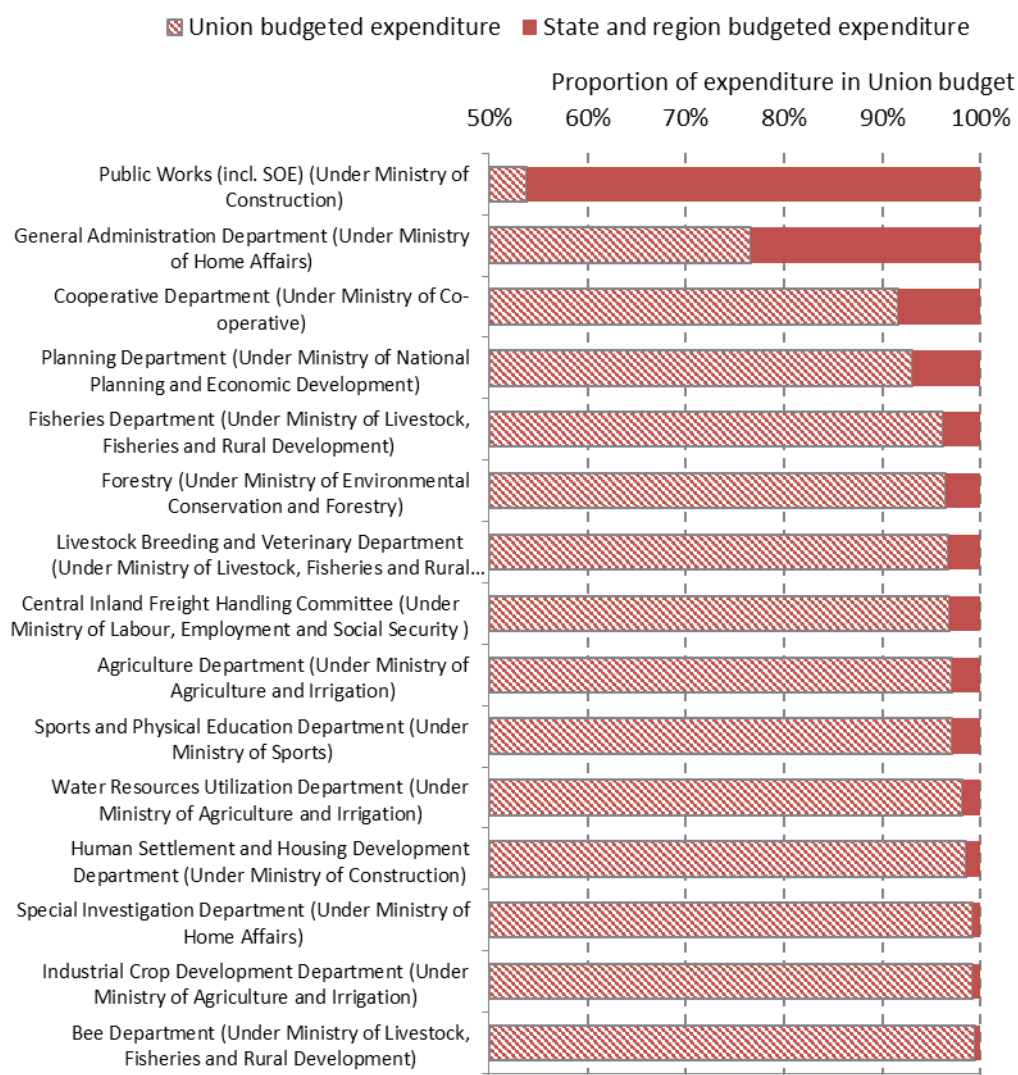
⁴² It is understood that ‘Public Works’ will be listed as a single entity in forthcoming state and region budgets.

these funds might be hampered by the supervision of Union-level ministers or by the need to report to a level of government higher than the subnational one.

Although it is not possible to directly measure a subnational entity’s level of independence, given that state and region budgets represent outcomes of a managed decentralization path, it is possible that a subnational entity’s level of independence might be proxied by the proportion of expenditure conducted at the subnational level relative to the Union level. Results of this ‘deconcentration analysis’ have been provided in Figure 27.

Figure 27 – 2013-14 Deconcentration Analysis⁴³

Public Works and the General Administration Department have the highest proportion of expenditures recorded at the state and region level vs. its parent Ministry.



Source: 2013-14 Union and state and region budgets

As illustrated, except for Public Works and the GAD, most state and region departments or SOEs account for less than 10 percent of their parent agency’s expenditures. Although this might suggest these agencies have limited influence on their parent ministry’s activities, and potentially their own,

⁴³ Includes all expenditure recorded by ministries and SOEs under the responsibilities of Union ministries. Departments with expenditure shares below one percent have been excluded for clarity.

it is also possibly indicative of the Union government's varying levels of comfort assigning certain expenditures to subnational governments.

Furthermore, if the budgets of subnational entities provide an indication of their level of independence from Union, it might also show that there are a range of areas of further deconcentration, and potentially decentralization that can be targeted. Although it is not known to what extent subnational needs are currently considered by Public Works and the GAD, given these departments represent more than half of state and region expenditures, they should be seen as critical points where greater participation, transparency, and accountability could deliver many of the benefits sought through decentralization.

Finally, although it is suggested that many of the reforms to date suggest deconcentration rather than decentralization, this does not mean efforts in the latter direction should not be welcomed. As a matter of fact, these steps might be instrumental to deeper reforms in the future, as they will allow central institutions to gradually empower subnational entities and develop capacity at lower levels of government. In the process, subnational governments and local stakeholders might see their degree of participation in the work of deconcentrated units increase, leading to improved expenditure targeting. However, this process might fail to generate the stronger accountability mechanisms that would come through a more concrete decentralization of decision-making power. Given this, deconcentration should be considered only a preliminary step in the right direction.

Summary and Takeaway Points

Expenditures allocated at the subnational level account for a small proportion of total public expenditures. In 2013-14, total Union expenditures reached 16.1 trillion kyats, or 29 percent of GDP, compared to 1.2 trillion kyats, or approximately 2 percent of GDP, for states and regions.

The majority of subnational expenditures is carried out by just five entities, with Public Works departments carrying out more than half of this. This might raise concerns given that the amount of decentralized expenditure capacity and responsibility appears to have been only narrowly focused.

However, the deconcentration of infrastructure development responsibilities may represent a positive step in the right direction, particularly if the activities benefit from a more localized perspective. Moreover, deconcentrating these activities is likely to allow for the possibility of increased participation by communities and subnational stakeholders.

