

MANAGING MUNICIPAL REVENUES

IN THE TIME OF COVID-19

AN ANALYSIS OF HOW DAO/CDC REVENUES
COULD BE AFFECTED BY COVID-19

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RENAISSANCE INSTITUTE



The Asia Foundation

"The significance of COVID-19 induced tax revenue shortfalls cannot be downplayed, with anticipated revenue underperformance requiring reallocations of government spending to create space for COVID-19-related outlays, and policies."

Daw Aung San Suu Kyi, 'COVID-19 Economic Relief Plan' April 2020

"Suppose you knew that a hurricane was coming, but meteorologists were uncertain if it would make landfall as a Category 2 or a Category 5 storm. Which scenario should you prepare for?"

Ricardo Hausmann, 'What Should We Be Preparing For?' May 2020

ACRONYM LIST

CDC	City Development Committee
CERP	COVID-19 Economic Relief Plan
IRD	Internal Revenue Department
PPE	Personal Protective Equipment
RI	Renaissance Institute
FY	Fiscal Year
MCDC	Mandalay City Development Committee
YCDC	Yangon City Development Committee
RTDA	Road Transport Administration Department
MOHT	Ministry of Hotels and Tourism of Myanmar

GLOSSARY

Social Distancing means keeping a space between yourself and other people outside your home. Policies to encourage social distancing have been implemented by a range of governments, including here in Myanmar, to try and stop COVID-19 spreading from person to person.

DAOs/CDCs are the municipal authorities responsible for managing Myanmar's towns and cities.

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1. INTRODUCTION

COVID-19 is transforming cities globally. Across the world, cities have been hotspots for COVID-19 outbreaks, but they have also been at the forefront of efforts to adapt and innovate to protect citizens from COVID-19 and the damage it is causing.

So far, cities across Myanmar have rightly focused on managing their short-term response to the COVID-19 pandemic. DAOs and CDCs have been stretching their resources to implement lockdown measures, support businesses and meet residents' basic needs. However, as it is becoming clear that COVID-19's effects will not disappear quickly, it is important that DAOs/CDCs also consider how they can keep functioning sustainably in the longer-term. This report looks specifically at the sources of municipal revenue which cities need to keep running. It considers how revenues could be affected by COVID-19 and what DAOs and CDCs can do about these effects.

DAOs and CDCs receive minimal financial support from Myanmar subnational and union governments and so must levy a mixture of taxes and fees on local economic activity to fund their activities. The arrival of COVID-19 has caused a slowdown in local economic activity and made it practically challenging for DAO/CDC officials to collect some revenues safely. The result is that municipalities face a difficult challenge – just as municipal revenues are urgently needed to fund a swift response to COVID-19 and sustain urban services, municipalities face the prospect of a dramatic decline in revenues. This report considers how DAOs and CDCs can respond sustainably to this new challenge.

Although COVID-19 in Myanmar could remain relatively well contained with lesser health implications than in neighbouring countries, there is still a huge amount of scientific, economic and political uncertainty facing cities. The economic shock from COVID-19 is likely to be global and the risk of a second outbreak of infections is a very real threat.¹ In a best-case scenario where the effects of virus are contained, we hope this report provides a useful overview of municipal revenues. In a worst-case scenario, where COVID-19 wreaks extreme public health and economic damage across Myanmar's cities, we hope that this analysis can provide a useful tool for quickly adjusting local revenue policy.

Section 2 of this note looks at the current sources of municipal revenue in Taunggyi, Pathein and Mandalay to identify which sources of revenue are most important for municipalities. Section 3 considers the characteristics of each source of revenue in detail and how they are likely to be impacted by COVID-19. Section 4 considers the policy options available to DAOs, and Section 5 presents a scenario analysis exploring the possible impact of different policy options. Finally, Section 6 concludes.

2. THE KEY SOURCES OF MUNICIPAL REVENUE

This section analyses the mix of municipal revenues in three cities: Taunggyi, Pathein and Mandalay, using data from recent years (see Box 1). Each city has its own unique balance of local revenues, though none is immune to the effects of COVID-19. The aim of this section is to identify the key sources of municipal revenue, Sections 3, 4 and 5 then consider how these revenue sources will be impacted by COVID-19.

BOX 1: A BEST GUESS

The budget data used in this analysis is far from perfect. Budget figures are often revised over time and some non-budget/off-budget activities may be missed. Some of the figures used are several years old. Nonetheless, these figures can still provide a useful overview of the composition of municipal revenues.

The aim of this report is not to forecast municipal revenues perfectly, the aim is to make a 'best guess' at what the effects of COVID-19 and different DAO/CDC policy choices may be. In times of so much uncertainty, a best guess is the best that we are able to produce.

REVENUE PROFILE OF TAUNGGYI DAO

Data used is from 2018-19 (budget estimate)

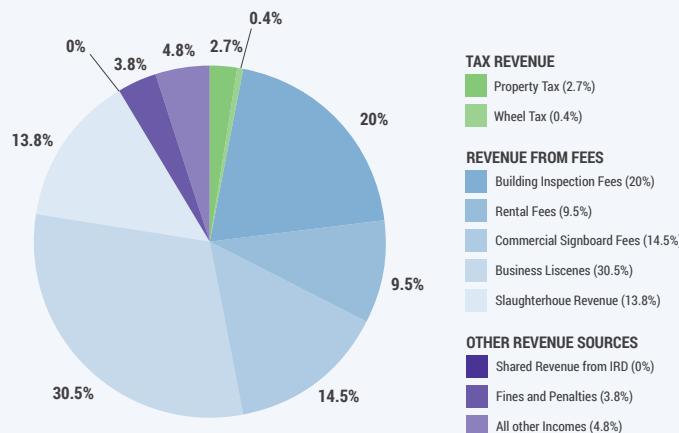


FIGURE 1: COMMERCIAL SIGNBOARD REVENUES, KYAT, 2018-19.

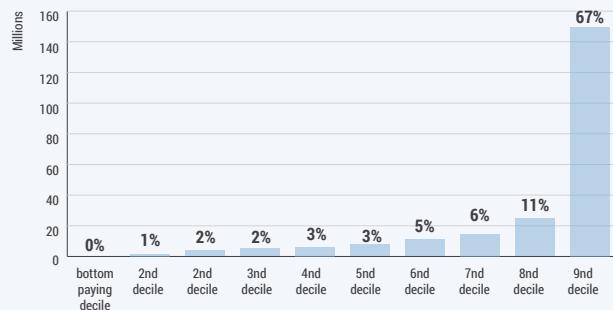


FIGURE 2: BUSINESS LICENCES REVENUES, KYAT, 2018-19



Taunggyi DAO generates the majority of its revenue from a small number of municipal fees. Businesses licences, signboard fees, building fees total revenue of 2.625 billion kyat in 2018-19 FY.

Only 3% of DAO revenue in Taunggyi is generated through taxes. The city's property and wheel taxes are the main sources of tax revenue. Although these are both sustainable and economically sound sources of revenue, they are currently very small in Taunggyi.

Taunggyi DAO is very reliant on local businesses for revenue. Unlike other municipalities which generate a significant share of revenue from households (see MCDC, other page*), Taunggyi DAO relies heavily on fees and licence charges levied on local businesses.

Signboards generate significant revenue in Taunggyi, though most of this is collected from a small number of businesses. The chart to the right shows how the majority of signboard revenue in Taunggyi (67%) is generated by a small share of high value advertisements.

Restaurants are the largest source of business licence revenue for Taunggyi DAO, followed closely by shops.² The majority of these shops and businesses are small, single-owner businesses located close to the city centre.

BOX 2: COVID-19 IN TAUNGGYI

Shan State has, so far, had few confirmed cases of COVID-19 (at the time of writing, 7 in Shan State, 2 in Taunggyi). Lockdown measures in Taunggyi have been swift. The streets have been emptied and the DAO has organised a mobile market to help avoid large gatherings in any one place.

