

A faint, light purple map of Myanmar is centered in the background of the page.

# FISCAL FEDERALISM IN MYANMAR

FACILITATOR'S NOTES  
ENGLISH



Dear Trainers and Facilitators,

This guide provides you with additional information to support the use of the Fiscal Federalism in Myanmar curriculum. The following tools are available for you:

- **Fiscal Federalism in Myanmar Workbooks for participants with note sections**  
(available in English, Myanmar, Kachin, Karen and Shan languages)
- **Fiscal Federalism in Myanmar PowerPoint slide decks**  
(available in English, Myanmar, Kachin, Karen and Shan languages)
- **The Fiscal Federalism in Myanmar curriculum consists of the following modules:**
  - Module 1: Fiscal federalism introduction
  - Module 2: Decentralization, revenue transfers, and social development
  - Module 3: Fiscal federalism and equalization
  - Module 4: Fiscal federalism and natural resources
  - Module 5: Fiscal federalism: public infrastructure, public services, and human capital
  - Module 6: Fiscal federalism and Myanmar's peace negotiations

You can download the above items per module or the six modules together in different languages.

All material is downloadable from The Asia Foundation's website: [www.asiafoundation.org/where-we-work/myanmar/](http://www.asiafoundation.org/where-we-work/myanmar/)

The notes below do not comprehensively cover all parts of the curriculum. Rather, they draw out key parts and specific sections requiring explanation. They also offer guidance in the facilitation of group sessions and tips to encourage group discussion.

If you have any questions or require support please do not hesitate to contact staff at The Asia Foundation:

**Nicola Williams, Peace Team Manager**, [nicola.williams@asiafoundation.org](mailto:nicola.williams@asiafoundation.org)

**Kyaw Myo Oo, Senior Program Officer**, [kyaw.oo@asiafoundation.org](mailto:kyaw.oo@asiafoundation.org)

**THIS CURRICULUM HAS BEEN DEVELOPED BY:**

**The Asia Foundation**  
with Professor Paul A. R. Hobson

Matthew Arnold  
Nicola Williams  
Lea Lybecker  
Kyaw Myo Oo

The production of the curriculum is made possible by the generous support of the American people through the United States Agency for International Development (USAID). The contents are the responsibility of The Asia Foundation and do not necessarily reflect the views of USAID or the United States Government.



**GUIDANCE ON CURRICULUM USE:**

These materials are publicly available resources to support Myanmar's peace process and national dialogue towards developing a democratic federal system of government. The curriculum, *Federalism in Myanmar: Political, Administrative and Fiscal Aspects*, has two sections. The six modules in this part of the curriculum focus on *Fiscal Federalism in Myanmar*. All material is downloadable from The Asia Foundation's website: [www.asiafoundation.org/where-we-work/myanmar/](http://www.asiafoundation.org/where-we-work/myanmar/)

Please contact staff at The Asia Foundation if you have any questions or specific requests concerning the use of this curriculum:

Nicola Williams, Peace Team Manager,  
[nicola.williams@asiafoundation.org](mailto:nicola.williams@asiafoundation.org)

Kyaw Myo Oo, Senior Program Officer,  
[kyaw.oo@asiafoundation.org](mailto:kyaw.oo@asiafoundation.org)

## CURRICULUM TABLE OF CONTENTS

- Module 1 Fiscal federalism introduction
- Module 2 Decentralization, revenue transfers, and social development
- Module 3 Fiscal federalism and equalization
- Module 4 Fiscal federalism and natural resources
- Module 5 Fiscal federalism: public infrastructure, public services, and human capital
- Module 6 Fiscal federalism and Myanmar's peace negotiations

### TALK THROUGH THE OUTLINE OF THE CURRICULUM CONTENTS:

- These particular modules focus on how to manage public finances in a federation. Debates around money are perpetual in a federal system. Therefore, understanding how 'fiscal federalism' works is key to understanding how to run a federal system of government.
- These modules analyze current intergovernmental fiscal arrangements in Myanmar and the core economic building blocks of fiscal federalism, such as: revenue sharing, tax harmonization, transfers and grants, and equalization.

# MODULE 1

# FISCAL FEDERALISM INTRODUCTION

Module 1

## FISCAL FEDERALISM INTRODUCTION



### HIGHLIGHT THE CHALLENGES AHEAD FOR PARTICIPANTS:

- This early module will introduce a lot of new terminology. It can be quite daunting and technical at first.
- Please use the terminology section of your toolkit and refer to it often. Terminology is at the start of the module and at the end of the curriculum.
- As you go through the modules, it will get easier.
- We will work together to debate and apply these concepts and relate them to the Myanmar context.

**TERMS IN THIS MODULE**

**DECENTRALIZATION**  
The transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations.

**DEVIATION BASIS**  
When revenues are shared according to the State/Region where they were collected.

**ECONOMIC UNION**  
A form of economic integration among political jurisdictions, with various degrees of harmonization.

**EQUAL WEIGHTING**  
Each component counts equally in the calculation.

**FEDERALISM**  
A federal form of government (as opposed to the 'Unitary State'), which has a subnational structure, with all orders of government having some independent, as well as shared, decision-making responsibilities.

FISCAL FEDERALISM INTRODUCTION (page 3)

**PAGE 03**

- Ask participants to read the section on terms used. They will likely need an explanation for some of the below terms.
- This includes **deviation basis**. After reading out the definition emphasize that it is revenue sharing with the place of origin where revenues were collected.
- For an **economic union** highlight this is about different administrative levels of government working together for country-wide economic integration.

**TERMS IN THIS MODULE**

**FISCAL FEDERALISM**  
The determination of state expenditure and taxation powers and the system of revenue sharing, grants and transfers between federal and state governments.

**GRANTS**  
A grant is a voluntary current or capital transfer between government units, or between a multinational organization and a national government. In addition, a voluntary transfer to a private organization or person is also called grant. Grant are treated as expenditure by the granting institution and revenue by the recipient institution.

**SOCIAL UNION**  
The set of social programs—health, education, social assistance, social insurance—available to all citizens.

FISCAL FEDERALISM INTRODUCTION (page 4)

**PAGE 04**

- For a **social union** highlight this focuses on the harmonisation of social programs across different administrative levels of government (national, state, to local) to ensure the most comprehensive access to services for citizens.
- It is worth distinguishing that a **Grant** can be directly from government and delivered to government. For instance, a grant from the Union to a State or Region government. A grant, or rather a transfer, is not just revenue received from donors or international organisations. These are all grants, but there are different types of grants. This module and others will focus on government to government grants.

**TERMS IN THIS MODULE**

**SPENDING POWER**  
The use of the federal government's superior revenue capacity to promote national goals at the state level.

**SHARED TAX BASES**  
Where federal and state (and local) governments have the ability to tax the same base, e.g., personal income, sales.

**TAX HARMONIZATION**  
Consistency in definition of tax bases and rates across states.

**REVENUE SHARING**  
The sharing of a portion of revenues (tax and non-tax) among federal, state and local governments.

**REVENUE TRANSFERS**  
The amount of revenue (tax or non-tax) transferred between orders of government.

FISCAL FEDERALISM INTRODUCTION (page 5)

**PAGE 05**

- Share extended explanations of **tax harmonization** and **spending power**.
- **Tax harmonization** is a process of adjusting taxes among different authorities in the pursuit of a common policy.
- **Spending power** is the authority granted by a legislature to an administration (government) to spend public funds in accordance with an approved budget.
- After explaining a few key terms ask if there are any questions or points of clarification before proceeding with the module.

## WHAT IS FEDERALISM?

**FEDERALISM**  
A federal form of government (as opposed to the 'Unitary State'), which has a subnational structure, with all orders of government having some independent, as well as shared, decision-making responsibilities.

The diagram consists of two overlapping circles. The left circle is teal and labeled 'POWERS DELEGATED TO THE NATIONAL GOVERNMENT'. The right circle is purple and labeled 'POWERS DELEGATED TO THE STATE AND LOCAL GOVERNMENTS'. The overlapping area in the center is dark purple and labeled 'SHARED POWERS'. Below the circles are icons of government buildings.

FISCAL FEDERALISM REPRODUCTION (page 1)

### PAGE 06

→ Provide examples of powers often held by national and/or subnational levels of government:

- Decision making powers often delegated to the national government include:
  - Defence services
  - Border security
  - Foreign affairs
- Decision-making powers often delegated to the State/Local governments:
  - Health care services
  - Education services
  - Local road construction
- Shared decision-making powers between
  - Highway road construction across states
  - Disaster rehabilitation

## COMMON FEATURES OF A FEDERAL SYSTEM

- At least one order of government for the whole country and another for the regions.
- A written Constitution.
- Formal distribution of legislative and fiscal powers between the orders of government.
- Bicameral legislatures; one is usually dedicated to representatives of the regional units or states, to ensure that they have a voice in the formulation of national policy.
- Existence of a system to settle disputes between and among the orders of government.

**LEVELS OF GOVERNMENT**

- A federal state has at least the central or federal government and regional or state governments.
- Some federal states include local governments as a third level. A recent example is Nepal, in which separate powers are vested in them by the Constitution.

FISCAL FEDERALISM REPRODUCTION (page 1)

### PAGE 07

- In addition to slide bullet points, it can be highlighted that while Myanmar has emerging characteristics of a federal system, the level of power-sharing currently allowed for remains a contested issue among different parties in the peace process.
- As opposed to a federal system, a unitary form of government is one in which a central government wields supreme power over all territorial divisions within the nation.
- Most states have this form of government in which subnational governments are often viewed as administrative units tasked to carry out national policies.
- Of the 193 nations comprising the United Nations, approximately 29 have a federal system of governance. More than 45 percent of the world's population is governed through federal systems.

## WHAT IS FISCAL FEDERALISM?

**FISCAL FEDERALISM**  
is about much more than decentralized powers and responsibilities. Rather, it is about the **FISCAL ARRANGEMENTS** between different levels of government.

The diagram shows a central box labeled 'FISCAL FEDERALISM' with 'DECENTRALIZED EXPENDITURE AND REVENUE RAISING RESPONSIBILITIES' below it. Two circles at the bottom are labeled 'ECONOMIC UNION' and 'SOCIAL UNION'. Dotted lines connect the central box to both circles, with 'FISCAL ARRANGEMENTS' written along each line.