The Department of Public Works is responsible for the construction and maintenance of public infrastructure, such as roads, bridges, airports, and buildings. Despite this, a large proportion of its expenditures appear to be listed as 'Ordinary', rather than as 'Capital', with these shares varying significantly across states and regions. **This is another area in which improved reporting, greater transparency, and more disaggregated data will allow for better policy analysis.**

Interestingly, while Public Works tended to dominate expenditures across most states and regions, it contributed significantly less to overall expenditures in both Yangon and Mandalay regions, likely due to YCDC's and MCDC's investment in infrastructure, mitigating the need for Public Works.

While the size of state and region budgets might be indicative of ongoing deconcentration of expenditures much more than full decentralization of authorities and responsibilities, several benefits can be reaped by allowing increased participation of subnational institutions, stakeholders, and communities into the decision-making process.

SIX: Conclusion and Recommendations

Myanmar's fiscal, administrative, and political structures have historically been highly centralized [1]. However, recent economic and political reforms have attempted to directly address this, with Myanmar's 2008 Constitution formally establishing subnational governments while also taking a number of steps towards decentralizing the distribution of political, administrative, and fiscal power.

While this has meant that state and region governments have been provided with the rights to undertake expenditures, mobilize revenue, and legislate in a range of areas, there is still significant uncertainty as to the envisioned role of subnational governments, particularly in the management of Myanmar's public finances [8].

Despite this, DAOs, YCDC and MCDC, provide some important examples of wider decentralization efforts, both having clear mandates in terms of the provision of services, utilities, and infrastructure, as well as the authority to collect revenues from the population in order to meet these expenditure needs [8].

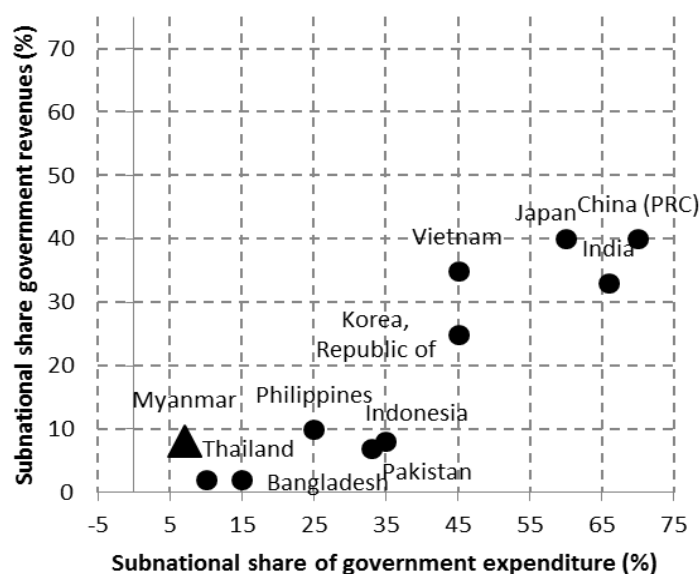
While these recent changes are promising, such subnational entities account for a minority of subnational finances, with current reforms suggesting deconcentration rather than decentralization. Although this is an important first step, uncertainty around subnational governments' envisioned role makes it difficult to determine where Myanmar is in the decentralization process. In view of this, it is worthwhile to take a step back and briefly look at Myanmar in the context of international evidence.

6.1 Decentralization in Myanmar: a Regional Perspective

Two commonly used indicators of fiscal decentralization are subnational governments' shares of government expenditures and revenue. These indices provide a means to compare the financial resources attributed to different levels of government, thereby providing a concise proxy for the extent of decentralization. From this perspective, the available data (and estimates) for South Asia and Southeast Asia suggest that countries in the region have adopted quite different models of fiscal governance, with the involvement of subnational authorities varying significantly across the region (see Figure 28)

Figure 28 - Myanmar's Subnational Finance in the Regional Context⁴⁴

Myanmar's subnational governments' involvement in public finances is small relative to that of many of its neighbors.



*Data on expenditure and revenue decentralization for Myanmar refer to FY 2013/14 (Author's calculation), while data for other countries are estimates for 2009 (Martinez-Vasquez, 2011).

As shown, Myanmar belongs to the group of least decentralized countries, together with Thailand, Indonesia, the Philippines, Bangladesh, and Pakistan. Within this group, Myanmar's subnational government appears to receive a relatively greater share of revenue, representing 8 percent of total government receipts. Interestingly, Myanmar borders the two most decentralized countries in the region – China and India – as well as the two most centralized – Thailand and Bangladesh.

When looking at the full list of countries in Table 3, Myanmar ranks 8 out of 11 for subnational revenue allocation. Subnational institutions in highly decentralized systems such as the Republic of Korea, Vietnam, Japan, Indian, and China accrue between 25 percent and 40 percent of total public revenues: three to five times that of Myanmar.

Table 3: Decentralization in Myanmar from a Regional Perspective

	Subnational government's share	
	Expenditure	Revenues
Japan	60	40
China (PRC)	70	40
Vietnam	45	35
India	66	33
Korea, Republic of	45	25
Philippines	25	10
Myanmar*	7	8
Indonesia	35	8
Pakistan	33	7
Thailand	10	2
Bangladesh	15	2

Source: Expenditure and revenue decentralization measures for Myanmar refer to FY 2013/14 Author's calculation), while data for other countries are estimates for 2009 based on Martinez-Vasquez, 2011.

⁴⁴ Please note that in recognition of the significant role of SOEs in government finances, figures used for Myanmar are based on overall Union and subnational expenditures, including SOEs and excluding supplementary expenditures.

Based on this, it appears that the fiscal resources provided to subnational institutions in Myanmar are comparatively low, with only seven percent of total expenditures conducted by state and region governments. As such, Myanmar ranks among some of the least decentralized countries regionally. In addition to this being likely explained by the higher expenditure needs at the Union level necessary to support the country's transition, it is important to also recognize that Myanmar is still early on its path of decentralization, with state and region governments only being established relatively recently. Furthermore, this comparison does not recognize the rate of decentralization/deconcentration, with Union transfers to subnational governments having expanded substantially in a short timeframe.

6.2 State and Region Resources and Responsibilities

The picture that emerges from the regional comparison finds confirmation in the analysis presented throughout this paper. Although the relative size of state and region budgets have increased, they are still relatively small from a regional perspective, reflecting Myanmar's very recent embarkation on a path toward decentralization.

States and regions appear to be strongly dependent on resources transferred from the Union, with taxes accounting for only five percent of total subnational revenues in 2013-14. Although, this revenue is supplemented by 'Other Income', the nature of this revenue and the rights of subnational governments to collect it are unclear. Although 'Other Income' likely reflects the collection of user fees and licensing revenues at the subnational level, better budgetary data would be necessary to confirm this.

On the expenditure side, the evidence collected seems to support the idea that only limited responsibilities have been transferred to subnational institutions. State and region budgets cover only a small share of total public expenditures (7 percent), and most of this activity does not seem to be under the complete authority of subnational cabinets.