REVENUE PROFILE OF PATHÉIN DAO

Data used is from 2015-16 (revised estimate)

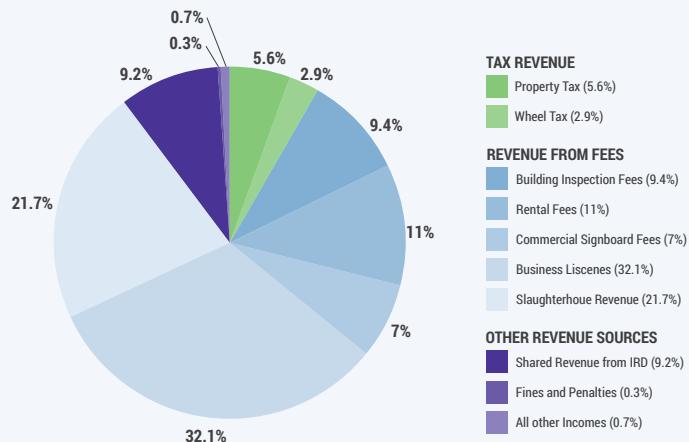


FIGURE 3: AUCTION REVENUES, KYAT, 2015-16

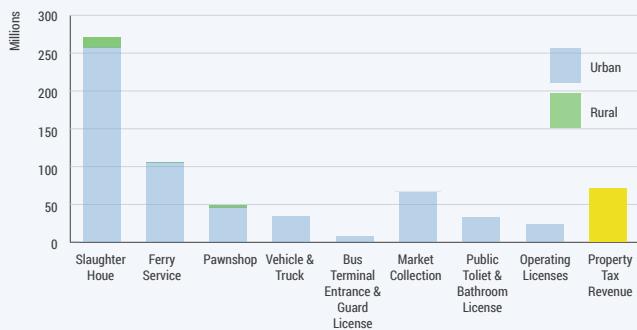
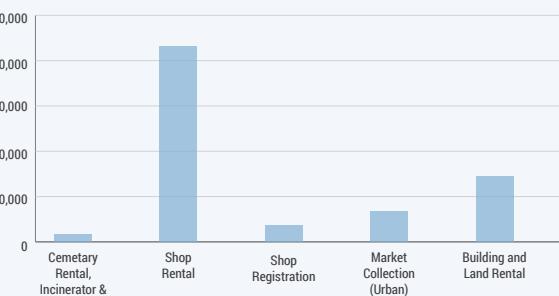


FIGURE 4: RENTAL FEE REVENUES, KYAT, 2015-16



Pathéin DAO relies heavily on business licence fees and licence auctions to raise revenue. As in Taunggyi, slaughterhouses are an especially important contributor. Taxes make up only a small share of revenue. In total, the DAO forecast a total of 1.273 billion kyat in revenue in 2015-16 FY.

Unlike taxes, fees are typically earmarked for specific DAO activities. For example, signboard fees require the DAO to display adverts and business inspection fees are paid in return for an inspection by DAO engineers. Many of these fees are at risk during the current COVID-19 epidemic when businesses are unable to operate as usual and the DAO is unable to deliver some key services.

Licence auctions are a key source of revenue in Pathéin. The most valuable licence auction is the slaughterhouse licence auction, other high value auctions are those for the ferry service and local market. Combined, these auctions raise more revenue than the property tax, which is the dominant form of municipal revenue in many other countries.

Shops are the main source of rental fees for Pathéin DAO. Many shops have been badly affected by the COVID -19 lockdown, which could put this source of revenue under pressure. The heavy reliance on local businesses for revenue is likely to be a problem for many DAOs.

BOX 3: COVID-19 IN PATHÉIN

At the time of writing, Ayeyarwaddy region still has no confirmed cases of COVID-19. However, as in other cities, lockdown measures have been strict. The DAO has closed down markets and disinfected public spaces to prevent the virus spreading. The fishing season has already been forced to close one month early due to lack of demand in an early sign of the economic difficulties ahead for Pathéin.

REVENUE PROFILE OF MANDALAY CDC

Data used is from 2017-18 (provisional actual estimate)

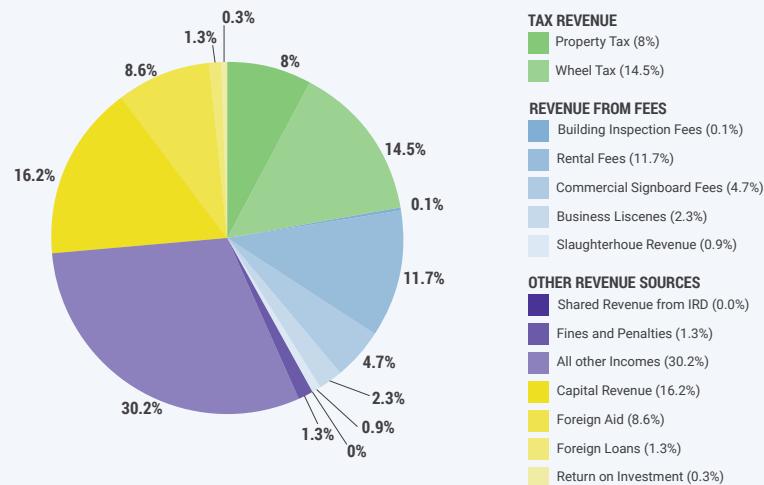


FIGURE 5: MISCELLANEOUS REVENUES, KYAT, 2018-19

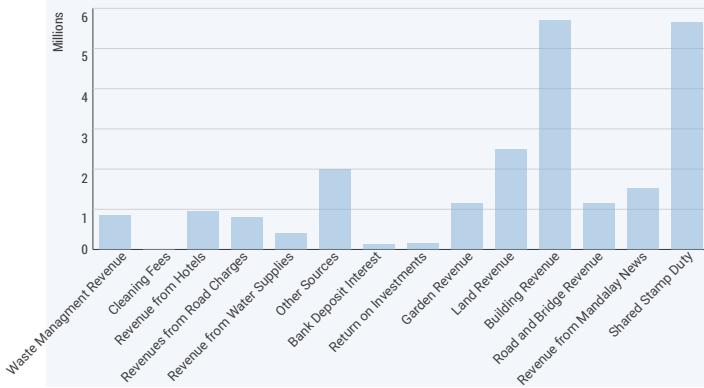
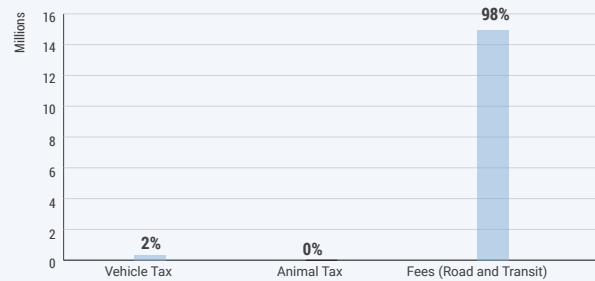


FIGURE 6: WHEEL TAX REVENUES, KYAT, 2018-19



MCDC has a more diversified revenue base than both Taunggyi and Pathein. MCDC is less dependent on rental fees, business licences and auction fees to generate revenue. Instead, MCDC generates a large share of its revenues from taxes and capital investments which provide more flexible sources of revenue. In total, MCDC forecast total revenues of approximately 76 billion kyat in 2017-18 FY.

MCDC generates revenue from a diverse set of miscellaneous sources. The large size of Mandalay and the wide-ranging powers of MCDC (relative to DAOs) allow MCDC to generate revenue from a wide range of sources, including: the Mandalay newspaper, interest on bank deposits and shared stamp tax revenue shared with the union government.

MCDC generates significantly more wheel tax than most DAOs, this revenue is mostly generated by toll gates. Approximately 98% of wheel tax revenue is generated from toll gates (2017-18 figure). This revenue is likely to be particularly vulnerable to COVID -19 as the volume of cars on the road has decreased dramatically.

