

Module **6**

FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS



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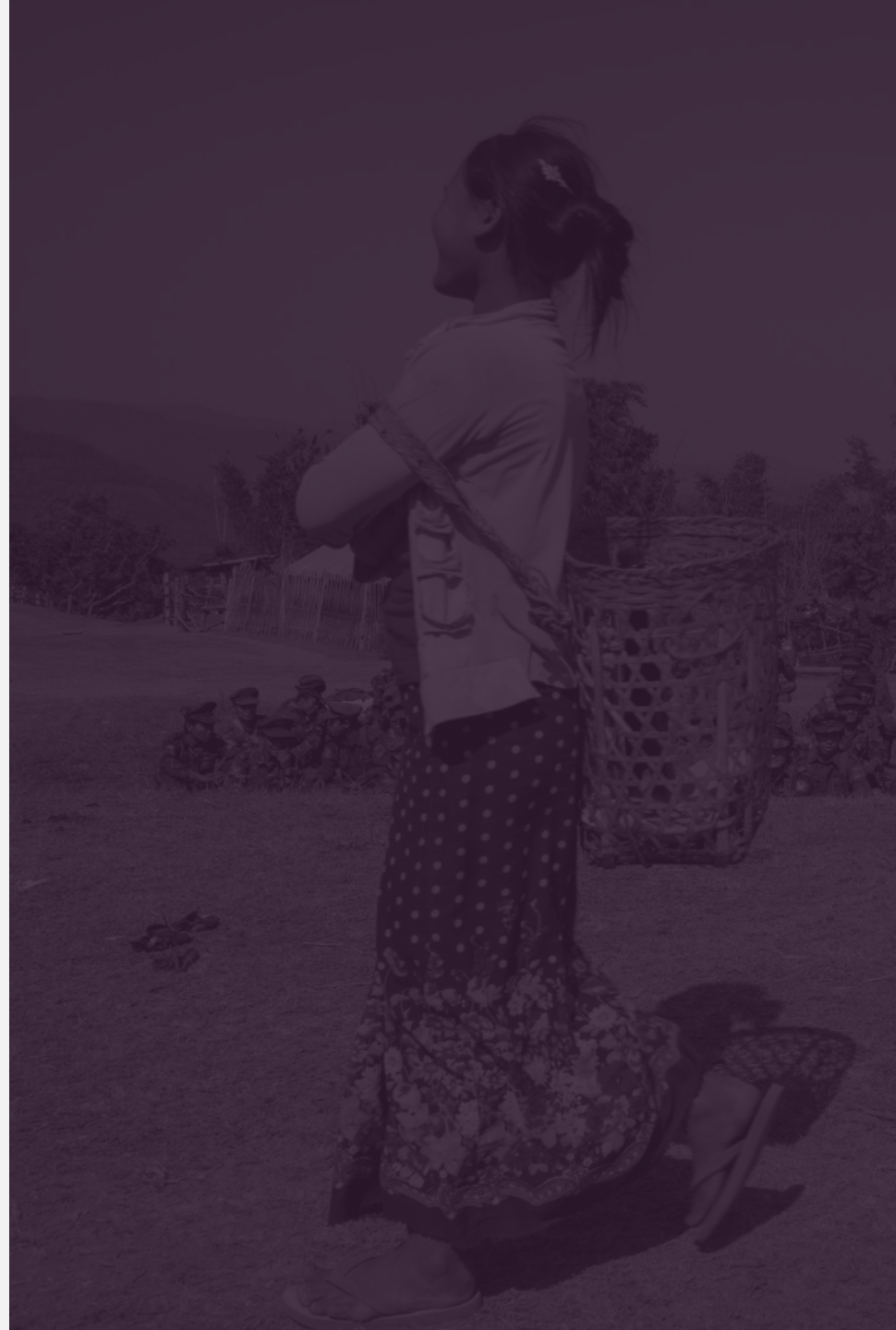
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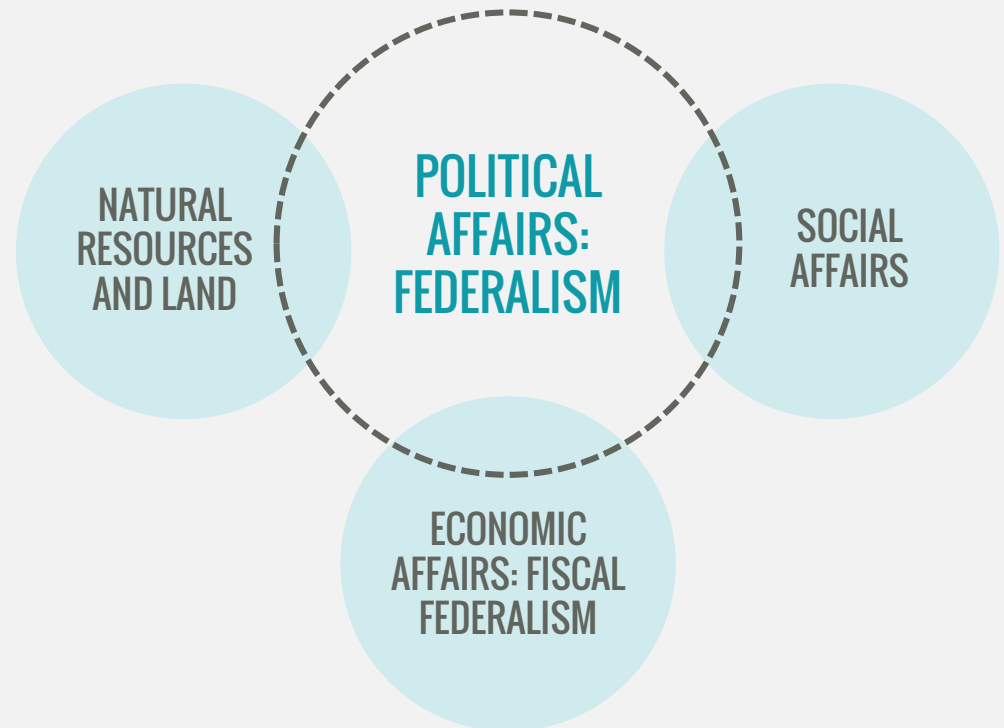
WHAT THIS MODULE WILL COVER