If the modalities through which officers in these few departments are appointed and the power structures to which they are subject does not render them accountable to subnational governments or constituencies, subnational governments' shares in total government expenditure holds limited meaning. Furthermore, while the focus on infrastructure development through the activities of Public Works is promising, it is not clear whether the merits of such investments have been balanced against the benefits that might result from alternative uses of these resources.

6.3 The Balance between Resources and Responsibilities

In recognizing both that subnational governments' role in public finances is relatively small on a regional basis and that revenue and expenditure shares are likely to overestimate subnational governments' true role in public finances, it is worth considering the fiscal activity of state and region governments with reference to their constitutionally delegated responsibilities.

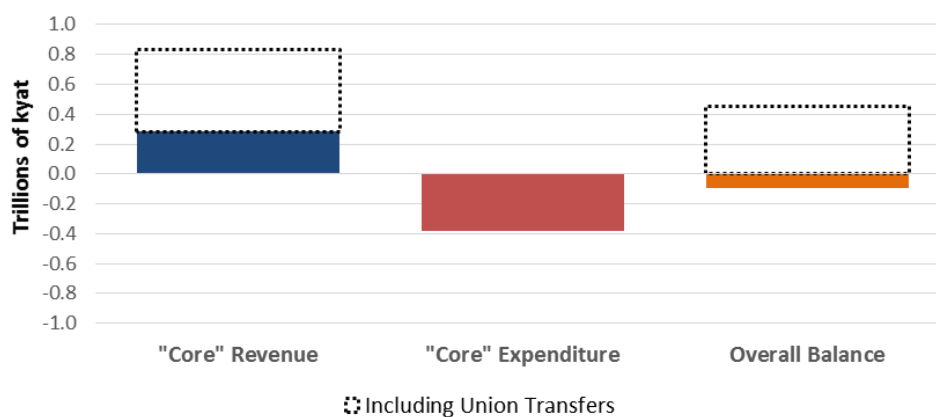
Based on those areas of responsibility clearly prescribed to state and region governments in the 2008 Constitution, 'core' expenditure appears to include the Cabinet, State or Region Hluttaw, State or Region High Court, Advocate General, Auditor General, YCDC, MCDC, and the Human Settlement and Housing Development Department, accounting for approximately 33 percent of overall state and region expenditure in 2013-14 (Annex X). The remaining share of expenditure budgeted at the subnational level is carried out by deconcentrated departments and SOEs of Union ministries.

On the other hand, states' and regions' rights to collect revenue, as defined in Schedule 5 of the 2008 Constitution, are somewhat clearer with there being specific provisions supporting the collection of the majority of 'core' revenue streams that exist in subnational budgets. When taxation and department revenue (excluding Union transfers) are considered, it accounts for approximately 25 percent, being sourced in large part from YCDC and DAOs.

Figure 29 depicts this, with the amount of revenue and expenditure that is clearly prescribed to state and region governments in the 2008 Constitution (based on Annex X), relative to Union grants.

Figure 29 – 2013-14 Constitutional Taxation Rights and Expenditure Responsibilities

Self-sourced revenue is insufficient, given the understood responsibilities of state and region governments.



Although the overall balance presented in Figure 29 might suggest that state and region governments *do not* currently collect sufficient revenue to fulfil their constitutional responsibilities, this conclusion requires a normative judgement about the optimal amount of public goods and services a subnational government should provide, as well as the appropriate cost-sharing balance between different levels of government. In fact, while being able to self-raise revenue might make subnational governments more independent in their policy-making and planning activities, it can be acceptable for the central government to offer financial support to achieve wider policy outcomes.

Furthermore, although it appears that the inclusion of specific departments and SOEs in the published budgets is suggestive of the areas of fiscal responsibility envisioned for subnational governments by the Union government, the long-term trajectory of these transfers is unclear. This was confirmed by one subnational official who, when asked how they decided which projects to undertake, suggested it depended on whether there is a relevant subnational entity under their authority to undertake the project. While this is not surprising on a functional level, it may suggest a situation in which the independence of subnational governments is limited by the need for their activities to be sanctioned by the Union government.

Given that many of the roles undertaken by state and region governments appear to be based on informal understandings, assessing the constitutional roles and responsibilities of subnational governments is predominantly useful for understanding where further clarification is needed, rather than providing an accurate view of the day-to-day role of state and region governments. Therefore, it is suggested that the decentralization debate go beyond addressing the relative levels of resources required so that a vision of the roles and responsibilities of subnational governments can be developed.

6.4 Subnational Finances and Decentralization: Framing the Debate

Measuring and assessing the effective degree of decentralization that characterizes a governance system is an inherently complex task. The concept of decentralization extends across the economic, administrative, and political dimensions. From the quantitative perspective, available evidence shows that decentralization in Myanmar is still at an early stage, with the distribution of revenue and the allocation of expenditure still strongly influenced by the Union government.

The establishment of new institutions with broad-ranging powers and responsibilities is likely to take time. For this reason, in the short term, Myanmar needs to consolidate positive steps already taken and identify areas for further reforms. In doing so, the policy debate needs to focus not just on numerical splits but on what role subnational governments are expected to play and how to achieve those goals.

To foster future developments, more transparency is needed. For example, part of government revenue could be transferred to subnational governments through a clear, transparent, well-structured formula [4]. This will increase transparency, reduce political grievances, allow planning, and encourage discussion and debate to focus on the transfer policy rather than on amounts that might be constrained by resource availability.

Additionally, while Myanmar is still far from enjoying the full spectrum of benefits brought by efficiently decentralized governance, some encouraging changes are already taking place. Interviews suggested that although subnational decision makers like Ministers, TAs, and VTAs are empowered with limited fiscal responsibility, they are increasingly being consulted by higher levels of government when planning or implementing development and infrastructure projects – a change welcomed by the majority of those interviewed.

Leveraging this experience, participation of local stakeholders should be extended and encouraged, especially in policy areas where authority has only been deconcentrated and not decentralized. In the process, subnational governments and communities are likely to develop the experience and capacity needed to proficiently take on some of these responsibilities further along in the transition to a more decentralized state, potentially increasing public oversight and allowing the better management of public resources.

6.5 Recommendations

The expected role of subnational governments in public finance should be clarified.

Currently, the expenditure responsibilities and taxation rights of state and region governments are not sufficiently defined, resulting in subnational governments basing their activities on past responsibilities and informal understandings. Although this is not unexpected given the current stage of decentralization, it likely discourages state and region governments from tailoring their provision of public goods and services to their state's or region's needs, thereby reducing the potential benefits of decentralization.

The proposed transfer of public financial management responsibilities to subnational governments should be discussed, decided, and released publicly.