FISCAL FEDERALISM REPRODUCTION (page 1)

### PAGE 08

→ Read out the diagram, highlight that fiscal arrangements are the dotted line between a social and economic union. Fiscal federalism is **the glue** which brings them both together.

### A WORD FROM PROFESSOR RONALD WATTS

“...in most federations the **spending power** of each order of government has not been limited strictly to the enumerated legislative and administrative jurisdiction. Governments have usually been taken to possess a general spending power. Thus, federal governments have used their **general spending power** to pursue certain objectives in areas of state jurisdiction by providing grants to regional governments that otherwise could not afford to provide the services being demanded of them.”

Watts, R. 2008. *Comparing Federal Systems* (third edition). Institute of Intergovernmental Relations, School of Policy Studies, Queen's University. McGill-Queen's University Press, P.100.

FISCAL FEDERALISM INTRODUCTION | PAGE 9

**PAGE 09**

- Emphasize that in most federations the **spending power** of each order of government has not been limited strictly to the enumerated legislative and administrative jurisdiction.
- **Spending power** is the authority granted by a legislature to an administration (government) to spend public funds in accordance with an approved budget.

### WHAT IS FISCAL FEDERALISM?

#### PILLARS OF FISCAL FEDERALISM

<b>TAX BASES</b> Exclusive tax bases and shared tax bases	<b>REVENUE SHARING ARRANGEMENTS</b> Tax revenues and natural resource revenues	<b>HARMONIZATION</b> Taxes and expenditures	<b>TRANSFERS &amp; GRANTS</b> Equalization and use of the 'federal spending power'
--	---	--	---

FISCAL FEDERALISM INTRODUCTION | PAGE 10

**PAGE 10**

- There are four pillars in fiscal federalism. This concept has been developed with economics Professor Paul Hobson to help frame what is fiscal federalism.
  - I. **Tax bases: *Exclusive tax bases and shared tax bases.*** Which levels of government have right to tax which resources? Do different levels of government have the right to tax the same tax base (i.e. shared tax bases)?
  - II. **Revenue sharing arrangement: *Tax revenues and natural resource revenues.*** What arrangements are in place to share revenues between different levels of government?
  - III. **Harmonization: *Taxes and expenditures.*** To what extent do taxes and expenditures vary, across different states? And to what extent may they vary?
  - IV. **Transfers & Grants: *Equalization and use of the "federal spending power".*** How is money transferred between different levels of government? To what extent does federal government equalize revenues of different states and promote equity?

### DECENTRALIZATION IN MYANMAR

Myanmar has an evolving system of government that is slowly being decentralized.

**KEY FEATURES OF DECENTRALIZATION:**

**LEGISLATIVE**

- State Legislatures
- Legislative responsibilities according to the 2008 Constitution, Schedule II, as amended in 2015

**EXECUTIVE**

- Chief minister and cabinet
- Executive responsibilities also from Schedule II (also basis for expenditure responsibility)
- Schedule V outlines State/Region government taxation rights/revenue sources

**JUDICIARY**

- State and Regional judiciary subordinate to Union.

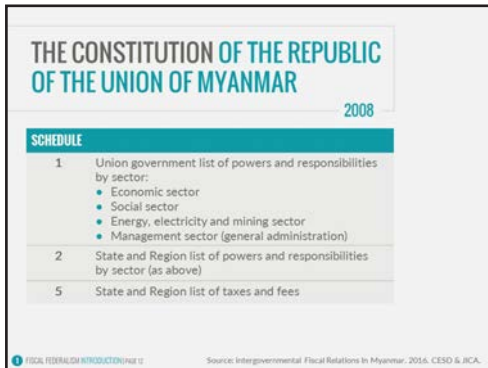
No provision for 'local government.' Myanmar currently has a local administration but no local government.

FISCAL FEDERALISM INTRODUCTION | PAGE 11

**PAGE 11**

- TALK THROUGH KEY FEATURES OF THE LEGISLATIVE, EXECUTIVE, AND JUDICIARY. EMPHASIZE THE FOLLOWING:
- The 2008 Constitution created a new tier of government, and thus represents a step towards decentralization.
  - State/Region governments, created by the 2008 Constitution, have three branches: legislative, executive and judiciary, as detailed in the bullets.
  - While Myanmar has provision for two levels of government, it has no provision for a third tier or local government in the 2008 Constitution.
  - Myanmar has a local administration but no local government.
  - There is greyness in the 2008 Constitution on local administration, and aspects which could be held to define a local government. Local government will be discussed more in another section.





**PAGE 12**

- Encourage participants to look over the handouts provided (Schedule II and V).
- Highlight the core parts of Schedule I, Union government list of powers, Schedule II State and Union list of powers and responsibilities, and Schedule V on State and Region list of taxes and fees.
- Highlight that the four sectors in Schedule 1 are just examples. There are many more in the Constitution.



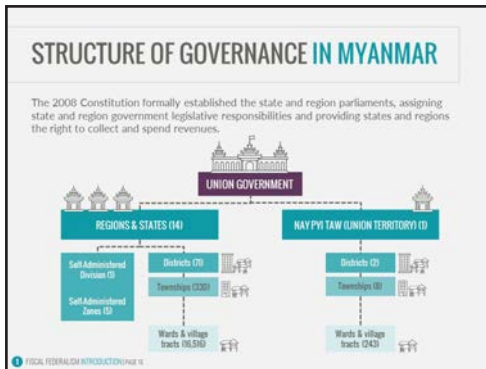
**PAGE 13**

- Ask participants to read through the 2015 Amendments to the 2008 Constitution which is a handout.
- Go over key points in the slide.
- Highlight that there are numerous tax bases for collection including many areas one might not expect: mining and minerals, oil and gas etc.
- In terms of the 'unclear language' there is a consistent reference to "in accordance with the law enacted by the Union." It is not clear what this phrase means in practice in the absence of Union laws to clarify responsibilities. However, this greyness can be seen as an opportunity given that the Constitution is still being interpreted.

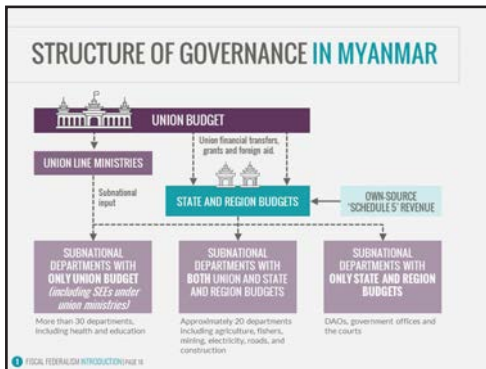


**PAGE 14**

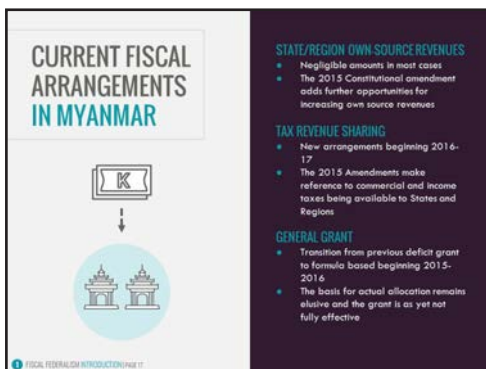
- Get the participants to break into small groups at their tables or in different parts of the room.
- Share the discussion questions. Ask them to read over their handouts before discussing the question.
- Other leading questions during the discussion may include:
- Were you aware of the 2015 Amendments?
- Are you surprised by any content in the 2015 Amendments? If so what?



- The 2008 Constitution formally established the State and Region governments, including parliaments, assigning State and Region government legislative responsibilities and providing States and Region executives the right to collect and spend revenues.
- Talk through the diagram highlighting the different levels of government and structure of the state.



- As the visual shows, State/Region governments have their own budgets, which are partially funded by own-source revenues and partially by the Union government. The state/region budget includes expenditure on government departments.
- A wide number of government departments operating sub-nationally also receive some of their funding directly from the union level.
- Highlight the three lower level boxes when explaining the above.



#### STATE/REGION OWN-SOURCE REVENUES

- The 'own source' revenues collected by States and Regions are negligible amounts in most cases. For instance, Kayin's own source revenues are approximately 4 percent of total revenues.
- The 2015 Constitutional amendment adds further opportunities for increasing own source revenues. However, these have not yet been fully utilized by States and Regions.

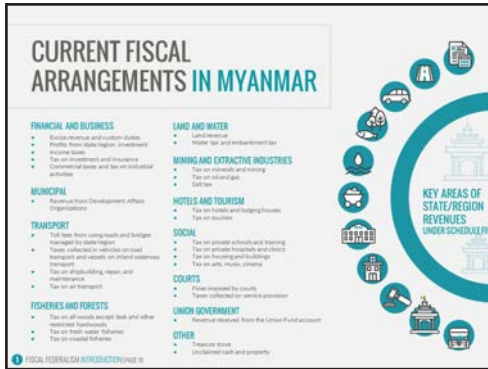
#### TAX REVENUE SHARING

- The 2015 Amendments make reference to commercial and

income taxes being available to States and Regions. These are important tax bases for sharing.

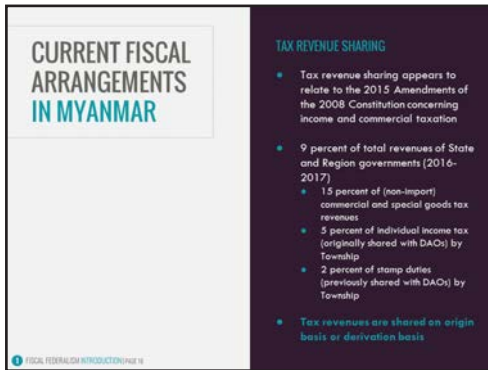
#### GENERAL GRANT

- The transition from previous deficit grant to formula-based beginning 2015-2016 is a positive step. There are ongoing efforts to build capacity around use of the formula.
- Understanding the general grant formula is an important part of understanding fiscal arrangements for subnational government in Myanmar.