- 1 What types of economic affairs/fiscal federalism issues are being debated in the peace process?
- 2 What are some immediate and longer term approaches to pursuing equalization and new fiscal arrangements within and outside of the peace process? What policy levers are available?
- 3 What economic issues should be considered in peace process debates?



FISCAL FEDERALISM AND THE PEACE PROCESS

- Economic affairs and fiscal federalism in the Political Dialogue intersects with wider topics being debated in sectoral working groups.
- Fiscal federalism is central to debates on creating an equitable federal system, building a social union, and developing models for revenue sharing, including but not limited to natural resources.
- The economic affairs working group of the peace process is focusing on issues of public financial management and economic policy.



IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism

Peace process debates on revenue sharing are often heavily focused on natural resources. While important, a more balanced approach considering wider sources of taxes (property, commercial and income taxes, stamp duty etc.) and revenue sharing arrangements is necessary.

REVENUE SHARING ARRANGEMENTS

NATURAL RESOURCES:

An explicit resource revenue sharing system between the Union and State and Region governments catalyzes long-term economic and social development planning, builds strong health and education systems, and promotes investment in social infrastructure.

The distribution of revenues take into consideration the social and environmental impacts of resource extraction.



IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism



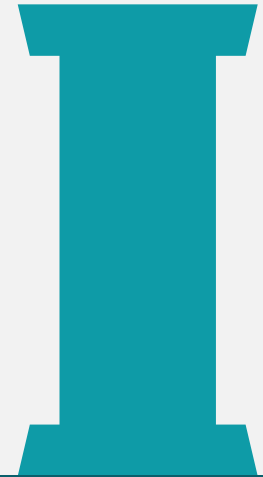
REVENUE SHARING ARRANGEMENTS

EQUALIZATION:

Parliament (Pyidaungsu Hluttaw) and the Union government are committed to the principle of making equalization payments to ensure State and Region governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism



SHARED TAX BASES

The Union government make provision for sharing tax bases (ie. income tax, corporate tax, sales tax, property tax) with States and Regions and local governments. Fiscal disparities across subnational governments are addressed through applying equalization measures.

TAX HARMONIZATION

The Union government ensures harmonization of taxation across States and Regions to promote equity and efficiency.

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism

- Peace process stakeholders can consider the use of specific purpose grants to address multiple issues, including the targeting of conflict-affected populations.
- Targeting victims of armed conflict can aim to reach populations who have experienced displacement, violent injury/and or disability, loss of livelihoods, the families of victims, persons suffering trauma and other psychosocial impacts.
- The conflict impacts on men, women, boys and girls should be considered in the design of grants, alongside other support to post-conflict recovery in communities and reconciliation.

GRANTS*

Specific purpose grants address social and developmental needs of populations, responsive to gender inequalities and targeting the most vulnerable and those affected by poverty, disability, disasters, and conflict.

*A grant is a voluntary current or capital transfer between government units, or between a multinational organization and a national government.

PRESENCE OF INTERNALLY DISPLACED PERSONS

2006, 2016

The two maps show persons registered by humanitarian organizations who have been displaced due to armed conflict during different cycles of subnational conflict.

The data representing IDPs could potentially be used to help target grants to conflict affected populations.