In order for state and region governments to plan over the longer term, it is necessary that their expected roles be clarified at present and in the medium term. Many of the benefits of decentralization require that both the quantity and quality of subnational expenditure is appropriate, requiring governments to strike the right balance both now and during the decentralization process.

Union transfers should be based on a predictable formula that encourages self-financing.

Currently, Union transfers pose the risk of encouraging 'deficit financing', resulting in the levels of expenditure being largely a determinant of the expected volume of transfers for the budget year. Consequently, states and regions have an incentive to over-estimate their expenditure requirements, particularly in areas prioritized by the Financial Commission and Union government, rather than assessing their relative priorities.

Although analysis of Union transfers suggests that since 2011-12, funding levels can be in some part explained by a state or regions characteristics, such as the number of townships, infrastructure needs, and levels of poverty, a formula-based system, which explicitly allocates funding according to a state's

or region's needs and abilities to self-raise revenue, is suggested as preferable. This is both as it allows for the explicit consideration of which factors are important in allocating government resources and as it would potentially allow budget negotiations to focus on policy issues, such as alleviating poverty, infrastructure development, improving health outcomes, and expanding access to education.

Current levels of state and region expenditure and revenue are not accurate measures of decentralization but suggest key areas of focus.

The majority of subnational expenditures are conducted through a minority of highly centralized entities, while the majority of revenue is transferred from the Union government, earned by Public Works, or collected through the Union's administrative infrastructure, such as the GAD. Consequently, these organizations represent critical points where greater participation, transparency, and accountability could deliver many of the benefits sought through decentralization.

Activities undertaken by ministries, departments, and SOEs and their costs should be made publicly available.

Part of the successful movement to a more decentralized fiscal system requires that the community, officials, and business community have an understanding of how and where taxation revenue is being directed so as to provide a means of enabling informed discussions about how and where public resources can be best directed. However, a large proportion of subnational government expenditure is conducted by a small number of agencies, with limited data being available to assess how efficiently and effectively this expenditure is being allocated across states and regions.

Efforts should be made to bring published budget data in line with international standards.

Currently, state and region budgets reflect only a proportion of public financial activity due to the use of 'Other Accounts' and due to the fact that realized expenditures are not published. As a result, aside from those with access to this information, it is difficult to adequately understand and evaluate the activities of subnational governments.

Although steps are already underway to achieve this, it is recommended, in the interim, that government budgets and supplementary budgets are released in a timely manner so as to allow discussions to be based on current information on public finances.

Greater access should be provided to the administrative data currently recorded as part of preparing state and region budgets.

From interviews, it was determined that more detailed information is already collected on revenues and expenditures at the state and region level as part of the budgeting process.

It is therefore suggested this data be made available so as to allow more detailed analysis of public finances in the interest of encouraging research to shift from just asking "how much is spent" towards asking the likely more fruitful question of "how well are resources spent" so as to provide invaluable guidance for the reforms ahead.

Both submitted and approved subnational budgets should be released publicly.

Although it is suggested that government budget data be released in a timelier manner and in greater detail, it is also suggested that information be made available so as to provide a means of understanding where and how amendments are made to subnational budget proposals by the Union Hluttaw and Financial Commission.

6.6 Further Research

Understanding Relative Subnational Taxation Endowments

Currently total and per-capita revenue collections vary significantly across states, regions and subnational entities. While a detailed analysis of the reasons underlying these differences was outside the scope of this research, it is suggested that a more detailed investigation of the sources of these differences may reveal wider lessons for subnational entities. Questions to address might include:

- With reference to current collections and legal provisions what are the potential taxation endowments of subnational governments in Myanmar?
- What is the state of tax compliance for subnational taxation in Myanmar and what factors might explain differences across states, regions, subnational entities and taxes?
- To what extent do subnational governments take advantage of their ability to independently set taxation rates?
- What are the factors considered when subnational governments implement changes to tax schedules and structures?

Subnational Government Activities and Decentralization

Given the important role of subnational departments and state owned enterprises to the functioning of subnational governments, a more detailed mapping of their roles, responsibilities and relationships is likely to be instructive for understanding the economic, administrative and political factors which inform the day-to-day activities of government in Myanmar. Questions relevant to such research might include:

- What are the functional responsibilities of subnational entities and what informs their day-to-day activities?
- How have subnational departments managed recent reforms in light of the decentralization agenda?
- How do subnational entities plan and coordinate their activities with other departments, ministries, SOEs, civil society and the private sector?

Capital Investment and Development

There are wide variations in the expenditure allocated to investment in longer-term capital assets, such as public infrastructure. While it is understood that Public Works accounts for much of subnational capital expenditure, it is difficult to make conclusions around the drivers and its adequacy without analyzing the expenditure against subnational infrastructure needs and outputs from subnational expenditure. Given this, additional research could be conducted for the purposes of understanding:

- How capital investments by the government are planned and executed in Myanmar at the Union and subnational level.
- Of those subnational entities currently involved in the construction of public infrastructure how are projects selected and coordinated across townships, divisions, states and regions?

Subnational Budget Administration and the Financial Commission

The Financial Commission plays a key role in Myanmar's budget through harmonizing the union and subnational budgets, recommending the provision of supplementary funding where necessary and advising on financial matters. The Financial Commission therefore plays a central role in the management of Myanmar's public finances and relationships between the Union and subnational governments more broadly, making it an important focal point to better understand:

- How has funding provided to states and regions from the Union been determined?
- How are Union and subnational budgets harmonized and how are the relative needs of state and regions balanced in view of wider political and economic objectives?

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Appendix

Annex I: Schedule 2 of the Myanmar Constitution – State and Region Legislative List

1. Finance and Planning Sector

- (a) The Region or State budget;
- (b) The Region or State fund;
- (c) Land revenue;
- (d) Excise duty (not including narcotic drugs and psychotropic substances);
- (e) Municipal taxes such as taxes on buildings and lands, water, street lightings and wheels;
- (f) Services of the Region or State;
- (g) Sale, lease and other means of execution of property of the Region or State;
- (h) Disbursement of loans in the country from the Region or State funds;
- (i) Investment in the country from the Region or State funds;
- (j) Local plan; and
- (k) Small loans business.

2. Economic Sector

- (a) Economic matters undertaken in the Region or State in accord with law enacted by the Union;
- (b) Commercial matters undertaken in the Region or State in accord with law enacted by the Union;
- and
- (c) Co-operative matters undertaken in the Region or State in accord with law enacted by the Union.

3. Agriculture and Livestock Breeding Sector

- (a) Agriculture;
- (b) Protection against and control of plants and crop pests and diseases;
- (c) Systematic use of chemical fertilizers and systematic production and use of natural fertilizers;
- (d) Agricultural loans and savings;
- (e) Dams, embankments, lakes, drains and irrigation works having the right to be managed by the Region or State;
- (f) Fresh water fisheries; and
- (g) Livestock breeding and systematic herding in accord with the law enacted by the Union.