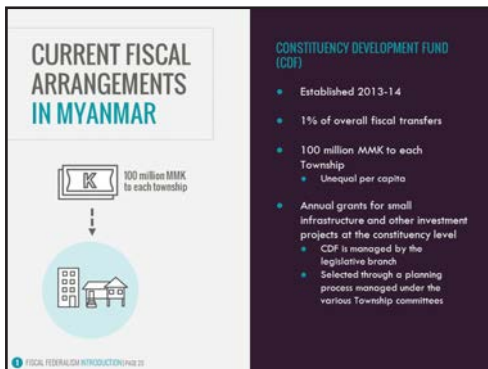
PAGE 18

- Encourage the participants to read the handouts including Schedule V and the 2015 Amendments relevant to Schedule V.
- Schedule V outlines the revenue sources of State/Region governments.
- Schedule V includes a broad range of potential revenue sources for State/Region governments, which are not yet being utilised. To do so, may likely require Union laws to be passed that outline the different responsibilities between levels.
- This includes mining and extractive activity, fisheries and forests, hotels and tourism, and land and water.



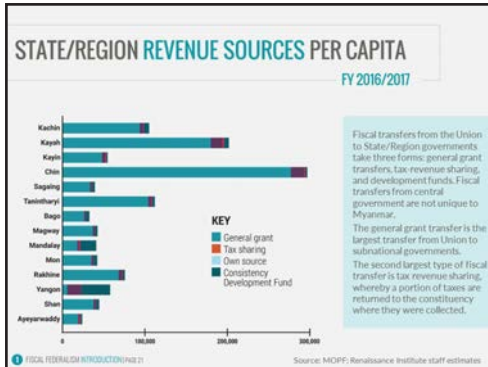
PAGE 19

- Go over key points. Highlight that:
- Income tax is a personal tax levied on annual income.
- Commercial tax is sales tax on various commercial transactions (i.e. meals and services).
- Derivation basis means tax revenues returned to the origin of collection.



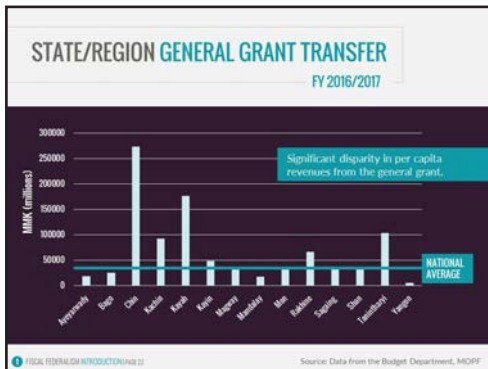
PAGE 20

- Constituency Development Funds (CDF), are ubiquitous across Myanmar given that they are provided to all constituencies. The township and village tract committees play an important role in needs identification and project implementation for the CDF.
- Other local development funds used by the government (current/former) include The Poverty Reduction Fund (PRF) and Rural Development Fund (RDF). The RDF is much smaller than the other two funds and primarily managed under the General Administration Department (GAD).



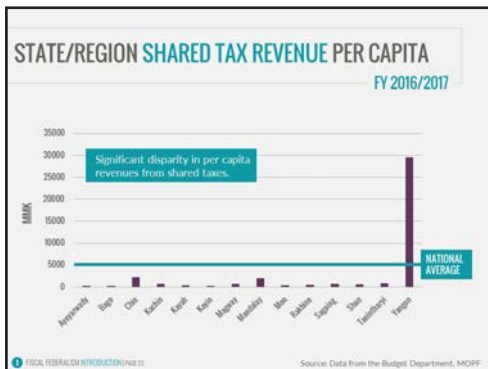
**PAGE 21**

- Highlight the states and regions on the left-hand side of the slide.
- The breakdown of the revenues is per capita, meaning revenues broken down per person. This does not mean each person has access to these revenues, rather it is broken down on a per person basis in that geographical area.
- Focus on the general grant and its significance compared to other revenue sources highlighted in the Key.
- Go over the findings in the green box.



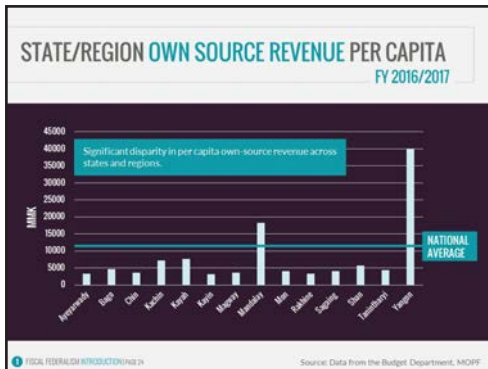
**PAGE 22**

- Highlight the MMK axis, States and Regions (S/R), and the national average. Point to S/R under and over the national average.
- The graph shows Chin and Kayah get a significantly higher per capita amount compared with others S/Rs, particularly Yangon.
- The grant transfers are counted based on formula. This formula accounts for differences in “need” and equalises for differences in capacities to collect taxes.



**PAGE 23**

- Highlight the MMK axis, States and Regions, and the national average. Highlight the level of disparity between Yangon and other S/R. Point to the fact that all other S/R are under the national average.
- Shared tax bases are when federal and state (and local) governments have the ability to tax the same base, e.g. personal income, sales.



**PAGE 24**

→ There is significant disparity in per capita own-source revenue across States and Regions. As expected Mandalay and Yangon Regions are the highest for own source revenues given that they are the business centers and have larger tax base wealth.

**EXERCISE**

- Step 1** Review slides on per capita revenues.
- Step 2** **GROUP DISCUSSION** - 10 minutes  
Is fiscal disparity a problem? If yes/no, why?
- Step 3** **PRESENTATION BY GROUPS** - 10 minutes  
Nominate a speaker to present back in plenary.

FISCAL FEDERALISM INTRODUCTION (page 24)

**PAGE 26**

- Ask participants to go to the slides with page numbers 22 to 24.
- Consider the question: Is fiscal disparity a problem? Why?
- To illustrate: in Myanmar, Yangon and Mandalay regions have larger tax base wealth. As a consequence, they are able to generate higher own source revenues, and receive greater shared tax revenues.

## MODULE 2

# DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT

Module 2

## DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT

- This module will cover aspects of fiscal federalism already present in Myanmar.
- It will consider fiscal decentralisation and revenue transfers already taking place. It will look at social development, or rather levels of poverty and human development, considering the relationship between fiscal transfers and development levels.



**TERMS IN THIS MODULE**

**CAPITAL EXPENDITURE**  
Investments in assets that will last for more than a year, such as vehicles; repair and maintenance expenses for buildings and roads, except military expenses.

**CAPITAL REVENUE**  
Revenues from sale of assets, receipts from private funds, and receipts from foreign aid.

**DECENTRALIZATION**  
The transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations.

**DECONCENTRATION**  
The transfer of responsibility from central ministries to field offices giving them more managerial decision authority autonomous agencies, thereby becoming closer to citizens while remaining part of central government.

DECENTRALIZATION, REVENUE TRANSFERS | PAGE 28

**PAGE 28**

LET THE PARTICIPANTS READ THROUGH FIRST. HIGHLIGHT THE FOLLOWING TERMS:

- **CAPITAL EXPENDITURE**  
Put shortly capital expenditure is infrastructure spending - roads, bridges, highways, bus lines etc. It may include repair and maintenance expenses for buildings and roads.
- **CAPITAL REVENUE**  
For example, capital revenues can be made up of duties (such as charging tourists to land at an airport or import duties to bring in goods to a country), and/or corporate and payroll taxes (for instance, if you have more than a specific number of employees at a business, the business may get charged a 'payroll tax' in some countries).
- **DECONCENTRATION**  
The transfer of responsibility from central ministries to lower level offices giving them more managerial decision authority, and thereby becoming closer to citizens while remaining part of central government. Instances of deconcentration in Myanmar include services such as health and education which in effect remain centralized in terms of policy and decision making albeit delivered through subnational government entities.

**TERMS IN THIS MODULE**

**EQUALIZATION PAYMENTS**  
Payments made from the federal government to subnational governments with the objective of balancing differences in available revenue or in the cost of providing services.

**FISCAL DECENTRALIZATION**  
Fiscal Decentralization describes the way in which expenditure responsibilities and corresponding financial resources are provided to subnational levels. Some discretion over resources may be deconcentrated to lower tiers of central ministries, or more complete control devolved to local government with a system of planning and budgeting, local revenue, central-local transfers, and borrowing.

**PER CAPITA REVENUES**  
Revenues distributed per person.

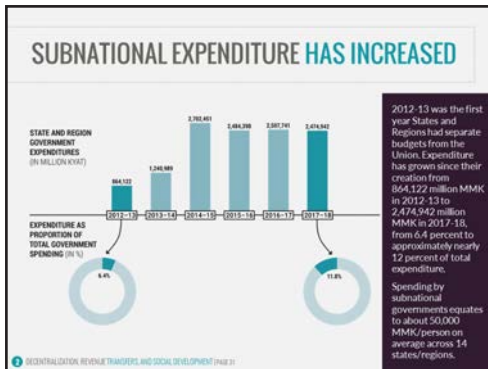
**REVENUE SHARING**  
The dispensing of a portion of federal tax revenue to state and local governments.

DECENTRALIZATION, REVENUE TRANSFERS | PAGE 29

**PAGE 29**

EMPHASIZE THE FISCAL DECENTRALIZATION DEFINITION PROVIDED AND HIGHLIGHT FURTHER DETAILS FOR THE FOLLOWING TERMS:

- **EQUALIZATION PAYMENTS**  
Payments made from the federal government to subnational governments with the objective of balancing differences in available revenue or in the cost of providing services. Many federal systems use fiscal equalization programs to reduce the inequalities. At the State or Region level inequalities may arise from differences in natural endowments, subnational economies, and geography. Equalization measures can be taken by central governments in a federal system. Horizontal sharing may also take place. The level of equalization sought can vary among federations.
- **PER CAPITA REVENUES**  
Highlight again that the breakdown of revenues is per capita, meaning revenues broken down per person. This does not mean each person has access to this revenue as if it is an income. Rather, that it is broken down on a per person basis in that geographical area.