3. HOW WILL DIFFERENT SOURCES OF REVENUE BE IMPACTED BY COVID-19

COVID-19 is likely to cause disruption to many sources of municipal revenue. The extent of disruption will depend on a range of factors, including:

- How households and businesses are impacted by COVID-19
- Whether revenue collection can be organised safely
- When revenue is due to be collected
- How DAO/CDC revenue is split between different revenue sources
- How effectively DAOs/CDCs communicate with the public (see Box 5)

BOX 5: COMMUNICATION WITH RESIDENTS

During this pandemic, communication with the public is more important than ever. Interactive communication by DAOs/CDCs can be used to explain changes in taxes/fees to the public and to take the temperature of public opinion. Depending on the effectiveness of communications, the same set of revenue policy changes could be viewed as either an unsympathetic burden on struggling households, or as a necessary move to fund vital pandemic-fighting work.

This section considers the how each of the major municipal revenue sources is likely to be affected by COVID-19.

● 3.1. BUSINESS LICENCE FEES

Business licences are an important source of municipal revenue, especially for DAOs. As business license revenue depends on a healthy ecosystem of local businesses, this revenue could be badly affected by the arrival of COVID-19. Some businesses which rely on local (or global) supply chains have already been badly affected, with just 24% of businesses operating ‘as usual’ in May, 2020 according to a recent survey by The Asia Foundation.³

COVID-19 is likely to hit many businesses hard. According to a recent survey by The Asia Foundation, around half of businesses fear for their survival as a result of COVID-19.⁴ Businesses such as restaurants have seen demand for their services collapse during lockdown and some may be unable to make their usual licence fee payments. During this pandemic, it may also be practically difficult to collect business licence fees; businesses owners may not be on their premises and DAO staff may be putting themselves and others at risk by collecting fees in person.

Of course, not all businesses will be affected equally by COVID-19. For example, telecommunications companies may have gained new business during lockdown.⁵ COVID-19 is inevitably affecting every household and business differently. From a CDC/DAO perspective, this means that policy may need to be adjusted to account for the varied impact of COVID-19 on different members of the city.

Given the economic challenges facing businesses, and the practical collection challenges, DAOs/CDCs could consider temporarily changing the business licence process in response to COVID-19. The union Ministry of Hotels and Tourism has already deferred licence renewal fees to support hotels, DAOs/CDCs could consider a similar policy. There may also be a chance to change some licencing rules to support local businesses.⁶

Whether or not cities decide to temporarily alter business licence processes, it is important to communicate clearly with businesses. Hazardous businesses will want to know whether they can continue to operate, and business owners may require up-to-date proof of registration in order to access small business loans and other union government support.

● **3.2. BUILDING INSPECTION FEES**

The impact of COVID-19 on building inspection fees is still uncertain. Although in the short term many construction activities have been able to continue through the crisis, it is likely that the medium-term impact of COVID-19 on construction activity will be more severe.

COVID-19 is creating demand and supply issues for businesses across Myanmar and construction firms are no exception. An economic downturn is likely to reduce the demand for construction projects, while the combination of construction workers returning home to their villages and national lockdown measures could reduce the supply of labour and materials. As the number of new constructions slows, building inspection fee revenue is likely to fall. Some of this fall could be offset by increased government investment in construction projects as the government attempts to restart the economy in the coming months.

In addition to the economic disruption, social distancing measures could make building inspections more difficult to carry out. Inspections typically require – at a minimum - DAO engineers, the property owner, and the ward administrator, in small buildings social distancing will make this impractical and could put DAO staff at risk.

● **3.3. COMMERCIAL SIGNBOARD FEES**

Globally, advertising revenues have been damaged by COVID-19. In these uncertain times street-side advertising is less affordable and less effective for businesses. Due to lockdown measures, most signboards are being viewed fewer times by fewer people.

Signboard revenue is collected biannually by most DAOs and CDCs. Signboard revenues are likely to fall in the short run as businesses look to either look to reduce their rates or remove their signboards altogether. In the medium- to long-term, there is a risk that COVID-19 could accelerate a shift away from traditional signboard advertising towards digital advertising platforms. This could lead to a slow recovery in signboard revenues.

● **3.4. WHEEL TAXES AND TOLL GATE FEES**

Wheel taxes are a small but reliable source of revenue for most DAOs. For YCDC and MCDC they are a more significant source of revenue. Most municipalities collect a mixture of wheel taxes (based on the power or estimated value of the vehicle) and toll gate fees (charged each time a vehicle enters the city). Both of these revenue streams are likely to fall as a result of the COVID-19 outbreak.

Toll gate revenue has already been significantly reduced in recent months as the volume of traffic has fallen dramatically during lockdown and tollbooths have been closed to protect staff. As lockdown measures are eased, toll revenues are likely to rebound relatively quickly in most towns and cities. In cities where toll gate collection has been outsourced to a private company, the fall in municipal revenue may be temporarily delayed, but is likely to reach the DAO eventually as the value of the operating licence falls next year.

Vehicle taxes, which are collected on a biannual basis, are also likely to fall as a result of COVID-19. Practical difficulties with collecting taxes (see Box 6) and income shocks to many households could lead to a considerable fall in wheel tax revenue at the next six-monthly collection; however, the number of vehicles on the road in the long-term is unlikely to be substantially affected by COVID-19, which means that vehicle tax revenues will recover in the medium-term.

BOX 6:

CAN TAXES BE COLLECTED SAFELY DURING A PANDEMIC?

Tax collection during a pandemic presents many practical challenges. Continuing to collect taxes as usual – with tax collectors moving from door to door – could put both tax collectors and the public at risk. Nonetheless, municipalities are under pressure to collect revenue. The typical tax collection cycle for DAOs/CDCs is illustrated below. Although municipalities are technically moving into the late stages of the collection year, in many municipalities there is still a significant portion of revenue left to collect.⁷



During this period, municipal tax departments must consider a wide range of factors, including:

- How fast can municipal tax payments be digitised?
- Will tax collectors be available for work during this pandemic?
- Will tax collection pose a risk to the public? Is that risk acceptable and can it be mitigated?
- Will other government departments be available to help (e.g. will RTAD offices be open to collect vehicle tax?)?

Where tax collection does continue, guidelines for social distancing could be developed and PPE provided. Municipalities may also be able to pool different payments together to minimise the number of visits to each household or businesses. RI and TAF plan to publish further suggestions on this topic in the coming weeks.

● 3.5. PROPERTY TAXES

As with wheel taxes, property tax revenues are likely to fall in the short-term as households face an income shock and as tax collectors face practical difficulties. However, in the long-term, the supply of properties will not be substantially affected by COVID-19 and property taxes will continue to grow as a source of DAO revenue.

The extent of the short-term shock to property taxes will depend on the mix of businesses and households paying the property tax in each city. In Yangon, where 94% of property tax revenue comes from businesses and payments are linked to economic activity⁸, the economic shock of COVID-19 could have a significant short-to medium-term impact on property tax revenue as businesses struggle to survive. By comparison, in Taunggyi, where property tax revenue comes from many small contributions from households⁹ and payments are linked to the physical dimensions of the property, the short-term impact is likely to be less severe.

In recent years, several cities across Myanmar have been experimenting with digitising their property taxes, these innovations could be especially useful during this pandemic. In several smaller cities, such as Taunggyi and Hpa An, the MyanKhon tax collection application reduces the time officials must spend close to colleagues in the DAO office. In the larger cities of Yangon and Mandalay, digital collection is now possible (see Box 7).

BOX 7: DIGITAL TAX COLLECTION DURING A PANDEMIC

Digital revenue collection has many advantages, especially during an epidemic. It allows citizens to pay from the safety of their homes, it reduces reliance on tax collectors who may be unavailable during a pandemic and it can streamline administration.

Both MCDC and YCDC have partnered with local private banks to allow municipal payments via smartphone. In DAOs, where union restrictions currently make it difficult to shift to mobile payments, several townships have installed collection software which allows tax collectors to work without coming into the office regularly. COVID-19 provides a strong incentive to develop these technologies further and faster.