4. Energy, Electricity, Mining and Forestry Sector

- (a) Medium and small scale electric power production and distribution that have the right to be managed by the Region or State not having any link with national power grid, except large scale electric power production and distribution having the right to be managed by the Union;
- (b) Salt and salt products;
- (c) Cutting and polishing of gemstones within the Region or State;
- (d) Village firewood plantation; and
- (e) Recreation centers, zoological garden and botanical garden.

5. Industrial Sector

- (a) Industries other than those prescribed to be undertaken by the Union level; and
- (b) Cottage industries.

6. Transport, Communication and Construction Sector

- (a) Ports, jetties and pontoons having the right to be managed by the Region or State;
- (b) Roads and bridges having the right to be managed by the Region or State; and
- (c) Systematic running of private vehicles within the Region or State.

7. Social Sector

- (a) Matters on traditional medicine not contrary to traditional medicine policies prescribed by the Union;

- (b) Social welfare works within the Region or State;
- (c) Preventive and precautionary measures against fire and natural disasters;
- (d) Stevedoring;
- (e) Having the right of management by the Region or State, the following:
 - (i) preservation of cultural heritage;
 - (ii) museums and libraries.
- (f) Theatres, cinemas and video houses; and
- (g) Exhibitions such as photographs, paintings and sculptures.

8. Management Sector

- (a) Development matters;
- (b) Town and housing development; and
- (c) Honorary certificates and awards.

Annex II: Schedule 5 of the Myanmar Constitution – Taxes and Fees Collected By Region or State

- 1) Land revenue.
- 2) Excise revenue.
- 3) Water tax and embankment tax based on dams and reservoirs managed by the Region or State and tax on use of electricity generated by such facilities managed by the Region or State.
- 4) Toll fees from using roads and bridges managed by the Region or State.
- 5) Royalty collected on fresh water fisheries; (b) Royalty collected on marine fisheries within the permitted range of territorial water.
- 6) Taxes collected on vehicles on road transport and vessels on inland waterway transport, in accord with law, in a Region or a State.
- 7) Proceeds, rent fees and other profits from those properties owned by a Region or a State.
- 8) Fees, taxes and other revenues collected on services enterprises by a Region or a State.
- 9) Fines imposed by judicial courts in a Region or a State including Region Taya hluttaw or State Taya hluttaw and taxes collected on service provision and other revenues.
- 10) Interests from disbursed by a Region or State.
- 11) Profits returned from investment of a Region or State.
- 12) Taxes collected on extraction of the following items from the forests in a Region or a State:
 - Taxes collected on all other woods except teak and other restricted hardwoods;
 - Taxes collected on firewood, charcoal, rattan, bamboo, birdnests, catch, thanetkha, turpentine, eaglewood and honey-based products.
- 13) Registration fees.
- 14) Taxes on entrainments.
- 15) Salt tax.
- 16) Revenue received from the Union Fund Account.
- 17) Contributions by Development Affairs Organisations in a Region or State concerned.
- 18) Unclaimed cash and property.
- 19) Treasure trove.

Annex III: Example Excise Schedule

LICENSE TYPE	MEANING	RATE (KS)
D-1	Factory Ownership and Production Permit	4,500,000
FL-6	Wholesale of Foreign Spirit which were produced at domestic factories	1,500,000
FL-8	Wholesale of Beer which were produced at domestic factories	1,000,000
FL-8A	Wholesale of Foreign Imported Beer	800,000
FL-9	Retail license for selling Domestic Produced Beers within a Shop for consumption or take away	550,000
FL-9A	Retail license for selling Foreign Imported Beer within a Shop for consumption or take away	450,000
FL-11	Wholesale License for Foreign Spirit	550,000
FL-12	Retail & Wholesale License for selling Foreign Spirit at Goods Store but no consuming inside the shop	300,000
FL-17	Retail License for Selling Foreign Alcoholic Liquor at Hotel, Relax Room at Train Station, Airport, Water port, restaurant log at train, and restaurants, but the manager or owner must sit at the counter	800,000
D1-A	License for production, refining, distilling, mixing, colouring, bottling of foreign spirits and factory ownership including permit to sell to those who already own wholesale license	1,200,000
CS-2A	Wholesale license for Country Spirit, which are produced at factory who has license to produce, to be sold at restaurant or relax rooms with counter	100,000
CFL-2A	Retail License for selling fragmented liquor, except Tari, Toddy, at restaurant or relaxing room	10,000
CFL-1A	Retail License for selling Tari, Toddy, within self-owned restaurant	Auction
CS-1	Retail License for Selling Domestic Country Spirit within owned shop for consumption and take away	Auction
CS-2	Retail license which enable for the ownership of country sprit production factory, and permit to distil and sell within a shop for consumption and take away	Auction
CS-3	Retail License to sell country spirit that were distil from domestic factories for consumption and take away	Auction
FL-10	Retail license to sell wine in a shop for consumption and take away	Auction

Adapted from: Magwe Excise Law, 1st April, 2014

Annex IV: Yangon City Development Committee Property Tax Schedule Excerpt

Property Tax

A Tax on government-owned and privately-own immoveable land and buildings within the Yangon City Development Committee. Based on the percentage of the yearly estimated value and contains general tax, lighting tax, water tax, and cleansing tax.

(a) General Tax

A tax collected to cover the cost of construction and conserving the public streets, bridges, drains, gardens, bazaars, and playgrounds.

(b) Lighting Tax

A levy to cover the cost of lighting at public streets, bridges, bazaars, gardens, playgrounds, and municipal buildings.

(c) Water Tax & Cleansing Tax

These taxes are collected by the relevant departments as charges.

Adapted from: Yangon City Development Committee <http://www.ycdc.gov.mm>

Annex V: State and Region 2013-14 Budget Entries by Category

Governance and Administration (High Court, Advocate General, Auditor General Budget Entries)	Departments and DAOs (Ministries, Administrative Departments and Municipalities Budget Entries)
Accounting Offices	Agriculture Department
Courts	Bee Department
Legal Offices	Budget Department
Region/State Cabinet	Central Inland Freight Handling Committee
Region/State hluttaw	Cooperative Department
SOEs - State Owned Enterprise Budget Entries	Dry Zone Greening
Myanmar Motion Picture Enterprise	Fisheries Department
Myanmar Salt & Marine Chemical Enterprise	Forestry
Public Works	General Administration Department
Revenue Items Recorded under Ministries, Administrative Departments, Municipals Budget Entries	Human Settlement and Housing Development Department
	Industrial Crop Development Department
Embankment Tax	Livestock Breeding and Veterinary Department
Excise Revenue	Mandalay City Development Committee
Lakes/streams tax	Development Affairs Organizations
Land Revenue	Planning Department
Property Tax	Public Works
Revenue from Regional State Owned Enterprises	Small Enterprises
Supervision cost for amending land revenues	Special Investigation Department
Tax for extraction from Forest	Sports and Physical Education Department
Tax for extraction from Minerals	Water Resources Utilization Department
Wheel Tax	Yangon City Development Committee