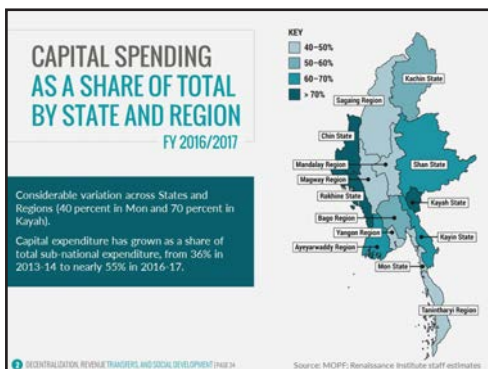
PAGE 31

- 2012-13 was the first year States and Regions had separate budgets from the Union. Expenditure has grown since their creation from 864,122 million MMK in 2012-13 to 2,474,942 million MMK in 2017-18, from 6.4 percent to approximately nearly 12 percent of total government expenditure.
- Spending by subnational governments equates to about 50,000 MMK/person on average across 14 States/Regions.
- Increases in expenditure at the subnational level provide more opportunities for states and regions to meet the needs of citizens.
- Despite these increases, spending at the subnational level remains modest as a proportion of total government spending.



PAGE 32

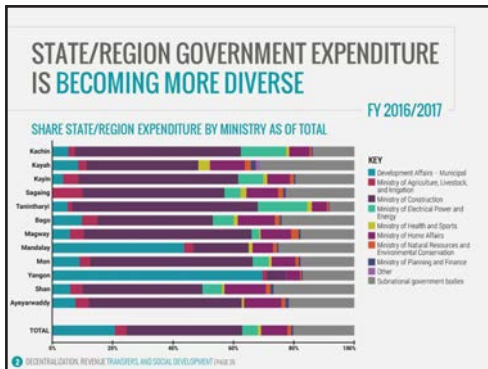
- Let the participants review the slides first. Highlight Myanmar compared with other countries.
- Go over key findings in the light green box.
- States and Regions' share of government expenditure is significantly below that of many other Asian countries. There are also systems which are not 'federal', such as in Vietnam, which has extremely high levels of subnational expenditure. China would likely be even higher than 45 percent.



PAGE 34

- Capital spending, as a share of total expenditure by States and Regions, shows considerable variation (40 percent in Mon and 70 percent in Kayah).
- The available budget data suggests that State governments are prioritizing investment in infrastructure, compared with Region governments.
- There may be a greater need for capital investment in conflict affected areas that have experienced an underinvestment in recent decades.





PAGE 35

- Highlight the Ministry of Construction and subnational government’s expenditure. Also highlight the Municipal expenditure in Yangon and Mandalay.
- Review text on the subsequent slide to highlight some key findings.
  - The proportion of spending by the Ministry of Construction, mostly on trunk roads (highways) and bridges, has fallen from 54 percent of total State and Region expenditure in FY 2013/14 to 38 percent in FY 2016/17.
  - The share of spending on electricity provision at the subnational level has risen from none in 2013-14 to 5% in 2016-17, across 12 States/Regions: up to 16% in Tanintharyi Region.



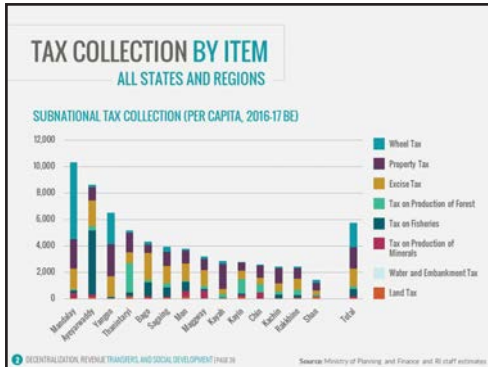
PAGE 36

- Present other information in the slide.
- Spending by State/Region government bodies has increased from 9 percent of total State/Region government expenditure, to over 20 percent.
- Most of this spending is budgeted under the State/Region Cabinet Office and could suggest an increase in discretionary spending of public resources. Through the use of these funds, State and Region governments exercise power over a wider range of activities than might be assumed. For example, in Bago, 70 percent of the cabinet’s recurrent budget-or 17 percent of the total region budget-is spent on irrigation, drainage, and agriculture.



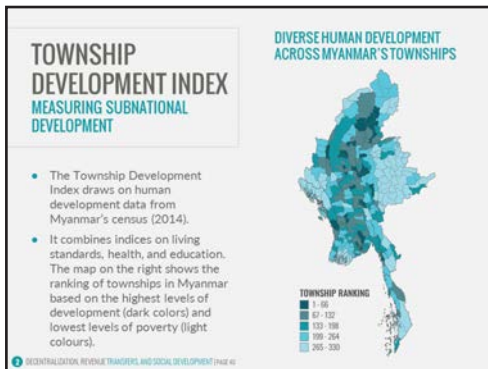
PAGE 38

- Highlight the difference in the vertical axis in the first and second diagram. Yangon and Mandalay are in a separate chart due to their higher revenues, which are a consequence of their higher rates of urbanization.
- Kachin is also significantly higher than other States and Regions. Indeed, Myitkyina has a very well-known DAO office with strong capacity.
- Compare the lowest and highest tax collection in States and Regions.



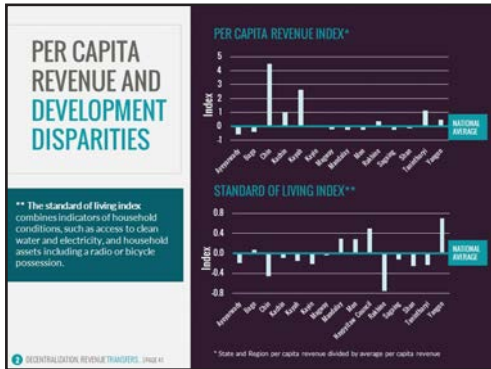
PAGE 39

- Present as information provided in the slide and highlight diversity of tax collection per capita.
- Compare the lowest and highest tax collection by items. Highlight some of the definitions below:
  - **Wheel tax** is a tax levied on drivers, such as registration to drive a car or motorbike.
  - **Property tax** is the government take on any sale of a property. Governments generally have a tax on every transaction for a property. In Myanmar, property taxes are levied at the municipal level. They are based on an estimate of the value of the property. This area of tax offers considerable opportunities for reform and improvement.
  - **Exercise tax** is on certain goods. For instance, a tax on alcoholic beverages.
  - Tax on Production of Forest is a tax taken by a State or Region government on companies milling timber.
  - Tax on Fisheries is basically State or Region governments ensuring people have licences to fish.
  - Tax on Production of Materials is a manufacturing tax.
  - Tax on Water and Embankment is a tax on the use of water by households and businesses.
  - Land Tax is a tax levied on land owners, particularly in wealthy areas or commercially viable properties.
- There is quite a lot of variance between these taxable items. E.g. In Ayeyarwaddy, fisheries taxes are the greatest revenue source, whereas wheel tax is the greatest in Mandalay, for example.



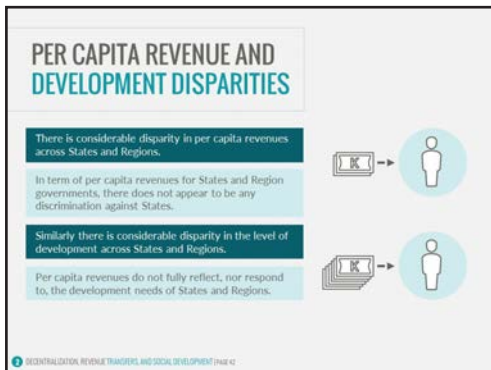
PAGE 40

- The Township Development Index synthesizes indicators of living standards (household assets, household conditions), health, and education drawing on the 2014 Census.
- The Township Development Index and the sub-township Index is the average of three sub-indices:
  - The standard of living sub index, which combines indicators of household living conditions and assets;
  - The health sub index, which combines infant mortality and aging index scores; and
  - The education sub index, which draws on four indicators: literacy rates, school enrolment, and elementary school and middle school attainment rates.
- The map on the right shows the ranking of townships in Myanmar based on the township development index scores.



PAGE 41

- Highlight that the per capita revenue index is the State and Region revenue divided by average revenues for all States and Regions.
- Highlight that the standard of living index combines indicators of household conditions, such as access to clean water and electricity, and household assets including possession of a radio or bicycle.
- Encourage the participants to compare the two charts.
- Ask the group: when we look at both charts together, does it appear that revenues match the development needs of States and Regions?



PAGE 42

- Present as information provided in the slide.
- Highlight that the answer to the above question is 'No. not exactly': per capita revenues do not fully reflect or respond to development needs.
- Emphasize that in terms of per capita revenues for States and Regions, there does not appear to be discrimination against States.

## ASSESSING FISCAL DECENTRALIZATION

- Restructuring of Myanmar's governance often falls more under the definition of **decentralization** which is a part of **decentralization**.
- Decentralization can be seen as a preliminary step in the right direction.
- However, this process might fail to generate the stronger accountability mechanisms that would come through a more concrete decentralization of decision-making power, i.e. devolution.

**DECENTRALIZATION:**  
The transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations.

**DEVOLUTION:**  
The transfer of responsibility from central ministries to field offices giving them more managerial decision authority autonomous agencies, thereby becoming closer to citizens while remaining part of central government.

4 DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT | PAGE 43

### PAGE 43

- The restructuring of Myanmar's governance observed over the past five years seem to fall much more under the definition of decentralization rather than devolution, with subnational entities being strongly dependent on resources transferred from the Union, while subnational departments and SOEs represent subnational agencies of Union ministries.
- Development Affairs Organisations (DAOs) or municipalities should be considered as going against this trend - decentralized, but small budgets etc.
- Although it is suggested that many of the reforms to date suggest decentralization rather than devolution, this does not mean efforts in the latter direction should not be welcomed. 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 decentralized 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, decentralization should be considered only a preliminary step in the right direction.

## EXERCISE

- Step 1 Review slides on development and revenue disparities.
- Step 2 **PLENARY DISCUSSION** - 10 minutes  
Could further decentralization address development disparities

4 DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT | PAGE 46

### PAGE 46

- In an plenary session, ask participants to review slides on development and revenue averages, namely page 41.
- Open up the discussion with a question: could further decentralisation address development disparities? What else can be done to target development needs?

## MODULE 3

# FISCAL FEDERALISM AND EQUALIZATION

→ This module will introduce a core concept to fiscal federalism: equalization.

The image shows a dark purple rectangular cover for Module 3. At the top left, the text "Module 3" is written in white, with the number "3" inside a teal circle. Below this, the title "FISCAL FEDERALISM AND EQUALIZATION" is displayed in white and teal. At the bottom of the cover, there are two logos: the USAID logo on the left, which includes the text "UNITED STATES OF AMERICA", "USAID", and "FROM THE AMERICAN PEOPLE", and the The Asia Foundation logo on the right, which consists of a purple circular icon and the text "The Asia Foundation".