● 3.6. SHOP RENTAL FEES

Shops have been the businesses worst affected by COVID-19, many have been forced to close temporarily and some will struggle to reopen. Many businesses in Myanmar are small, family owned businesses which own the land/premises they operate on¹⁰; however, for those which do pay rent to the municipality, these payments could be a fixed cost. Given the economic pressures facing shops, collecting shop rental fees is likely to be a mixture of unproductive, impractical and unpopular in most municipalities. The fact that many shops are already frustrated by unfair discrepancies in shop rental fees could make shop rental fees even more difficult to collect.

The reduction in shop rental fee revenue is likely to be a long-term impact of COVID-19. Many businesses will struggle to recover from the economic shock and many residents may be slow to return to their old shopping habits.

● 3.7. LICENCE AUCTION FEES

Licence auction fees are one of the largest sources of revenue for most towns and cities in Myanmar. Slaughterhouse licences alone produce a substantial share of revenue for many DAOs.

Fortunately, slaughterhouse licence auction revenue is less exposed to the damage from COVID-19 than some other revenue sources. As a necessity good¹¹ for many households, meat sales are unlikely to reduce significantly in the medium-term and the long-term demand for meat (which determines the value of a slaughterhouse licence) is unlikely to be significantly affected. Nonetheless, the economic shock from COVID-19 could lead to a temporary dip in meat sales. With many DAOs scheduled to conduct licence auctions in July and August, it is therefore possible that revenue from these auctions will be affected temporarily as businesses struggle financially and are unable to afford high bids.

The effect of COVID-19 on other licences auctions (e.g. market licences and ferry licences) is likely to be similarly short-term. Although COVID-19 may have hurt businesses' ability to bid for licences in the short-run, demand for these licences is likely to be relatively unchanged in the medium- to long-term.

As with all sources of municipal revenue, municipalities must make a trade-off between the risk of collecting auction licence fees and the risk of not having the revenue required to fund municipal activities. The low collection risk and the high value of auction licences provide a strong case for continuing to collect this revenue source using appropriate social distancing measures.

● 3.8. SHARED REVENUE FROM IRD

Revenue shared from IRD to municipalities is organised on an ad-hoc basis and it is difficult to predict how this revenue will be affected by COVID-19. The union government's COVID-19 Economic Relief Plan (CERP) outlines the need to reallocate resources from across government budgets toward central COVID-19 response efforts, suggesting the ad-hoc revenue sharing agreements may be more difficult to negotiate in the coming months.

● 3.9. FINES AND PENALTIES

Some municipalities have already taken action to scale back on enforcing fines/penalties. YCDC has announced it will not enforce traffic fines in Yangon in the coming weeks. The decision to scale back enforcement of fines and penalties is a practical one for several reasons. During these difficult times it is inconsiderate to impose the additional burdens on households, it may also be impractical to collect fines/penalties either because of social distancing requirements or the need to allocate staff to other, more pressing tasks. With these restrictions in mind, revenue from fines and penalties is likely to fall substantially in the current budget year.

This discussion above illustrates how a wide range of revenues are at risk as a result of COVID-19. To design an effective revenue policy, DAOs and CDCs must consider how exposed they are to these risks. Section 4 considers some of the key policy questions facing municipalities.

4. POLICY OPTIONS

Having analysed the revenue profile of three cities and considered the impact of COVID-19 on key sources of revenue, we now turn to the policy options facing cities.

COVID-19 has made decisions about municipal revenue policy both more difficult and more important than usual.

Decisions about which revenue sources to collect and how to collect them will potentially affect the health and livelihoods of residents, the ability of the DAOs/CDCs to continue delivering essential urban services, and the sustainability of municipalities as autonomous government departments.

In reality, the fall in revenues due to COVID-19 could restrict the range of policy options available to many municipalities. The combination of falling revenues and COVID-19 related demands on expenditure (See Box 8) means that many municipalities could face significant financial difficulties in the coming months, limiting the number of policy options available. With these financial pressures in mind, municipalities must take tough decisions about which taxes and fees can feasibly be collected, which can realistically be deferred until a later date, and which may need to be cancelled until further notice.

BOX 8:

THE IMPACT OF COVID-19 ON MUNICIPAL EXPENDITURE

DAOs across Myanmar have been adapting fast to the challenges of COVID-19. The changes made have placed new pressures on DAO budgets:

- **Delivering essential services has become more important than ever.** Ensuring water provision and garbage collection for families in lockdown, for example, is key.
- **DAOs have taken on new responsibilities, from organising mobile markets (in Taunggyi) to disinfecting public spaces (in Sagaing).** Some of these new activities require funding, they also reduce the time available to complete other planned activities.
- **Some DAO activities have become infeasible.** Travel to other states and regions, for example, will not be possible in the short term.
- **COVID-19 may create new difficulties which require DAOs to respond.** For example, an increasing number of homelessness and domestic violence cases could require DAO attention and cooperation with the Ministry of Social Welfare.

The result of these new pressures is that municipalities are dealing with significant change and uncertainty on both the revenue and expenditure sides of their budgets.

In the short term, DAOs/CDCs may be able use revenue policy to support their communities through these difficult times. Deferring or cancelling payments for businesses and households during this pandemic could provide a much-needed boost to communities. For example, cancelling traffic fines, and deferring property tax and businesses licence payments, could provide households and businesses with financial breathing space.¹² A range of different mechanisms could be used to provide relief to households and businesses; taxes and fees could be deferred or cancelled, exemptions could be granted, deadlines could be extended to give residents more time to file applications, penalties and fines could be cancelled and licences could be extended, for example (see Box 9).

BOX 9:

DESIGNING CHANGES IN REVENUE POLICY TO SUPPORT RESIDENTS¹³

There are a range of changes to revenue policy which could be used to support residents during this time. However, municipalities must consider a range of factors:

Do government regulations permit the changes? For example, it may be administratively difficult to defer taxes if it is not allowed in the current legislation. However, given that the recently released COVID-19 Economic Relief Plan encourages budget flexibility, and given that MOHT has already deferred some fees, there may well be scope to make the necessary changes.

Can the changes be effectively targeted? If possible, it is best to target relief to those who need it most. Can municipalities support businesses which need help while also continuing to tax and charge businesses which are thriving during this pandemic? For example, could a distinction be made between small, self-employed and large businesses when designing tax/fee relief?

What are the administrative implications? Changes to revenue can provide financial relief but may have administrative consequences. Will businesses be able to access other government services if their licences expire, and will tax receipts be able to be sent digitally, for example?

How long should measures last? It is impossible to know how long or severe the COVID-19 crisis will be. One solution could be to introduce short-term measures which are simple to extend.

How can fraud be prevented? With any policy change, there will be some who try to take advantage illegally. Has the potential for fraud been considered ahead of any policy changes?

Are changes digital friendly? Wherever possible, digitisation should be used to make life easier for both residents and the municipality. If administration is digitised, is technical support available to those who need it?

Reducing revenue collection in the short-term to provide some relief to residents could also have indirect benefits. In the short run, deferring/cancelling some sources of revenue will allow municipalities to reassign collection staff to other priorities. It may also help support public health measures taken by the central government; if people are more financially secure then they are less likely to breach lockdown rules to make ends meet.¹⁴ Deferring some payments could also boost municipal revenues in the medium-term if it helps businesses to survive and prosper – each additional business which survives this pandemic will provide a stream of future revenues to the municipality.

The arguments for deferring or cancelling revenue collections need to be balanced against the need to fund essential urban services. While there are strong economic and welfare arguments for reducing some municipal taxes and charges in the short term, it is also important that essential services continue to function. Services such as water provision and garbage collection are especially important under the current circumstances, these services require funding. The squeeze on municipal revenues due to COVID-19 may mean that deferring or cancelling revenue collections is not feasible without financial support from the subnational or union government.