Annex VI: Stated State and Region Department Responsibilities

Union Ministry	State or Region Department	Stated Role
Agriculture and Irrigation	Agriculture Department	The Department of Agriculture is under The Ministry of Agriculture and Irrigation and plays a central role in developing the agriculture sector, improving food security, and reducing the poverty of agriculture families.
	Water Resource Utilization Department	Department under The Ministry of Agriculture focusing on supplying water to the agriculture sector and its society. Specific activities include irrigation, utilization of underground water, and providing safe drinking water.
	Industrial Crop Development Department	Department under The Ministry of Agriculture and Irrigation, focusing on systematic development of industrial crops, such as cotton, jute, sugarcane, perennials crops, seasonal crops, and coffee. Responsible for seed production, training, and education.
Attorney-General	Legal Office	Judicial body of government with role in prosecution and the provision of legal advice.
Auditor-General	Accounting Office	Audit Offices are formed under the Office of the Auditor General and are responsible for auditing the receipts and payments at each government level.
Construction	Department of Public Works	The Public Works Department was founded under the Ministry of Construction and is a key department in the construction of public-owned infrastructure. It is responsible for building and maintaining roads, bridges, state-owned airports, and buildings. For some large projects, the department is also involved in design, the production of construction materials, and budget management.
	Human Settlement and Housing Department	Under The Ministry of Construction, mainly deals with housing-sector development. Responsible for planning and implementing low-cost housing projects, government joint-housing projects, public rental housing, and development projects.
Cooperatives	Cooperative Department	The Cooperative Department is under the Union-level Cooperatives Ministry and plays a large role in developing human resources in Myanmar. It is responsible for human resource development and supervising economic activities in line with government policy.
	Small Enterprises	The Department of Small Enterprises (Small Scale Industries) under the Ministry of Cooperatives is responsible for the registration and promotion of small-scale industries and the provision of technical assistance to industrial cooperative societies and small-scale industries across the Myanmar.
Development Affairs	Development Committees and Municipalities	Development Committees are organizations operating under state and region governments. They are predominantly responsible for the development of cities/townships through new civil projects, managing land in accordance with law, constructing parks, roads, bridges, among other activities.

Union Ministry	State or Region Department	Stated Role
Environmental Conservation and Forestry	Forestry Department	Operates under the Ministry of Environmental Conservation and Forestry. Responsible for the conservation of forests, collecting taxes, and reforestation. Major tasks of the Forestry Department are conservation of wildlife, water, land, and forest resources, and making the public aware of the importance of forests.
	Dry Zone Greening Department	The Department of Dry Zone Greening, under the Ministry of Environmental Conservation and Forestry, implements activities to encourage the greening of the central dry zone of Myanmar.
Finance and Revenue	Budget Department	Operates under the Ministry of Finance and Revenue and plays a role in the budgeting process for state and region governments. Responsible for preparing state and region budgets, revised budgets, supplementary grant budgets, non-budgetary receipts, and payment at state and region levels.
Home Affairs	General Administration Department	The General Administration Department operates under the Ministry of Home Affairs and mainly deals with administering the state and day-to-day public needs. Responsible for monitoring peace and stability, collection of taxes, village development, enforcing law and linking government authorities to the public.
Information	Myanmar Motion Picture Enterprise	Operates under the Ministry of Information. Historically played a role in censorship but is now more focused on developing Myanmar's motion picture industry. Also responsible for providing licenses for the movie business, recording country leader itineraries, and presenting them to public.
Labor, Employment, and Social Security	Central Inland Freight Handling Committee	The Central Inland Freight Handling Committee is responsible for carrying out inland freight handling so as to ensure the smooth and steady flow of goods and commodities, ensuring fair and regular wages in line with the labor exercised, providing laborers with welfare facilities, and improving the working conditions of laborers.
Livestock, Fisheries and Rural Development	Fisheries Department	The Fisheries Department is responsible for developing the fisheries sector, collecting taxes on fishery business (including onshore and offshores fisheries), and collecting lake and stream taxes.
	Livestock Breeding and Veterinary Department	Responsible for developing livestock sector in Myanmar.. Conducts research, training, and laboratory work in order to develop the livestock sector. Authorized to issue certificates on the exportation and importation of animals and animal products.
	Bee Department	Understood to be mainly responsible for developing honey related products.
National Planning and Economic Development	Planning Department	Operates under the Ministry of National Planning and Economic Development with the aim to encourage Myanmar's macroeconomic stability and sustainable development. Responsible for planning short-term and long-term annual state and region economic plans, conducting socioeconomic surveys, providing technical assistance to various organizations in the process of formulating and analyzing socioeconomic development plan.

Union Ministry	State or Region Department	Stated Role
Sport	Sports and Physical Education Department	The Sports and Physical Education Department was founded under the Ministry of Sport with the aim of promoting sport and physical education in Myanmar.
The Supreme Court	State and Region Courts	Courts at exist at different levels within states and regions and operate under the Supreme Court.
State and Region Hluttaw		Independent government body that elects state and region cabinet members and ministers, as well as discussing and passing bills.
State or Region Hluttaw	Cabinet	The cabinet of a region or state is a supreme government body within a state or region, responsible for keeping peace and stability, effective lawmaking and enforcement, and developing the state or region.

Source: Responsibilities have mainly been based on department websites, where available.

Annex VII: State and Region Budget Revenue and Expenditure Category Definitions:

2013-14 State and Region Revenue Categories:⁴⁵

- **Borrowed Income** includes revenue that has been sourced through borrowing.
- **Capital Income** includes revenue from selling or hiring longer term assets owned by state and region governments (such as real-estate).
- **Other Income** includes all revenues which do not fall into other income categories.
- **State-Owned Enterprises** – Revenue returned to the state’s or region’s budget through SOEs.
- **Tax Revenue** includes taxation revenue collected such as excise, embankment taxes, and wheel tax.
- **Union Government’s Support Income** includes income transferred to states and regions from the Union.

2013-14 State and Region Expenditure Categories:⁴⁶

- **Capital Expenditure** includes spending on fixed assets or longer-term investments.
- **Expenses Paid for Interest** include the interest expenses of servicing debt.
- **Grants** are typically discretionary funds disbursed by states and regions.
- **Loans** are expenses attributed to the granting of loans.
- **Ordinary Expenditure** is a classification used for expenditure that does not fit into other categories, such as operational costs and overhead.