Module 3

FISCAL FEDERALISM AND EQUALIZATION

 USAID  
FROM THE AMERICAN PEOPLE

 The Asia Foundation

**TERMS IN THIS MODULE**

**EQUALITY:** The condition of being equal, especially in status, rights, and opportunities.

**EQUITY:** The quality of being fair and impartial; justice according to natural law.

**EQUALIZATION PAYMENTS:** Payments made from the federal government to subnational governments with the objective of balancing differences in available revenue or in the cost of providing services.

**FISCAL INEQUITY:** The unequal treatment of equals across jurisdictions due to differences in Net Fiscal Benefits.

**NET FISCAL BENEFITS:** The difference between per capita benefits received and per capita taxes paid.

**REVENUE SHARING:** The dispensing of a portion of federal tax revenue to state and local governments.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 49)

**PAGE 49**

→ Introduce new terms:

- **EQUALITY:** The condition of being equal, especially in status, rights, and opportunities.
- **EQUITY:** The quality of being fair and impartial.
- **EQUALIZATION PAYMENTS:** Payments made from the federal government to subnational governments with the objective of addressing inequities.
- **NET FISCAL BENEFITS:** The difference between per capita benefits received and per capita taxes paid.
- **REVENUE SHARING:** The dispensing of a portion of federal tax revenue to state and local governments.

**EQUITY AND EQUALITY**

**EQUALITY**  
Equality is the condition of being equal, especially in status, rights, and opportunities.

**EQUITY**  
Equity is the quality of being fair and impartial; justice according to natural law.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 50)

**PAGE 50**

HIGHLIGHT THAT:

- Equality is the condition of being equal, especially in status, rights, and opportunities.
- Equity is the quality of being fair and impartial.
- Highlight diagram.

**NET FISCAL BENEFITS (NFB)**

**NFB = BENEFITS RECEIVED - TAXES PAID**  
Net Fiscal Benefits (NFBs) are essentially the difference between per capita benefits received and per capita taxes paid.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 51)

**PAGE 51**

**NFB = BENEFITS RECEIVED - TAXES PAID**

- The word 'net' means total. Thus, the concept 'Net Fiscal Benefits (NFBs)' are about the total benefits received. To understand benefits received, this is developed through essentially the difference between per capita (per person) benefits received and per capita (per person) taxes paid in a specific geographic area.
- Highlight in the slide picture that taxes are paid by the 'citizen' and the delivery of services is provided by the government.

## EQUALIZATION

- It is the role of equalization payments to compensate for fiscal disparities in a federation—to equalize net fiscal benefits.
- Differences in net fiscal benefits across states can arise from differences in:
  - State tax capacities
  - The cost of providing state public services
  - The need for particular public services within the state
- Equalization grants can eliminate these differences in net fiscal benefits across states.
  - Based on relative tax capacity and on relative need for and cost of providing state public services.
- Objective is to enable states to be able to provide reasonably comparable levels of public services at reasonably comparable tax rates.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 53)

PAGE 53

- Differences in net fiscal benefits across states can arise from differences in:
  - State tax capacities
  - The cost of providing state public services
  - The need for particular public services within the state
- Equalization grants can eliminate these differences in net fiscal benefits across states. Based on relative tax capacity and on relative need for and cost of providing state public services.

## EQUALIZATION

### EQUALIZING FOR DIFFERENCES IN 'NEEDS'

Formula based on needs indicators such as:

- Population size
- GDP per capita
- Poverty rate
- Demographics
- Population density

### EQUALIZING FOR DIFFERENCES IN TAX CAPACITIES

Formula based on equalization of per capita tax revenues:

- All sources, including natural resources

Various standards:

- National average
- Top state
- Representative group of states

Net versus gross schemes.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 54)

PAGE 54

- EQUALIZING FOR DIFFERENCES IN 'NEEDS'
  - Formula based on needs indicators are often used. See the slide examples.
- EQUALIZING FOR DIFFERENCES IN TAX CAPACITIES
  - Formula based on equalization of per capita tax revenues
    - National average
    - Top state
    - Representative group of states

## THREE EXAMPLES OF EQUALIZATION

AUSTRALIA	CANADA	GERMANY
Equalization in Australia is on a "needs" basis, administered by the Commonwealth Grants Commission. In Australia, expenditures are highly decentralized while tax revenue collection is highly centralized.	Equalization in Canada is based on the Representative Tax System (RTS), designed to raise fiscal capacities in provinces with below average fiscal capacities to the national average. Referred to as a "gross" scheme, Canada is highly decentralized in terms of expenditure responsibilities and tax powers, including natural resources.	Equalization in Germany is centered on the major taxes and operates as a "net" scheme. Collection of the major taxes is centralized with explicit revenue sharing arrangements on a fully equalized derivation basis. Revenue rich states are equalized down to the national average; revenue deficient states are equalized up. These arrangements are constitutionalized.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 55)

PAGE 55

- Go over the three examples.
- Highlight that both Germany and Canada have equalization principles in their Constitutions. This is, however quite rare, and mostly revenue sharing arrangements are articulated in laws and policies.

**EXERCISE**

Step 1 Review terms and slides on equity, equality and equalization.

Step 2 **GROUP DISCUSSION** - 10 minutes  
Why is equalization needed in Myanmar?  
What can be the benefits of equalization?

Step 3 **PRESENTATION BY GROUPS** - 10 minutes  
Nominate a speaker to present back in plenary.

FISCAL FEDERALISM AND EQUALIZATION (PAGE 56)

**PAGE 56**

- Encourage participants to go back to some of the early parts of the module to review slides on equity, equality and equalization.
- Consider the group work question: Why is equalisation needed in Myanmar? What can be the benefits?
- Following the presentations by groups, highlight that we will be applying this concept of equalisation in the session on natural resources.

**TYPES OF GRANTS AND TRANSFER**

**REVENUE SHARING TRANSFERS**

**SPECIFIC PURPOSE GRANTS**

- Lump sum

**COST-SHARING ARRANGEMENTS**

- Matching grants tied to health, education and social assistance programs delivered by states
- Infrastructure development
- Green technology development

**BLOCK GRANTS**

- Transfers to states in support of expenditures in key areas
  - Equal per capita
  - Per capita "needs" based

FISCAL FEDERALISM AND EQUALIZATION (PAGE 57)

**PAGE 57**

**REVENUE SHARING TRANSFERS**

- Specific purpose grants often delivered as a lump sum, can include the targeting of groups based on specific needs. For instance, use of a specific purpose grant to respond to a natural disaster or the needs of IPDs due to conflict.
- Cost-sharing arrangements in federation often include matching grants tied to health, education and social assistance programs delivered by states, as well as shared support for infrastructure development.
- Block grants are direct transfers of funds to states in support of expenditure in key areas. This could include primary education for instance, with a block grant based on the number of students.

**TAX REVENUE SHARING & EQUALIZATION**

Devolution of tax powers to state governments, e.g., personal income tax, corporate income tax, sales tax

- State control of tax base and rate structure
- Potential for fiscal disparities across states

Centralized tax collection, defined share returned to states on derivation basis (proportion of revenues collected in a state are returned to the state)

- Common definition of different taxes
- Complementary equalization payments required

Centralized tax collection, equal per person distribution to states

- Per capita revenues equalized to national average standard Common definition of different taxes

FISCAL FEDERALISM AND EQUALIZATION (PAGE 58)

**PAGE 58**

**ASK PARTICIPANTS TO CONSIDER:**

- What can happen in the case of a devolution of tax powers to state governments? (e.g., personal income tax, corporate income tax, sales tax)
  - There is a potential for fiscal disparities across states which needs to be addressed.
- In a centralized tax collection system, there is a defined share of taxes returned to states on an origin basis i.e. a proportion of revenues collected in a state are returned to the state
  - In these types of systems there are often complementary equalization payments required.
- Centralized tax collection, equal per person distribution to states
  - In this type of system the per capita revenues are equalized to national average.
- On page 63 we will go through this in more detail considering the current levels per person revenue across Myanmar



## GENERAL GRANT

**GENERAL GRANT:**  
A revenue based transfer based on need and fiscal capacity. Formula based since 2015-2016.

**DISTRIBUTION FORMULA (WEIGHTING):**

**NEED CRITERIA**

- Land area
- Population
- Poverty rate

**FISCAL CONSTRAINT**

- Tax collection per capita
- % Urban population
- GDP per capita

FISCAL FEDERALISM AND EQUALIZATION / PAGE 59

PAGE 59

- The general grant, the main source of revenue provided to States and Regions in Myanmar, has some aspects of 'equalizing' measures. For instance, it considers needs, such as poverty, and constraints to collect taxes.
- As highlighted 'need criteria' and 'fiscal constraint' are equally weighted at 50 percent each.
- This formula was introduced in 2015-2016 by the central government with support from the World Bank.
- It is not yet a fully functioning equalisation measure, but it is a positive step.
- The formula itself is important in order to understand how this grant to States and Regions works.

## CURRENT FISCAL ARRANGEMENTS IN MYANMAR

**DISTRIBUTION FORMULA (WEIGHTING):**

**NEED CRITERIA**

**FISCAL CONSTRAINT**

**GENERAL GRANT**

- Previously for "deficit financing"
- Since 2015/16, formula based, but only applied to incremental amounts
- Grant Pool defined in Union budget, to be divided among States/Regions
- Needs-related criteria
- Fiscal constraint-related criteria
- Net of revenue sharing provisions
- **Criteria used:**
  - Needs-related
    - State/Region Population
    - State/Region Poverty Index
    - State/Region land area
  - Fiscal constraint-related
    - State/Region per capita GDP
    - State/Region urban population as a percentage of total state population
    - State/Region per capita tax collection (actual)
- Equal weighting

FISCAL FEDERALISM AND EQUALIZATION / PAGE 60

PAGE 60

- Go over the criteria of the general grant in the slide.
- Highlight that these criteria are weighted together in the formula. These items outlined are equally weighted and the fiscal constraint and needs are 50/50 in the total weighting.
- While this is one method to approach the general grant, it is not the only way to utilize criteria and apply weighting for grant allocations.
- Things you might consider in becoming more familiar with the general grant: Are these the right criteria? What else could be included/excluded? Should these items be equally weighted or should specific items be weighted differently?