Municipalities' flexibility to implement different policy options will depend on their mix of revenue sources and on their expenditure commitments. The mix of revenue sources in a municipality will determine how vulnerable local revenues are to COVID-19. For example, municipal revenue in Mandalay—where MCDC collects revenue from a diverse

mix of sources—is likely to be more resilient than municipal revenue in Taunggyi where the DAO is heavily reliant on local business activity for funds. It is also vital to take expenditure into account. Where possible, a rough scenario analysis of local revenues could be a useful tool for DAOs/CDCs to estimate the fiscal space available to them, an example of this type of analysis is presented in Section 5 using data from Taunggyi DAO.

As ever, there can be no one-size-fits-all policy solution. Towns and cities have different revenue profiles, different expenditure needs and varying levels of trust with their local communities, these factors will affect which policy response is best. Box 10 outlines some measures taken in other countries and cities to respond to the challenges they are facing.

BOX 10: REVENUE RELIEF IN OTHER COUNTRIES¹⁵

In **Malaysia**, debt collections have been halted, filing deadlines have been extended, and government messaging has been rephrased to encourage residents to support their government financially in the fight against COVID-19.

In **Korea**, taxpayers have been given extensions of between 1 month and 2 years to pay their taxes. More generous relief has been given to citizens living in 'disaster zones' most affected by COVID-19.

In **Singapore**, income taxes have been automatically deferred by 3 months for businesses and the self-employed, late payment charges for most tax payments have been cancelled.

In **Canada** and the **UK**, property taxes in many cities have been deferred or cancelled, particularly for businesses in sectors hit hard by COVID-19.

During this pandemic, there is potentially an opportunity to implement revenue policy reforms which were not have been possible before. The phrase *never let a crisis go to waste*¹⁶ is sometimes used to capture this idea; in the heat of a crisis - when minds are focused on problem solving - changes which were impossible before suddenly become possible. DAOs/CDCs should consider what these potential opportunities may be. For example, there may be an opportunity for cities to fast-track e-payment reform¹⁷, or a chance to adjust the mix of municipal revenues to make it more sustainable.

Whichever policy decisions are taken, communicating the situation to the public and to other levels of government will be key. If the situation is not communicated well to the public, it will be difficult for them to comply with new measures. Households and businesses could quickly become frustrated by the lack of transparency. Equally, communicating with the local state/region government is important because cities may need their support if the current crisis worsens (see Box 11).

BOX 11: COMMUNICATION WITH THE SUBNATIONAL GOVERNMENTS

The subnational and union governments could prove an important source of revenue for DAOs in the coming months. These are unprecedented times in Myanmar and for some DAOs it may not be possible to generate the revenue needed fund urban services in the short-term. In these circumstances, it may be necessary to ask subnational governments for direct financial support or negotiate with subnational governments to bring in new funding from development partners.

It is also possible that subnational and union governments themselves will take policy decisions in the coming weeks which affect municipalities. The union government could instruct DAOs to waive all business licences, for example, or subnational governments could cut the (limited) funding they currently provide to DAOs. Communicating with subnational governments about the situation 'on the ground' could help inform some of these decisions.

Having discussed the range of difficult policy decisions facing all municipalities, we now turn to the policy options facing a single city, Taunggyi. Section 5 illustrates how a rough scenario analysis can help policy makers consider the impact of different policy options.

5. SCENARIO ANALYSIS

● 5.1. TWO POLICY SCENARIOS

This section presents a rough analysis of how municipal revenues could be affected by COVID-19 in the city of Taunggyi under two different policy scenarios. The aim is not to forecast perfectly what will happen to municipal revenues to Taunggyi, instead our aim is to make an informed guess at what the effects different the policy options could be.

Taunggyi is used as a case study due to availability of data, however a similar exercise could be carried out in any township. Annex 1 of this report sets out the structure of the analysis, and assumptions made, in full, to allow other municipalities to replicate the exercise.

The low availability of data and the high level of uncertainty surrounding COVID-19 make it very difficult to accurately forecast changes in revenue. A lack of data makes it difficult to apply traditional statistical techniques and makes it hard to spot consistent trends.¹⁸ The unprecedented nature of the COVID-19 pandemic means that any long-running trends may be disrupted anyway. The analysis presented below is intended to spark discussion, it is not a robust forecast of what will happen.

The analysis below constructs a best guess of what could happen to Taunggyi DAO's revenue in two possible policy scenarios:

POLICY SCENARIO 1: CONTINUE REVENUE COLLECTION AS NORMAL IN 2020

The DAO/CDC continues to collect taxes and fees wherever feasible.

Collection practices are updated to ensure safe collection of as many taxes and fees as possible.

POLICY SCENARIO 2: DEFER/CANCEL COLLECTION WHERE POSSIBLE IN 2020¹⁹

The DAO/CDC defers taxes and fees wherever possible to support households and businesses in the local community. For example, property taxes, wheel taxes and business licence payments are all deferred.²⁰

Some payments are cancelled for the rest of the year where deferral is not realistic. E.g. traffic fines. DAO staff who usual collect revenues are reassigned to other priority COVID-19 focused tasks. A portion of deferred revenue is recouped through higher payments in 2021.

These two policies represent two very different extremes. Scenario 1 considers what might happen if municipalities continue 'business as usual' and try to collect as much revenue as possible. Scenario 2 considers the opposite extreme, where municipalities do everything that they can to support their communities through this tough period by deferring payments. The aim of analysing these two contrasting scenarios is to provide municipalities food for thought, not to advocate for one policy option or the other. In reality the best policy response may be a combination of the two options. The scenario analysis below is presented in three sections: (5.2) The Model (5.3) Scenario 1 Outcomes, and (5.4) Scenario 2 Outcomes.

● 5.2. THE MODEL

To explore the impact of the two policy scenarios outlined above, this report uses a simple model for thinking systematically about the impact of COVID-19 on different sources of revenue. The modelling process can be broken down into 3 stages:

Stage 1—Model Design

In order to explore the possible impact of COVID-19 on different sources of municipal revenue, we use a simple model based around three key questions. This model is illustrated in Figure 1. The three questions help simplify the problem and focus on the key information needed to estimate how revenues will be affected by COVID-19.

Stage 2—Make Qualitative Judgements About the Impact of COVID-19 on Revenues

Stage 2 of the modelling process is to answer the three questions posed in Figure 1. This stage of the process requires making qualitative judgements about how different revenue sources will be affected by COVID-19. As an example, Figure 2 illustrates how the model can be applied to qualitatively examine the impact of COVID-19 on business licence revenues. The model can be applied in the same way to any source of municipal revenue.

Stage 3— Make Quantitative Judgements About the Impact of COVID-19 on Revenues²¹

Stage 3 is the least certain part of this analysis. In order to forecast the impact of COVID-19 on Taunggyi DAO's revenues, it's necessary to make a quantitative judgement about how different revenue sources will be affected by the virus.

For example, in the case of business licences it is assumed that:

In Scenario 1, where the municipality continues collection:

- Revenue will fall by 30% in 2020
- Revenue will recover to between 76-94% of its 2019 level in 2021
- Revenue will recover to 82-100% of its 2019 level by 2022.