Returns from Loans includes loan expenses not attributable to interest payments, such as the repayment of principle amounts.

⁴⁵ Although state and region budgets include eight categories of revenue, no revenue was recorded under the categories ‘Interest’ and ‘Income from Loans’.

⁴⁶ The expenditure category ‘Organisational Investment’ did not have any expenditure recorded against it, except for the Yangon City Development Committee.

Annex VIII: Explaining Union Transfers – Outline of Empirical Analysis

To better understand the process that determines the flow of resources from the Union to subnational governments, we explored the empirical correlation between the size of these transfers and a number of observable states' and regions' characteristics (data outlined in Annex IX). Far from inferring causality, the above analysis seeks to investigate correlations in a structured way, trying to highlight factors that might relate to Union resource allocation over the past five years. Where such a correlation is present, we also provide a brief explanation of why the size of transfers might be linked to specific variables.

Data

The data used for this analysis comes from different sources, summarized in the table below. The units of observation are the 14 states and regions. The only variable that we were able to observe over time was the volume of nominal transfers from the Union government, categorized in state and region budgets as "Aid/Transfers to States and Regions". The other variables employed are static over time.

In some cases only one data point was available, while in other cases time series proved to be simulated (using arbitrary growth rates) rather than collected and, hence, we chose to use only one data point for each state and region. Although this is accepted as a potential limitation of the analysis, it is important to note that some variables employed do not have a time dimension by definition (e.g. number of townships, land area) while some are relatively *sticky* over time (e.g. poverty rates), and the little data available is still able to pick up imbalances between states and regions. While these shortcomings limit the scope of the analysis, we still believe that the results might be informative in understanding the allocation of fiscal resources at the subnational level.

Variable Name	Variable description	Years Used	Source
ltransf	Union Transfers/Aids to States subnational governments (natural logarithm)	2011-12 to 2015-16	Union Government of Myanmar, Myanmar Union Budget Law (2011-12, 2012-13, 2013-14, 2014-15), 13 April 2015, The Mirror Newspaper, Myanmar.
townships	Number of townships	2012	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
poverty	Poverty rate – percentage of the population	2009-10	From Myanmar Information Management Unit (MIMU), original source - Integrated Household Living Conditions Survey in Myanmar (2009-10)
lgdp	Subnational targeted GDP (natural logarithm) ⁴⁷	2013-14	Republic of The Union of Myanmar, Pyantan (Gazette), No.8, Volume 68, 20 Feb 2015, inflated according to IMF's WEO GDP (constant prices) estimate for 2013-14.
lland	Land Area (natural logarithm)	2012	Myanmar Information Management Unit SHP data - state and region, April 2014
pop	Population	2014	MMR_MOIP/DOP, Provisional Results of Population and Housing Census of Myanmar, 2014

⁴⁷ It was unclear how subnational targets for GDP have been determined, although they appear to be associated with a state's or region's population.

health_p	% Describing the Most Important Problem as Health	2014	Results of Surveys from UNDP Myanmar "State of Local Governance" State and Region Reports, 2015
jobs_p	% Describing the Most Important Problem as Jobs	2014	Results of Surveys from UNDP Myanmar "State of Local Governance" State and Region Reports, 2015
roads_p	% Describing the Most Important Problem as Roads	2014	Results of Surveys from UNDP Myanmar "State of Local Governance" State and Region Reports, 2015
time2 – time5	Year dummies	2012-2015	-

Results

The dependent variable used in the following model is the nominal transfers or 'aid' from the Union to each state or region as published in Union budgets. Detailed results of the pooled Ordinary Least Squares (OLS) Regression are provided in the STATA output below.

Source	SS	df	MS			
Model	82.2292524	12	6.8524377	Number of obs =	70	
Residual	7.03153121	57	.123360197	F(12, 57) =	55.55	
Total	89.2607836	69	1.29363454	Prob > F =	0.0000	
				R-squared =	0.9212	
				Adj R-squared =	0.9046	
				Root MSE =	.35123	

ltransf	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
townships	.0456775	.0164423	2.78	0.007	.0127523	.0786027
poverty	.0181606	.0038742	4.69	0.000	.0104026	.0259186
lgdp	.1866077	.1062111	1.76	0.084	-.0260763	.3992917
lland	.1152434	.100683	1.14	0.257	-.0863709	.3168577
pop	-2.88e-07	1.27e-07	-2.26	0.028	-5.43e-07	-3.31e-08
health_p	3.745167	1.394374	2.69	0.009	.9529807	6.537353
jobs_p	4.113566	2.282701	1.80	0.077	-.4574649	8.684596
roads_p	2.717597	1.216182	2.23	0.029	.2822353	5.152958
time2	.5638841	.1327512	4.25	0.000	.2980543	.8297138
time3	1.226215	.1327512	9.24	0.000	.9603854	1.492045
time4	2.245743	.1327512	16.92	0.000	1.979914	2.511573
time5	2.517331	.1327512	18.96	0.000	2.251501	2.783161
_cons	3.097935	1.33928	2.31	0.024	.416072	5.779798

The first, unsurprising result is that funds allocated to states and regions grew over time, probably due to the increase in resources accruing to the Union government over the past five years. This trend, however, has been flattening over time.

Among the states' and regions' characteristics taken into account, the three that exhibit the strongest correlation with the magnitude of Union transfers are the number of townships, the share of people living below the poverty line (not the severity of poverty), and subnational GDP targets.

The number of townships in each state and region determines the number of offices that each subnational department has to establish and, hence, the number of buildings, assets, and core staff

that each subnational government has to finance, as well as the number parliamentarians to be elected. For this reason, this variable is likely providing a proxy for the fixed costs incurred by each state and region. Moreover, some funds allocated to states and regions are explicitly calculated on a *per township/constituency* basis.

Poverty appears to be another factor taken into account when allocating resources, with poorer states and regions taking priority. Together with simple poverty indicators, the decision process might also take into account some of the factors underlying higher poverty rates, such as the lack or poor quality of institutions that require upgrading and upscaling (see below).

Subnational GDP targets are positively correlated with the amount of funds transferred, but the reader should refrain from interpreting this result as a sign of discrimination toward richer states and regions. As a matter of fact, as in many instances, the demand for public goods and services such as electricity and roads is likely to increase with economic activity, determining the need for larger transfers.

Population is negatively correlated with the size of Union transfers, but this is the case only when holding everything else as equal, including land area. Hence, this coefficient appears to indicate that more densely populated states and regions, not more populous ones, receive fewer resources. This is likely because these areas have a higher revenue-raising capacity. In addition, because revenue collection costs are lower in urban and more densely populated areas, the need for Union transfers is also likely to be lower.