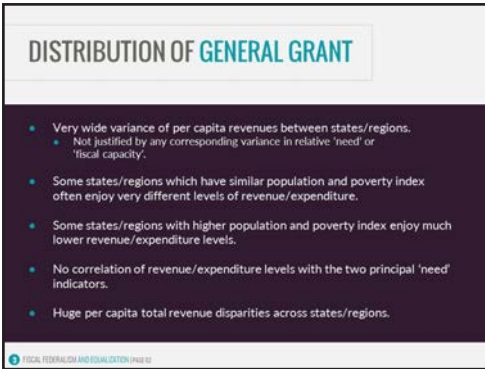
## DISTRIBUTION OF GENERAL GRANT

- Previously, general grant transfers were conceived as 'deficit financing'
  - Annual State and Region government budget submissions were reviewed by the Union government and a determination was made of the amount by which projected deficits would be offset for each State and Region.
- Since 2015/16, the formula-based approach is being phased in
  - Criteria used in 2015/16
    - State/Region population, poverty index, and per capita GDP.
  - Additional criteria added in 2016/17
    - State/region land area, urban population as a percentage of total population, and per capita tax collection.
- Formula applied only to annual increments to grant pool.

FISCAL FEDERALISM AND EQUALIZATION / PAGE 61

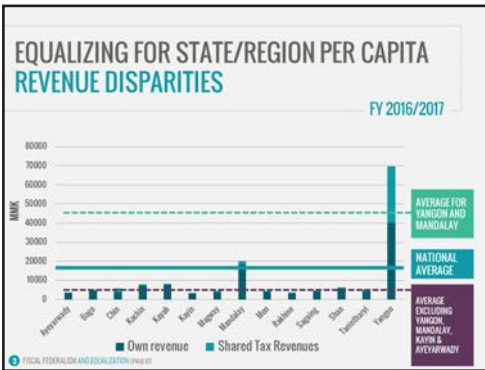
PAGE 61

- Previously, general grant transfers were conceived as 'deficit financing' which involved annual State and Region government budget submissions which were reviewed by the Union government. Since 2015/16, the formula-based approach is being phased in using the mentioned criteria.
- One issue which may be occurring in the formula's use is that it is only applied to annual increments for the grant pool. Thus, the increasing amount from year to year, not the total grant pool amount, is what the formula is applied to.



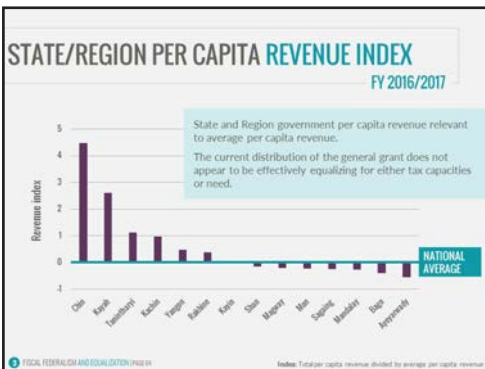
PAGE 62

- This slide summarizes some of the key issues in the application of the general grant.
- Go over all points in the slide.
- Also emphasize that the step towards having a formula-based grant is a good one. It will take time to improve the quality of data inputs and fully apply the formula.
- We also know that some areas, such as Chin, which do benefit significantly from the grant, are indeed poor.



PAGE 63

- Highlight the MMK axis, and States and Regions. This graph shows some of the average levels of revenues per capita (per person) across the different lines.
- The green is the average for Yangon and Mandalay, obviously much higher than the rest. The next line is the national average. This combines all States and Regions per person revenue. Below this is the average for all States and Regions, excluding the top two and the bottom two States/Regions in the graph. For the latter this includes Kayin and Ayeyrawady.
- Given this significant drop down for many areas from the national average, this highlights significant fiscal disparity and the need for equalisation to have more States and Regions closer to the national average for per person/per capita revenues.



PAGE 64

- Ask participants what trends they see in the chart before going into the key findings in the light green box.

### EXERCISE

- Step 1 Review section on grants and transfers.
- Step 2 **GROUP DISCUSSION** - 15 minutes  
Should an equalization system take from the revenue rich states and give to the revenue poor states?
- Step 3 **PRESENTATION BY GROUPS** - 10 minutes  
Nominate a speaker to present back in plenary.

FISCAL FEDERALISM AND EQUALIZATION (Page 66)

PAGE 66

- Divide participants into small groups. Encourage participants to review slides and then answer the question in the context of Myanmar: Should an equalization system take from the revenue rich states and give to the revenue poor states?

# MODULE 4

# FISCAL FEDERALISM AND NATURAL RESOURCES

Module 4

## FISCAL FEDERALISM AND NATURAL RESOURCES

- This module will focus on fiscal federalism and natural resources; a key issue relevant to Myanmar's reform agenda, its economic growth, and the peace process.
- In federations natural resources are often a source of tension as to who benefits. This involves horizontal tension between states and vertical tension between states and the central government. It is important to note, that there is no one federation that manages its natural resources perfectly. Even in developed nations they are contentious.
- This module will look at natural resources in the context of fiscal federalism.
- In no way is this module meant to offer a recommendation on how Myanmar should manage its resource base and revenues. Rather, it provides an overview of options for discussion.



**TERMS IN THIS MODULE**

**NET FISCAL BENEFITS**  
The difference between per capita benefits received and per capita taxes paid.

**EQUALIZATION PAYMENTS**  
Payments made from the federal government to subnational governments with the objective of balancing differences in available revenue or in the cost of providing services.

**NATURAL RESOURCE RENTS**  
Revenues net of all costs, including extraction costs, environmental costs, compensation payments, etc.

**NATURAL RESOURCE RESPONSIBILITY**  
The ownership and management of natural resources.

FISCAL FEDERALISM AND NATURAL RESOURCES | PAGE 68

**PAGE 68**

**HIGHLIGHT NEW TERMS IN THIS MODULE:**

- ➔ **NATURAL RESOURCE RESPONSIBILITY**  
The ownership and management of natural resources.
- ➔ This module will apply concepts covered in this curriculum including Net fiscal benefits, and equalization. It will look at different approaches for both revenue sharing and management.

**2008 CONSTITUTION SECTION 37**

**37. The Union:**

- a) is the ultimate owner of all lands and all natural resources above and below the ground, above and beneath the water and in the atmosphere in the Union;
- b) shall enact necessary law to supervise extraction and utilization of State-owned natural resources by economic forces;
- c) shall permit citizens right of private property, right of inheritance, right of private initiative and patent in accord with the law.

While the 2008 Constitution outlines Union government ownership of natural resources, it does not prevent increased resource revenue sharing between the Union government and States and Regions.

FISCAL FEDERALISM AND NATURAL RESOURCES | PAGE 72

**PAGE 72**

- ➔ Many participants may not be directly aware of Section 27 of the 2008 Constitution. Read it out slowly.
- ➔ Highlight what this actually means: there is a strong articulation of the Union government ownership. This has some implications for how resources are managed. However, there is no mention of revenue sharing.
- ➔ For the most part, in other federal countries, natural resource revenue sharing is based on laws and policies rather than provisions within a constitution.
- ➔ In Myanmar, increasing natural revenue sharing, from the central government to States and Regions, is possible within the confines of the 2008 Constitution.

**2008 CONSTITUTION SCHEDULE V**

**Schedule V:**

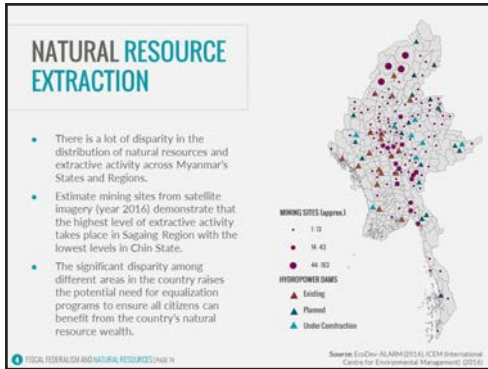
29. Tax on Oil and Gas which are entitled to be carried out within the Region or State in accordance with the law enacted by the Union.
30. Tax on Mineral and Mining which are entitled to be carried out within the Region or State in accordance with the law enacted by the Union.

Schedule V includes provisions for tax collection of oil and gas, minerals and mining by States and Regions in accordance with laws by the Union. These types of intergovernmental fiscal arrangements to increase own source revenues in States and Regions can be pursued without reforming the constitution.

FISCAL FEDERALISM AND NATURAL RESOURCES | PAGE 73

**PAGE 73**

- ➔ Highlight that Schedule V is the legislative list for the revenues and fees which shall be levied by the Region or State.
- ➔ Read Schedule V provisions in the green box.
- ➔ Additional items for the legislative list for revenues and fees were added via the 2015 Amendments to the 2008 Constitution. This includes provisions for State and Region level tax collection against industries such as oil and gas, and minerals and mining. However, these have not been fully utilised.
- ➔ Ask participants: Are you aware of these provisions? What is the best way to interpret them to allow for more own-source revenue collection?



**PAGE 74**

- Natural resource endowments in a federal system are typically allocated unevenly across the country.
- There is a lot of disparity in the distribution of natural resources and extractive activity across Myanmar's States and Regions.
- Explain the legend: the mining sites are collected via satellite imagery. The legend shows three dots which indicate small to larger amounts of mining sites. The largest dot represents between 44-163 mines. The triangles represent hydropower sites - planned, existing, and under construction.



**PAGE 75**

- The next section of this presentation will focus on options for natural resource responsibility.
- Four are outlined here (refer to slide) and will be explored.



**PAGE 76**

- There are different ways to share revenues from natural resources. This can be done directly and indirectly.
- Indirect sharing could potentially involve the financing of infrastructure projects. Direct revenue sharing can be both vertical (State/Region to Union; Union to State/Region) and horizontal (State/Region to State/Region).

## REVENUE SHARING AND NATURAL RESOURCES

- An important qualification is that it is natural resource rents (revenues net of all costs, including extraction costs, environmental costs, compensation payments, etc.) not gross revenues from sales that are subject to revenue sharing. A significant implication of this is that the portion of resource revenues subject to revenue sharing is less than 100%.
- Where natural resource ownership is centralized, there is nothing to prevent sharing of natural resource rents with sub-national levels of government through the fiscal arrangements.
- This can be done on a derivation basis but again gives rise to potentially significant issues of fiscal disparity.