In Scenario 2, where the municipality defers licence payments for one year:

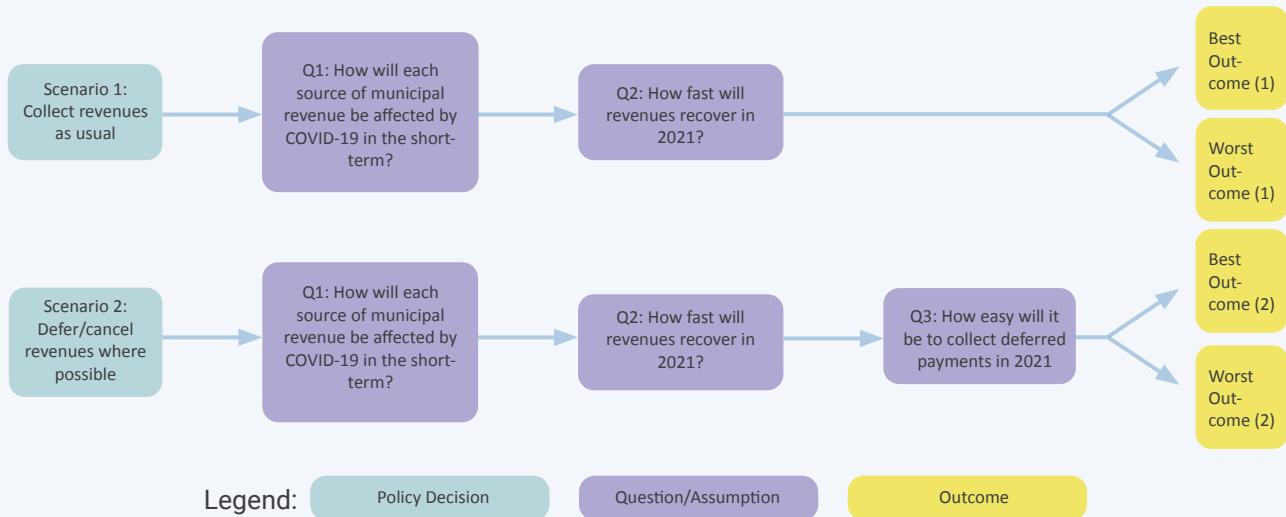
- Revenue will fall by 70% in 2020
- Revenue will recover to between 72-128% of its 2019 level in 2021
- Revenue will recover to between 64-100% of its 2019 level by 2022.

The outcomes from these assumptions are illustrated in Figure 3. In order to adjust for the high level of uncertainty, we consider both 'best-case' and 'worst-case' outcomes under each policy scenario, in the hope that the true outcome will fall somewhere between the two.

Using this 3 stage approach, Sections 5.3. and 5.4. consider the impact of COVID-19 on total DAO revenue in Taunggyi. The full set of assumptions made—with explanations for each revenue source—is presented in Annex 1 of this report.

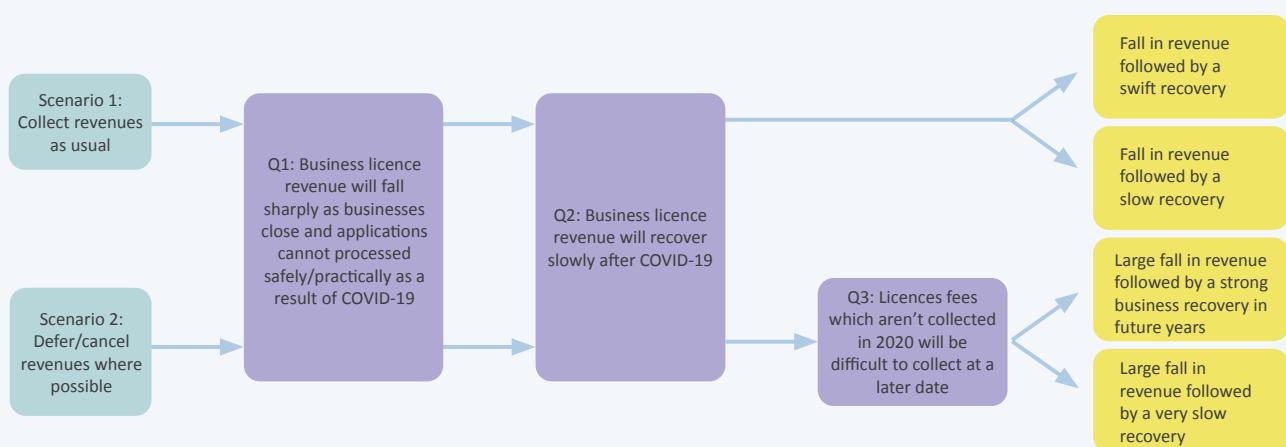
STAGE 1: DESIGN A MODEL

FIGURE 7: A MODEL FOR SCENARIO ANALYSIS



STAGE 2: MAKE A QUALITATIVE JUDGEMENT ABOUT THE IMPACT OF COVID-19 ON REVENUES

FIGURE 8: THE QUALITATIVE IMPACT OF COVID-19 ON BUSINESS LICENCE REVENUE



STAGE 3: MAKE A QUANTITATIVE JUDGEMENT ABOUT THE IMPACT OF COVID-19 ON REVENUES

FIGURE 9: THE QUANTITATIVE IMPACT OF COVID-19 ON BUSINESS LICENCE REVENUE

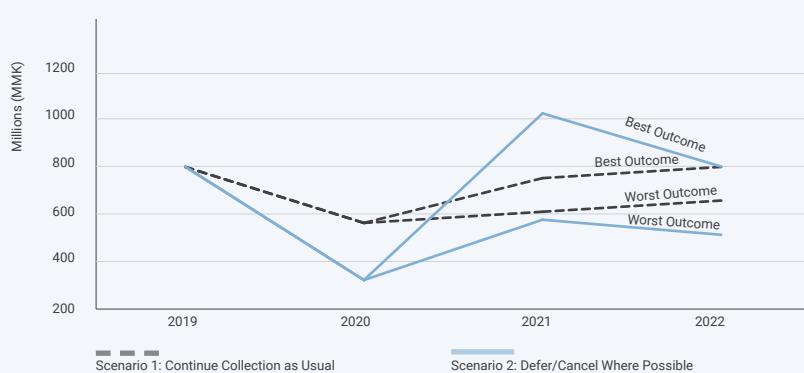
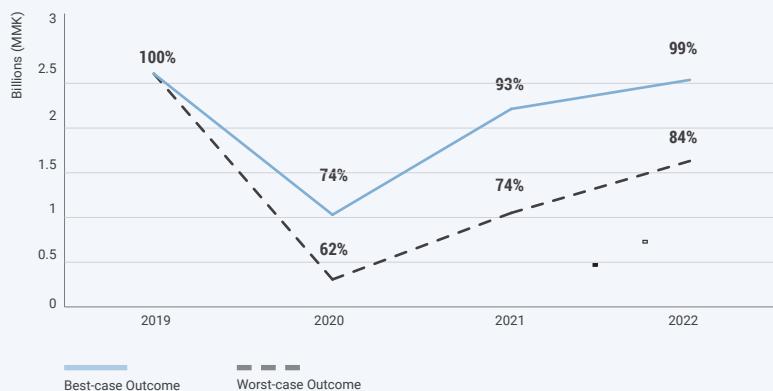


FIGURE 10: SCENARIO 1: CONTINUE REVENUE COLLECTION WHERE POSSIBLE IN 2020

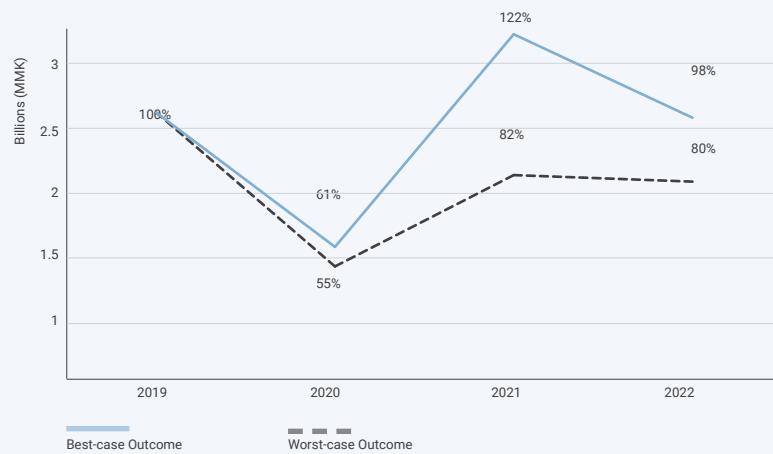


Even in a **best-case outcome**, DAO revenues are likely to fall significantly in the short term. Although some revenue has been collected already in 2020, the economic impact of COVID-19 is already being felt by many of the households and businesses whom the DAO relies on for revenue.