Finally, as part of a recent ‘Local Governance Mapping’ exercise conducted by the United Nations Development Programme, Myanmar, we control for three variables that represent the proportion of respondents who identified either health, roads, or jobs as the most important problem. As such, we interpret these variables as a measure of local needs in terms of infrastructure, access to markets, services, and institutions. The correlation between these proxies for expenditure needs and revenues transferred is strong and positive, signaling that Union transfers have been higher in areas where these needs were more commonly identified. We are not able to assess how the magnitude of transfers compares with the severity of these issues, but the positive and statistically significant relationship might suggest that there has been some consideration of these local needs in the allocation of funds.

These results are encouraging, as they show that resource transfers are at least correlated, if not determined, by variables that proxy for state’s and regions’ expenditure needs. However, it is important to note that the variable component of these transfers represents only a fraction of the volume of transfers, the core of which is allocated on a fixed basis as showed by large coefficients for the time dummies and the size of the constant term.

Annex IX: List of Demographic and Economic Statistics Used In Study

Indicator	Source
Average Household Size	Manually calculated (Population/Number of Households)
Elected official per million pop	Manually calculated (State and Region Parliamentarians - Elected/ Population - Millions)
Gross Domestic Product by State/Region	Republic of The Union of Myanmar, Pyantan, No.8, Volume 68, 20 Feb 2015
Household per Village	Calculated from State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Household Size	Calculated from State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Land Area Square Kilometers	Based on Myanmar Information Management Unit (MIMU) States Region Boundaries GIS data
Number of Districts	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Number of households	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Number of housing units	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Number of townships	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Number of village tracts	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Number of villages	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Number of wards	State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Parliamentarians per head of pop	Manually calculated (State and Region Parliamentarians - Total Population - Millions)
Population	MMR_MOIP/DOP, Provisional Results of Population and Housing Census of Myanmar, 2014
Population Density	Manually calculated (Population/Land Area of State or Region)
Poverty gap ratio	From Myanmar Information Management Unit (MIMU), original source - Integrated Household Living Conditions Survey in Myanmar (2009-10)
State and Region hluttaw - Active Military	M. A. Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, "State and Region Governments in Myanmar," Myanmar Dev. Resour. Inst. - Cent. Econ. Soc. Dev., 2013.
State and Region hluttaw – Elected	M. A. Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, "State and Region Governments in Myanmar," Myanmar Dev. Resour. Inst. - Cent. Econ. Soc. Dev., 2013.
State and Region hluttaw - Total Members	M. A. Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, "State and Region Governments in Myanmar," Myanmar Dev. Resour. Inst. - Cent. Econ. Soc. Dev., 2013.
Township per District	Calculated from State & Region Administrative structure by Official Gazetteer at 2012 August: General Administration Department, MOHA
Unelected official per million pop	M. A. Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, "State and Region Governments in Myanmar," Myanmar Dev. Resour. Inst. - Cent. Econ. Soc. Dev., 2013.
Urban population as percentage of total population	MMR_MOIP/DOP, Provisional Results of Population and Housing Census of Myanmar, 2014
Village Tract and Ward per Township	Manually calculated (Number of Village Tracts/Number of Townships)

Indicator	Source
Villages per Village Tract or Ward	Manually calculated (Number of Villages + Number of Wards /Number of Village Tracts)
% Describing the Most Important Problem as Water	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as Health	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as Education	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as Jobs	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as Roads	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as Electricity	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as Safety and security	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Describing the Most Important Problem as "No problem"	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Water	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Health	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Education	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Jobs	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Roads	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Electricity	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Safety and security	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as Ownership of the Land	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports
% Responding Biggest Improvements as No major improvement	Results of Surveys from UNDP Myanmar "State of Local Governance" Reports

Annex X: Constitutional Designation of Entities, Departments and State-Owned Enterprises Listed in 2013-14 State and Region Budgets

Departments, Entity or SOE appearing in state and region budgets	Union	State and Region	Uncertain
High Court, Advocate General, State and Region Hluttaw, Cabinet and Auditor General		✓	
State Owned Enterprises			
Myanmar Motion Picture Enterprise	✓	✓	
Myanmar Salt & Marine Chemical Enterprise	✓	✓	
Public Works	✓		✓
Revenue Items Recorded under Ministries, Administrative Departments, Municipals	Union	State and Region	Uncertain
Embankment Tax		✓	
Excise Tax		✓	
Lakes/streams tax		✓	
Land Revenue		✓	
Property Tax		✓	
Revenue from Regional State Owned Enterprises		✓	
Supervision cost for amending land revenues		✓	
Tax for extraction from Forests		✓	
Tax for extraction from Minerals		✓	✓
Wheel Tax		✓	

Departments and DAOs	Union	State and Region	Uncertain
Agriculture Department	✓	✓	
Bee Department			✓
Budget Department	✓	✓	
Central Inland Freight Handling Committee	✓		
Cooperative Department	✓		
Dry Zone Greening	✓		✓
Fisheries Department			✓
Forestry Department	✓		
General Administration Department	✓		
Human Settlement and Housing Development Department		✓	
Industrial Crop Development Department	✓		
Livestock Breeding and Veterinary Department			✓
Mandalay City Development Committee		✓	
DAOs		✓	
Planning Department	✓	✓	
Public Works	✓		✓
Small Enterprises			✓
Special Investigation Department	✓		
Sports and Physical Education Department	✓		
Water Resources Utilization Department	✓	✓	
Yangon City Development Committee		✓	

Based on: p.39 M. A. Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, "State and Region Governments in Myanmar," Myanmar Dev. Resour. Inst. - Cent. Econ. Soc. Dev., 2013.

Annex XI: Illustrative Subnational Departments and SOEs by Ministerial Responsibility

The following table provides a summary of SOEs and departments by the responsible ministry based on Yangon. Please note these are meant to be indicative and are likely to vary across states and regions.

Ministry of Agriculture and Livestock Breeding	Ministry of Development Affairs	Ministry of Finance	Ministry of Forestry and Energy	Ministry of Planning and Economics	Ministry of Security and Border Affairs	Ministry of Social Affairs, Education and Health	Ministry of Transport
Agriculture & Irrigation Agriculture Department Bee Department Dry Zone Greening Fisheries Department Industrial Crop Development Department Livestock & Fisheries Livestock Breeding and Veterinary Department Water Resources Utilization Department	Development Affairs Committees/Development Affairs Organizations Mandalay Region Development Committee Yangon Development Committee	Budget Department Finance and Revenue	Construction Environmental Conservation & Forestry Forestry Human Settlement and Housing Development Department Public Works	Mining Myanmar Salt & Marine Chemical Enterprise National Planning and Economic Development Planning Department Sports Sports and Physical Education Department	Department of Home Affairs General Administration Department Information Myanmar Motion Picture Special Investigation Department	Central Inland Freight Handling Committee Labor, Employment and Social Security	Cooperative Department Small Enterprise Water Resource Department

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