FISCAL FEDERALISM AND NATURAL RESOURCES (page 78)

PAGE 78

- Highlight
  - An important qualification is that it is natural resource rents (all costs, including extraction costs, environmental costs, compensation payments, etc.) not gross revenues from sales that are subject to revenue sharing: the portion of resource revenues subject to revenue sharing is less than 100%.
  - An important consideration is the wider costs and revenues.
  - Where natural resource ownership is centralized, such as is the case in Myanmar, there is nothing to prevent sharing of natural resource rents with State/Region levels of government through the fiscal arrangements.
  - This can be done on a derivation basis, or rather an origin basis.
- Where there is potential for revenue sharing to create fiscal disparity equalization measures should be considered.

## REVENUE SHARING OF NATURAL RESOURCES

Alternatively, it can be done on a 'need' basis, for example cost-sharing arrangements on infrastructure development. Such arrangements are equalizing where 'need' is a reflection of sub-national economic disparity.

OPTIONS FOR RENT SHARING:

- State-to-State (horizontal sharing)
- State-Federal (vertical sharing): A portion of resource rents transferred to the federal
- Government may be used to finance equalizing transfers to resource-deficient states and/or to finance national projects.

FISCAL FEDERALISM AND NATURAL RESOURCES (page 79)

PAGE 79

- Another approach to revenue sharing can be on a 'needs' basis through cost-sharing arrangements. For instance, where there is economic disparity.
- Outline the three areas for revenue sharing.

## NET FISCAL BENEFITS (NFB)

$NFB = BENEFITS RECEIVED - TAXES PAID$

REGION/STATE A CITIZEN

REGION/STATE B CITIZEN

Natural resource revenue

No natural resource revenue

FISCAL FEDERALISM AND NATURAL RESOURCES (page 80)

PAGE 80

- This diagram shows Citizen A and Citizen B, one from a resource rich state and the other a resource poor state. This demonstrates how Citizen A receives services, through a combination of paying taxes and living in an area contributing a natural resource income. To allow for comparable levels of services, Citizen B, pays more in taxes to receive comparable benefits.
- In some countries, to ensure equalisation and promote national fairness, a 'maximum' benefit is used to balance the federal transfers (i.e. the general grant in Myanmar) with the resource revenues held by states. Going over the 'maximum' benefit can lead to a deduction from the federal transfer to balance both of these sources of revenues.
- This diagram also highlights the issue of needing to equalize resource rich and poor areas within a tax system.
- Other issues of concern when balancing all benefits received are negative environmental impacts where extraction takes place.

## REVENUE SHARING OF NATURAL RESOURCES

Where natural resource ownership is a sub-national responsibility, significant fiscal disparity can emerge among sub-national governments.

OPTIONS FOR RENT SHARING:

State-to-State (horizontal sharing)

State-Federal (vertical sharing): A portion of resource rents transferred to the federal

Government may be used to finance equalizing transfers to resource deficient states and/or to finance national projects.

FISCAL FEDERALISM AND NATURAL RESOURCES (PAGE 81)

PAGE 81

- Highlight contents of the light green box.
- Emphasize that where natural resources are a sub-national responsibility, significant fiscal disparity can emerge which raises the issue of the need for equalisation. This could happen through horizontal, state to state revenue sharing from resource rich areas to a resource poor area.
- Outline all three revenue sharing options.

## EQUALIZATION OF NATURAL RESOURCE REVENUES

Redistribution of resource revenues from States or Regions with above average per capita resource revenues to those with below average per capita resource revenues, in other words equalization to the national average:

Equivalent to central government ownership with equal per capita distribution across States or Regions

FISCAL FEDERALISM AND NATURAL RESOURCES (PAGE 82)

PAGE 82

- The horizontal sharing of resource revenues to allow for equalisation of natural resource poor areas to the national average could be equivalent to central government ownership with equal per capita distribution. This needs to be considered in debates around state and central level ownership.

## EQUALIZATION OF NATURAL RESOURCE REVENUES

- Responsibility of central government to equalize: States or Regions with below average per capita resource revenues up to national average or even the per capita level of the richest states or regions: imposes a potentially major fiscal burden on central government which has no direct access to the resource base, the cause of the problem.
- Corporation income taxes and production taxes in connection with the resource sector are also sources of fiscal inequity and inefficiency.

FISCAL FEDERALISM AND NATURAL RESOURCES (PAGE 83)

PAGE 83

- Emphasize that a central government without direct access to the natural resource base will potentially face a major fiscal burden if it is to fund a country-wide equalisation program.
- It is important to not just look at resource revenues. Also consider wider rents: commercial and income taxes in connection to resources to fully understand who benefits from what and where money flows.

## EXERCISE

- Step 1 Review natural resource sharing options.
- Step 2 **GROUP DISCUSSION** - 20 minutes  
How can sharing natural resource revenues be done through new fiscal arrangements? What can be done in the short-term and long-term?
- Step 3 **PRESENTATION BY GROUPS** - 15 minutes  
Nominate a speaker to present back in plenary.

FISCAL FEDERALISM AND NATURAL RESOURCES PAGE 84

**PAGE 84**

- Emphasize that natural resource management and revenue sharing is always a contentious topic, even in functioning democratic federal states.
- Ask people to join into groups to consider the questions.
- For the longer-term and short-term question on what can be done, reflect on earlier parts of the session. For instance, that there are no constitutional restrictions on revenue sharing between the central government and States/regions. Suggest the short to long term approach could consider what can be done now within the 2008 Constitution and what can be done later through constitutional reform?



## MODULE 5

# FISCAL FEDERALISM: PUBLIC INFRASTRUCTURE, PUBLIC SERVICES, AND HUMAN CAPITAL

Module 5

## FISCAL FEDERALISM: PUBLIC INFRASTRUCTURE, PUBLIC SERVICES, AND HUMAN CAPITAL

- This module considers how public infrastructure and services can be supported through fiscal arrangements in a federal system. The module will focus on building a social union and an economic union to promote development and the role of subnational government.
- In building a social union it emphasizes the role of subnational governments in providing healthcare, education, and social assistance. These are core functions of subnational governments in federal systems.



**TERMS IN THIS MODULE**

**COST SHARING ARRANGEMENTS**  
The sharing of the costs of program delivery between federal and state governments through matching grants.

**EQUITY AND EFFICIENCY GOALS**  
The dual goals of providing all citizens with similar provision of public services (the social union) and promoting a prosperous economy (the economic union).

**INTERGOVERNMENTAL FISCAL RELATIONS**  
The fiscal arrangements between orders of government—revenue sharing, grants, transfers.

**REVENUE SHARING**  
The dispensing of a portion of federal tax revenue to state and local governments.

**SOCIAL UNION**  
The set of social programs—health, education, social assistance, social insurance—available to all citizens.

FISCAL FEDERALISM PUBLIC, PAGE 87

**PAGE 87**

HIGHLIGHT ALL DEFINITIONS TO RECAP.

- EQUITY AND EFFICIENCY GOALS  
The dual goals of providing all citizens with similar provision of public services (the social union) and promoting a prosperous economy (the economic union).
- INTERGOVERNMENTAL FISCAL RELATIONS  
The fiscal arrangements between orders of government—revenue sharing, grants, transfers.
- REVENUE SHARING  
The dispensing of a portion of federal tax revenue to state and local governments.
- SOCIAL UNION  
The set of social programs—health, education, social assistance, social insurance—available to all citizens.

**PUBLIC INFRASTRUCTURE**

**ROAD DENSITY PER TOWNSHIP**

- Building roads is one of the highest development priorities of the government. Several government agencies are involved in the building of roads, from national highways to local roads in Myanmar.
- The allocation of funds for public infrastructure development has not always matched the needs of states or regions.
- Roads are an appropriate area for cost sharing arrangements between the Union and State/Region and local governments.

TOWNSHIP RANKING ROAD DENSITY

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL, PAGE 91

**PAGE 91**

- Go over key points in the slide.
- Turn to the map. The density of roads, as collected via satellite imagery, is shown here across Myanmar’s townships. Highlight the legend which includes a ranking of all 330 townships based on road density. Show how in Yangon and middle parts of the country there is higher road density. Highlight an area such as Muse Township in Northern Shan, a trade route to China, which has higher road density than surrounding areas.
- The map also highlights the disparity in road density with low levels in parts of Kachin, Shan, Rakhine, Chin and Sagaing.

**BUILDING A SOCIAL UNION**

State and Region governments’ responsibilities should go beyond building roads and bridges to have increased fiscal responsibilities for building an equitable social union and promoting development:

- Building hospitals and schools or other social infrastructure (recreation and cultural centers, parks and public spaces).
- Effectively operating social services and maintaining social infrastructure.

This could involve developing national standards for health and education, promoting universality, comprehensiveness, portability and public administration to be negotiated between State/Region, local, and Union levels of government.

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL, PAGE 92

**PAGE 92**

- Present points in the slide. Emphasize at the end that national standards are not mandatory but are regularly used federal systems to set standards for health and education provision.
- Highlight that State/Regions need to negotiate these arrangements with the Union government.

## BUILDING A SOCIAL UNION

Advancing the role of State and Region governments in public services, such as health and education provision may require **revenue transfers** that are commensurate with such additional responsibilities.

**Intergovernmental fiscal relations** should reflect national **equity and efficiency goals** in a federal model.

This is also an appropriate area for **cost sharing arrangements** between the Union and State/Region and local governments.

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL | PAGE 93

**PAGE 93**

- Building a social union requires a strengthened role of States and Regions in Myanmar in areas beyond road building. There are provisions in the 2008 Constitution Schedule II which potentially allow for a broader role of States and Regions which haven't been fully utilized.

## HEALTH: BUILDING A SOCIAL UNION

**2008 CONSTITUTION:**  
Section 367. Every citizen shall, in accord with the health policy laid down by the Union, have the right to health care.

Myanmar currently allocates only 5.23 percent of its total budget on health, which is an improvement over past years, but still extremely low by global and regional standards.

**MYANMAR NATIONAL HEALTH PLAN (2017-2021):**  
Recognizes different types of providers, through the engagement of Ethnic Health Organizations (EHOs), Non-Governmental Organizations (NGOs), private-for-profit providers, etc.