Assuming that collection can be COVID-19-proofed to protect the safety of both taxpayers and tax collectors, revenues from sources including licence auctions, property taxation, and signboard fees could be relatively unaffected by COVID-19. However, revenue from sources including fines and penalties, IRD, shop rental fees and wheel taxes are likely to fall significantly even in a best-case scenario.

In a **worst-case outcome**, continuing to collect revenue in 2020 could have a damaging impact on long term revenues. By continuing collection in 2020, the DAO could add to the significant economic pressures already facing households and businesses, leading to a higher rate of business closures and a loss of trust in the DAO. Under these circumstances, DAO revenues could still be significantly below 2019 levels in 2022.

FIGURE 11: SCENARIO 2: DEFER/CANCEL COLLECTION WHEREVER POSSIBLE IN 2020



Deferring taxes and fees where possible in 2020 will lead to a large short-term fall in revenue. DAO revenues could potentially drop by as much as 45%. However, in a **best-case outcome** deferring taxes and fees may allow the DAO to support the community in the short run and revenues will rebound quickly in the medium run. A policy of deferring revenues today to support the local community carries a risk. If revenues are deferred today and the DAO struggles to recoup those revenues in 2021 - either due to an economic slump or negative public opinion – then revenues could remain at far below 2019 levels for several years, a **worst-case outcome** for the municipality. However, it is important to

also recognise that this analysis does not capture all the benefits of deferring payments, such as the staff time which could be released to focus on other COVID-19 focused tasks.

● 5.4. ADDITIONAL FACTORS

Like any economic model, the scenarios discussed above make many simplifications. The analysis above should be used as one part of a larger body of evidence used to make an informed policy decision. For example, four additional factors which policy makers must consider are

- **COVID 19 is having an impact across Myanmar's economy.** Economic shifts beyond the control of DAOs will inevitably affect municipal revenues. As supply chains are disrupted, consumer demand falls and the pattern of economic activity changes, many households and businesses will be affected. In the scenario analysis above, only the short run impact of COVID-19 was considered; neither the long-term upward trend in municipal revenues nor the influence of changes in the wider economy were considered in detail.
- **Decisions about revenue have political implications.** For policymakers this is no doubt stating the obvious. The economic scenarios laid out above say little about the political feasibility of different, difficult policy decisions.
- **Decisions about revenue and decisions about expenditure are tightly connected.** Ultimately, DAO/CDC decisions about revenue must be connected to municipal spending plans. DAOs/CDCs need to generate enough revenue to meet their basic spending needs (see Box 12).
- **Benefits of reassigning revenue collection staff.** If taxes and fees are deferred, there may be an opportunity to redeploy collection staff to other urgent tasks. The benefits of this staff time saved aren't captured in this scenario analysis.

BOX 12: HOW MUCH REVENUE IS ESSENTIAL?

The scenario analysis in Section 5.3 suggests that Taunggyi DAO's revenue could fall by as much as 45% if most fees, taxes and charges were deferred/cancelled. Such a large fall in revenue could significantly affect the DAO's ability to deliver vital urban services to residents.

In order to understand how damaging such a large fall in revenue could be, we examined the Taunggyi DAO's proposed capital budget for 2018-19. By our estimate, approximately 40% of Taunggyi's 2018-19 capital budget was on essential projects (essential equipment purchases for drain cleaning, for example), while 60% of the capital budget was assigned to infrastructure projects (e.g. road and bridge projects) which could feasibly be postponed until a later date. This analysis suggests that with some changes to the budget, Taunggyi DAO could be relatively resilient to a short term fall in revenue if it needed to be.

A more detailed analysis of municipal spending requirements is an important counterpart to the revenue analysis presented here, with difficult policy decisions required on both sides of the budget. In reality, DAOs/CDCs may want to expand spending in some areas to support local employment.

● 5.5. COMPARING OPTIONS

The scenarios analysed in this Section illustrate how key decisions about revenue policy today could have a lasting impact on the municipal budget and therefore on the ability to keep essential services running at full capacity.

Continuing collection where possible will provide municipalities with the most revenue in the short term. Although this approach may be necessary in order to keep essential municipal services running, it will put additional pressure on the local community and presents a logistical challenge for tax collectors.

By comparison, deferring taxes and fees where possible could provide valuable breathing space for households and

businesses, and allow DAOs/CDCs to focus on other priorities. Deferring taxes and fees where possible could also bring less tangible benefits, such as an improved relationship with residents.

The best policy option is likely to be a combination of these two extremes - deferring some taxes and fees to protect the local community while simultaneously continuing collection in other areas in order to protect the budget.

6. CONCLUSION

In recent months, municipal authorities have found themselves fighting on the front line against COVID -19. In order to continue support local communities and keep urban services running during these difficult times, it is important to ensure that DAOs/CDCs have enough revenue to finance their activities. This report has illustrated some of the difficult trade-offs involved in setting local revenue policy.

Municipal authorities must decide quickly whether to move ahead with revenue collection or defer/ cancel some payments during this pandemic. The scenario analysis presented here considered a range of economic factors such as how quickly different revenue sources are likely to be impacted by COVID- 19 and how quickly they are likely to recover. The analysis also highlighted a range of additional factors such as country-wide macroeconomic conditions and political considerations which are more difficult to measure but no less important to policymakers.

Based on this analysis, there appears to be a strong case for deferring/cancelling at least some revenue collection in the short term, if the municipal budget allows it. Deferring/cancelling some revenue collection will support local households and businesses, and free up municipal staff time to focus on other COVID-19 priority activities. However, only DAOs/CDCs have the understanding of local circumstances needed to complement this analysis and take a well-informed policy decision.

7. REFERENCES

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ANNEX 1: THE SCENARIO ANALYSIS MODEL IN FULL

The model used to forecast municipal revenues in Section 5 is based around three key questions. In order to simplify the model, a restricted set of possible answers were chosen for each question.

Table 1: Five Key Questions

Question	Possible Answers	Explanation
How will each source of municipal revenue be affected by COVID-19 in the short-term?	Small impact Medium impact Large impact Cancelled/Deferred	Revenue falls by 10% Revenue falls by 30% Revenue falls by 50% Revenue falls by 70% (some revenue has been collected already this year)
How will each source of municipal revenue recover after the initial COVID-19 shock?	Slow Medium Fast None	By 2022, only 40% of the initial (2020) fall in revenue has been recovered. By 2022, 60% of the initial (2020) fall in revenue has been recovered. By 2022, 100% of the initial (2020) fall in revenue has been recovered. By 2022, none of the initial (2020) fall in revenue has been recovered.
How much revenue can be recovered if some payments are deferred until 2021?	Limited Medium Successful None	20% of payments which are deferred can be collected the following year. 40% of payments which are deferred can be collected the following year. 90% of payments which are deferred can be collected the following year. none of the payments which are deferred can be collected the following year.

Using table 1, the RI team used the analysis in Section 3 and a conversation with the Taunggyi Tax Department to answer the model's three key questions and construct a scenario analysis for Taunggyi. Table 2 presents the analysis underpinning the chart in section 5.3. Table 3 presents the analysis underpinning the chart in Section 5.4.