**Presence of IDPs
2006**



**Presence of IDPs
2016**



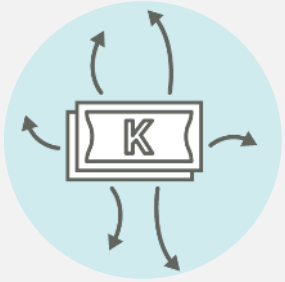
IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



BUDGET TRANSPARENCY AND CORRUPTION

- A limited amount of budget data is widely published and easily accessible, which limits transparency and knowledge of government expenditure.
- Often there is a lack of understanding as to how much revenue is distributed to States and Regions. This is improving with citizen budgets published by the government.
- Transparency in terms of budgets should go beyond just 'economic projects' as agreed at the May 2017 Union Panglong Conference (UPC) in the basic principles.
- Peace process stakeholders should interact with budget data and planning and prioritization processes to both:
 - I) increase transparency and fiscal decentralization and II) build awareness and capacity for future governance leadership roles in which public financial management is critical.

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



FISCAL DECENTRALIZATION WITHIN AND OUTSIDE OF NEGOTIATIONS

Laying down the foundation for fiscal arrangements to support a democratic federal system can take place through some of the existing intergovernmental fiscal arrangements, while pursuing longer term solutions which may require constitutional reform. There are opportunities for greater fiscal decentralization in Myanmar within the current arrangements which can benefit States and Regions, while negotiations continue for a peace accord (see slides on *Fiscal federalism: immediate and longer-term options*).

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



STATE OWNED ECONOMIC ENTERPRISE (SEE) REFORM

SEEs generate approximately 50 percent of Union fiscal revenues, largely from the natural resource sector. Promoting SEE reforms to advance accountability and oversight can help improve this sector of the economy and increase expenditure of public money to benefit Myanmar's economy and its people.

For more information on SEE reform:

Bauer, A., et al. 2018. *SEE Reform in Myanmar: The Case of Natural Resource Enterprises*. Natural Resource Governance Institute & Renaissance Institute.

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



INCREASING TECHNICAL POLICY CAPACITY

There is a need to build the technical policy capacity of peace process stakeholders to understand how fiscal federalism may look and what types of policy levers are available. Similarly, wider government and non-government stakeholders can be engaged in this agenda to pursue intergovernmental fiscal arrangements which are transparent and devolved to directly benefit the people of Myanmar.

FISCAL FEDERALISM: THE CONSTITUTION, LAWS & POLICY

It is uncommon for federal countries to have economic issues and equalization built into their constitutions. These measure are mostly pursued via policy/laws.

However, the Canadian Constitution (1982) includes a limited section on equalization and regional disparities (below) which is a statement of principle only.

Canada's Constitution EQUALIZATION AND REGIONAL DISPARITIES

36.

(1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to:

- a) promoting equal opportunities for the well-being of Canadians;
- b) furthering the economic development to reduce disparity in opportunities; and
- c) providing essential public services of reasonable quality to all Canadians.

(2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation. (19)

FISCAL FEDERALISM: IMMEDIATE AND LONG-TERM OPPORTUNITIES

IMMEDIATE OPTIONS

In Myanmar, fiscal decentralization and equalization efforts are already underway. Within and outside of the parameters of the 2008 Constitution (and the 2015 amendments) there are opportunities to pursue new fiscal arrangements.

For instance:

- Improve and develop the equalization program (i.e. redesign of the general grant as a form of equalization).
- Use conditional grants to empower states and regions in the delivery of social programs.
- Sharing of natural resource revenues with States and Regions.
- Empowering States and Regions and local providers in the delivery of education through devolved administration and cost sharing arrangements.
- Increase use of specific purpose grants, such as for conflict affected populations and/or disaster relief.

FISCAL FEDERALISM: IMMEDIATE AND LONG-TERM OPPORTUNITIES

LONGER-TERM OPPORTUNITIES

- Revision of 2008 Constitution Section 37 to provide for shared responsibility and management for natural resources and land.
- Union government make provision for states and regions to have direct access to the income tax base and commercial tax bases.
- Empowering States and Regions to build a social union via health and education departments.
- Establishing a third tier of elected local government:
 - Pursue local level fiscal arrangements at township/ward/village tract levels.
 - Expanded role for property taxation to serve local government needs.

SUMMARY OF KEY ISSUES

- Fiscal federalism is central to debates on creating an equitable federal system, building a social union, and developing models for tax harmonization and revenue sharing.
- Peace process debates on revenue sharing are often too heavily focused on finite natural resources. A more balanced approach considering wider sources of taxes (property, commercial and income taxes, stamp duty etc.) and revenue sharing arrangements is necessary.
- Within and outside of the parameters of the 2008 Constitution (and the 2015 amendments) there are opportunities to pursue new fiscal arrangements in the short term. Longer-term solutions can also be pursued via negotiations.
- Principles on fiscal federalism can shape ways to build an economic union and importantly a social union via the peace process.

EXERCISE

- Step **1** Review slides on important economic issues in the peace process.
- Step **2** **Discussion**
What types of fiscal federalism issues and principles could potentially be pursued in a Union Peace Accord?