Table 2: Continue Collection Where Possible

Revenue source	Best-Case Outcome		Worst-Case Outcome		Explanation
	Initial Fall (Q1)	Recovery (Q2)	Initial Fall (Q1)	Recovery (Q2)	
Property Tax	Small	Fast	Large	Medium	Property tax revenue in Taunggyi is mostly composed of small payments from individual houses. In a best-case outcome the practical challenge of collecting taxes can be overcome and most households are able to pay as usual. Even in a best-case outcome revenue is likely to fall as some of those households hardest hit will be unable or unwilling to pay. In a worst-case outcome collection is practically challenging and many households refuse to pay leading to a fall in revenue and a slower recovery.
Wheel Tax	Large	Fast	Large	Medium	Even in a best-case outcome collection of wheel taxes is likely to be difficult. RTAD offices have closed and residents may be unwilling to pay wheel taxes if they have been unable to use their vehicles. In a best-case outcome we envisage a large fall with a fast recovery, in a worst-case outcome we envisage a more difficult recovery
Building Inspection Fees	Medium	Fast	Large	Medium	In the short run, some inspections will probably still be needed. Revenue will fall as the number of inspections will need to be cut for safety and there will be a fall in demand. In a best-case outcome the recovery will be quick, inspections can return to full capacity fast with any slowdown in economic activity compensated by the stored-up demand from during lockdown. In a worst-case outcome, inspections must largely stop, and the economic slowdown means that they are not as quick to recover
Rental Fees	Medium	Medium	Large	Slow	Rental fees are unlikely to recover quickly even in a best-case outcome. Realistically, there will be, at best, a medium fall in revenue and a medium recovery as the economy recovers.
Commercial Sign-board Fees	Small	Fast	Medium	Medium	In the medium-term signboard fees could recover relatively fast, especially given that a large share of signboard revenues come from large businesses. Payments should also be possible given (a) the relatively small number of fee-payers (b) the continuity of advertising during this pandemic. In a worst-case outcome however it is possible that firms are unwilling or unable to pay even in the medium term and a switch to digital advertising reduces the demand for signboards.
Business Licences	Medium	Fast	Medium	Slow	Like rental fees, business licences are likely to see a large shock. Businesses may have gone bust or may be unwilling to pay licence fees for a period in which they were forced to shut down by the government. Several countries have opted to cancel costs to businesses particularly badly affected by the virus. Best case is to see a medium fall but a relatively quick bounce back.
Slaughterhouse Revenue	Small	Fast	Medium	Fast	Slaughterhouse Revenue could be relatively unaffected by COVID-19 in a best-case outcome. If auctions can be held safely and demand for meat remains high, revenue could remain relatively high. In a worst-case outcome, demand for meat falls and firms must reduce their bids for the licences.
Shared Revenue from IRD	Cancelled / Deferred	Slow	Cancelled / Deferred	None	The union government is leading the national response to COVID-19 and requires as much funding as possible, it is unlikely that ad hoc transfers to municipalities will be available in 2020.
Fines and Penalties	Cancelled / Deferred	Fast	Cancelled / Deferred	Medium	Fines and penalties have already been cancelled by some DAOs. In a best-case outcome, towns return to normal next year and business as usual can resume. In a worst-case outcome it is several years until things return to normal.
All Other Income	Large	Fast	Medium	Medium	Other income mostly comes from ad hoc activities such as sale of land. These activities will likely stop in the short run, but in a best-case scenario may be able to return relatively quickly

Table 3: Defer/Cancel Collection Where Possible

Revenue source	Best-Case Outcome			Worst-Case Outcome			Explanation
	Initial Fall (Q1)	Recovery (Q2)	Recoup (Q3)	Initial Fall (Q1)	Recovery (Q2)	Recoup (Q3)	
Property Tax	Cancelled/ Deferred	Fast	Successful	Cancelled/ Deferred	Medium	None	Property taxes are low, so double payments will still be relatively affordable. There will be a strong justification for collecting the tax later on because property taxes are linked to the key urban services which people are still using during this pandemic.
Wheel Tax	Cancelled/ Deferred	Fast	Medium	Cancelled/ Deferred	Medium	None	Wheel taxes are low, so double payments would be relatively affordable in most cities. However, owners may be reluctant to pay double given that many have not been using their vehicles during this period. Realistically, if 2020 wheel tax payments are deferred, the DAO may only be able to recoup 20-40% of these deferred payments in 2021.
Building Inspection Fees	Medium	Fast	None	Medium	Medium		Evidence suggests that building inspections are already carrying on as usual. These inspections could generate significant revenue for the DAO. If they can be carried out safely, these inspections could provide funding while other revenue sources are deferred.
Rental Fees	Cancelled/ Deferred	Medium	Limited	Cancelled/ Deferred	Medium	None	Rental fees are unlikely to recover quickly even in a best-case outcome. Realistically it will be difficult to charge businesses double rent, even in the aftermath of the pandemic. A best-case outcome is that DAOs are able to recover rents from some of the large businesses which have stayed open (such as food stores). Deferring revenues in 2020 will help some businesses recover faster from the economic shock of COVID-19.
Commercial Sign-board Fees	Small	Fast	Successful	Medium	Medium	Medium	In the medium-term signboard fees could recover relatively fast. Given that a large share of signboard revenues come from large businesses, it should be possible to recoup a portion of these revenues once the pandemic has passed. However, some smaller firms may struggle to pay while other firms may be less willing to pay for signboards now that fewer people are walking the streets.
Business Licences	Cancelled / Deferred	Fast	Medium	Cancelled/ Deferred	Slow	None	Recouping business licence fees will be difficult. Businesses may have gone bust or may be unwilling to pay licence fees for a period in which they were forced to shut down by the government. Several countries have opted to cancel costs to businesses particularly badly affected by the virus. A best case would be to see 40% of fees recouped for the pandemic period, but a relatively quick bounce back.
Slaughterhouse Revenue	Small	Fast	None	Medium	Fast	None	Licence auctions will probably be able to take place as usual in the coming months.
Shared Revenue from IRD	Cancelled / Deferred	Slow	None	Cancelled / Deferred	None	None	IRD will not backpay contributions to DAO budgets.
Fines and Penalties	Cancelled / Deferred	Fast	None	Cancelled / Deferred	Medium	None	It is not realistic to collect penalties once cancelled/deferred
All Other Income	Large	Fast	Medium	Large	Medium	None	Other revenue could be recouped later, for example land can be sold at a later date. However, it is possible that relatively little of this revenue will be recovered once deferred.

ENDNOTES

- 1 The World Bank has forecast that Myanmar's growth rate in 2020 is likely to half as a result of COVID-19 (World Bank, 2020).
- 2 In 2018-19, Taunggyi DAO issued 851 restaurant licences, 423 shop licences, and 795 licences to hazardous businesses
- 3 See Asia Foundation (2020)
- 4 See Asia Foundation (2020)
- 5 For example, in April 2020, Telenor reported a 27% increase in internet usage on its network.
- 6 For example, giving businesses added flexibility to provide different services could allow them to adapt and survive.
- 7 In many townships, physical collection does not start until several months into the collection period.
- 8 In Yangon, for example, the property tax levied on hotel is based on hotel occupancy, which is likely to have fallen dramatically as a result of COVID-19.
- 9 The average payment in Taunggyi is currently little more than 2000 kyat.
- 10 See Asia Foundation (2020)
- 11 Anecdotally, purchases of meat will be one of the last items many households choose to sacrifice during this pandemic. Spending on travel and treats will likely be reduced first.
- 12 For many businesses, a deferred licence fee payment may make little difference, however for some cash-strapped businesses at the margin it could make a big difference and improve perceptions of the DAO.
- 13 Based on analysis in OECD Report (2020)
- 14 There may also be ways local administrations can support public health efforts more directly. E.g. by using revenue collection systems to provide contact details for communications campaigns or provide a mechanism for distributing financial aid.
- 15 Based on OECD (2020)
- 16 Variations of this quote are attributed to US politician Rahm Emanuel. 17 See this RI Blog for further ideas on this topic.
- 17 See this RI Blog (<https://rimyanmar.org/en/blog/kiubcm-pesseaakhngalmmaa>) for further ideas on this topic.
- 18 See (Shah, 2007) for an overview of the challenges faced when trying to forecast local government revenues in a developing country setting such as Myanmar, and a discussion of some potential solutions.
- 19 Although municipalities are technically close to the end of the collection year, a large share of revenues still need to be collected in many cities.
- 20 In situations where collection is partially complete, it will be important to communicate with those who have and haven't paid to explain how deferrals will work.
- 21 There are many, many more factors/assumptions which could be added into this model to make it more realistic



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We also welcome your feedback on the report.