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL | PAGE 94

**PAGE 94**

- Highlight that the constitution has a 'university' provision within it for health.
- There have been many positive steps forward with the 2017-2021 Myanmar National Health Plan. Importantly it recognises a diversity of different health providers, including ethnic health organisations operating in some of the hardest to reach places affected by conflict.

## HEALTH: BUILDING A SOCIAL UNION

It is common among federations that health care would be a subnational responsibility, i.e. State and Region departments for health and supporting fiscal arrangements:

**Cost sharing arrangements**

- The magnitude of cost-sharing will be greater based on the degree of public funding
- Matching grants provide a mechanism to respond to different needs across states and regions as opposed to equal per capita funding

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL | PAGE 95

**PAGE 95**

- Emphasize it is normal to have health departments in federations that provide health services at the state level.
- It is important to remember the cost of these types of services. Health care is extremely expensive.
- Ask participant if they believe health care should be delivered at the State/Region level. If yes, what fiscal arrangements are needed?
- Go to the 'cost sharing arrangements' section of the slides and highlight two points and the use of matching grants between a State/Region and Union to respond to need.

**EDUCATION: BUILDING A SOCIAL UNION**

State and Region government departments have limited fiscal responsibilities and education currently remains highly centralized in terms of budgets, policy and expenditure in Myanmar

Subnational administration of education is common in many federations. At a union or State/Region level guidelines may be issued with respect to accessibility, universality, and teacher-student ratios

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL 1 PAGE 96

**PAGE 96**

- Present key points.
- Highlight that who provides education and in what language is obviously a contentious issue in Myanmar. Subsequent slides will consider both government and non-government education providers.
- In areas affected by conflict it is particularly important there is coordination between States/Regions and non-government education providers to reach the most vulnerable populations.

**EDUCATION: BUILDING A SOCIAL UNION**

**2008 CONSTITUTION:**

Section 366.  
Every citizen, in accord with the educational policy laid down by the Union

- a) has the right to education;
- b) shall be given basic education which the Union prescribes by law as compulsory;

Section 9. Social Sector

- a) Educational curricula, syllabus, teaching methodology, research, plans, projects and standards;
- b) Universities, degree colleges, institutes and other institutions of higher education;
- c) Examinations prescribed by the Union;

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL 1 PAGE 97

**PAGE 97**

- Highlight how the 2008 Constitution refers to education as a right and the role of the Union government.

**EDUCATION: BUILDING A SOCIAL UNION**

**CONSTITUTION AMENDMENTS 2015**

Administration of the basic education schools which is entitled to be carried out within the Region or State in accord with law enacted by the Union

**NATIONAL EDUCATION LAW (2014, PARLIAMENTARY LAW NO. 41)  
CHAPTER 3. EDUCATION PRINCIPLES:**

By giving special emphasis to improving the quality of all educational staff and their quality of life, when they have developed good character, a decentralized system will be implemented dependent on the development of their ability to make decisions and take responsibility.

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES AND HUMAN CAPITAL 1 PAGE 98

**PAGE 98**

- In addition to the above provisions, the 2015 Amendments to the 2008 Constitution allow for States and Regions to play a role in basic education. This reference includes the regular language 'in accord with law enacted by the Union'.
- While these provisions appear to allow for an increased level of engagement in basic education services, this has not been acted upon by Union or State/Region governments.

## EDUCATION: BUILDING A SOCIAL UNION

In a federal system, States and Regions should have additional responsibilities at the subnational level for education services with matching fiscal arrangements:

- Increased tax revenue sharing:
  - Creates equalization issues.
- Cost sharing arrangements: block grants for education:
  - A fixed amount per student equitably spent across states and regions.
  - Union government and state and regions pay 50/50 for costs.

An inclusive education system in Myanmar needs to be accommodating of diversity potentially through mother-based tongue and multilingual education within the context of national standards. Given the nature of mixed governance arrangements and service provision in Myanmar's contested areas, maintaining cooperative ways to work with diverse service providers remains important in the path towards peace and within a future federal system. An example of alternative service providers includes the **Mon National Education Committee (MNEC)** established via the New Mon State Party (NMSPP).

- MNEC provides basic primary, basic middle and basic high school education in ceasefire areas and mix administrative areas by teaching two languages since 1995 after it reached a ceasefire with the former junta government.
- MNEC raises funding from both community and outside donors.
- School curriculums are a combination of the government and MNEC curriculum.

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES ANCHORING CAPITAL 1468 89

PAGE 99

- Present the slide and emphasize the cost-sharing arrangements in a federal system between a central and subnational government to support education.
- Emphasize that an inclusive education system needs to respond to subnational diversity. Share the Mon example in the green box.

## EDUCATION IN MYANMAR

### EDUCATION INDEX\*

- As the map shows education levels are diverse even within a state or region.
- Shan state has some of the lowest levels of education in the country following by Rakhine and Kayah.
- Yangon, Kachin, and Nayitaw Council and Yangon have some of the highest levels of education.
- Within townships there are differences between urban and rural areas, and differences between men and women's education levels.

### URBAN/RURAL DIVIDE AT SUB-TOWNSHIP LEVEL

Urban (wards) Rural (village tracts)

\*Made up of: School enrolment, Primary school attainment, middle school attainment, literacy rate.

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES ANCHORING CAPITAL 1468 89

PAGE 100

- Highlight what is the Education index: it combines school enrolment, primary school education, middle school attainment, and literacy rate. The source is the 2014 Myanmar Census.
- Highlight the township map and diversity of education levels across 330 townships. Show the low levels in Shan where it is light pink.
- Go over the bullet points.
- Highlight that to target education needs, data on education can be used at the township level by States/Regions, or even as low as the ward and village tract level. Point to the graph on urban/rural education at the sub-township level.

## SOCIAL ASSISTANCE: BUILDING A SOCIAL UNION

### 2008 CONSTITUTION SECTION 9. SOCIAL SECTOR

- National sports;...
- Welfare of children, youths, women, the disabled, the aged and the homeless;
- Relief and rehabilitation;

### 8. Management Sector

- Development matters;
- Town and housing development;

### 2015 CONSTITUTION AMENDMENTS

- At the Region or State Legislative List, Schedule 2 of the Constitution:
  - providing care to the children, youth, women, disabled persons, aged persons, wayward persons which is entitled to be carried out within the Region or State in accord with law enacted by the Union;
  - relief and rehabilitation matters which are entitled to be carried out within the Region or State in accord with law enacted by the Union;

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES ANCHORING CAPITAL 1468 89

PAGE 101

- Emphasize that the 2015 Amendments of the 2008 Constitution (Schedule II) concerning social assistance and that relief and rehabilitation are able to be carried out by States and Regions.
- Ask the group: How do you interpret these provisions and the role of States/Regions in social assistance?

## SOCIAL ASSISTANCE: BUILDING A SOCIAL UNION

Development and poverty alleviation programs are of great importance in developing countries, along with health and education services.

The central government has a role to play in equalizing the ability of states/regions to provide comparable levels of development/poverty alleviation programs through cost sharing arrangements.

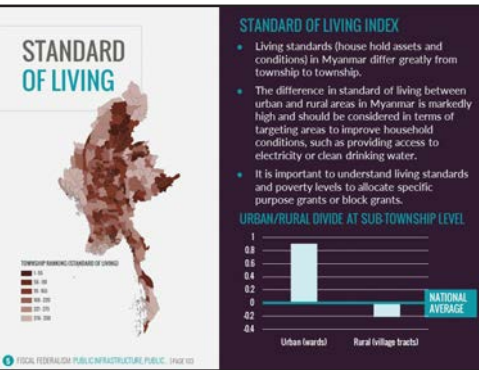
Subnational governments are, in theory, likely to be more aware of social assistance needs which can take many forms such as:

- Income support for low income individuals
- Rehabilitation support for conflict or disaster affected populations and victim assistance
- Pro-poor development policies
- Provision of public housing
- Public pensions

FISCAL FEDERALISM PUBLIC INFRASTRUCTURE PUBLIC SERVICES ANCHORING CAPITAL 1 PAGE 102

PAGE 102

- Present slide and then emphasize the need for the central government to play a role in equalizing the ability of States/Regions to provide comparable levels of development and poverty alleviation programs.
- Highlight the potential areas for assistance, particularly rehabilitation support for both victims of disasters and conflict.



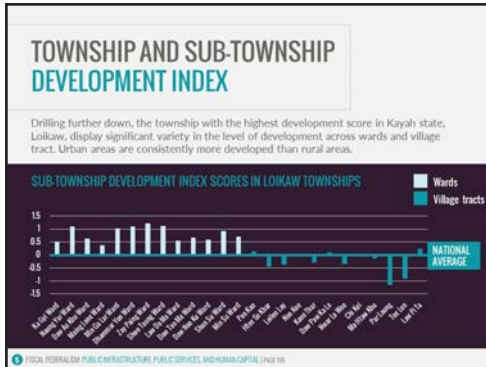
PAGE 103

- Explain the map legend and then highlight that a 'Standard of Living' index includes 12 data points of household assets and household conditions. This includes factors such as access to electricity for cooking and clean drinking water, the floor quality (bamboo to dirt), and assets including motorbikes and phones.
- This is an important measure of how people live and their quality of life.
- To effectively target poverty levels and household conditions evidence on living standards can be employed.
- The final graph shows a significant disparity in urban and rural areas. This raises the question: how can local level development disparity be addressed? What supporting fiscal arrangements are needed? Is this a role best played by the central government or are States/Regions better equipped to respond?



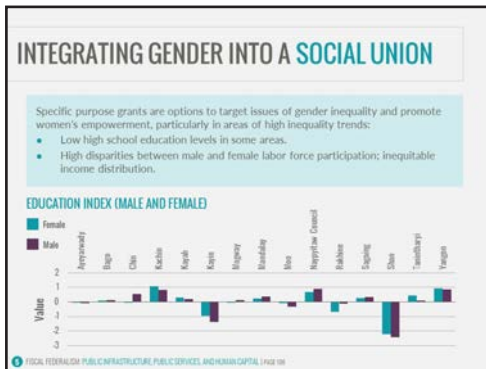
PAGE 104

- Emphasize that increased devolution of social services potentially allows for improved targeting of populations.
- Highlight the graphic showing human development levels across Kayah State.



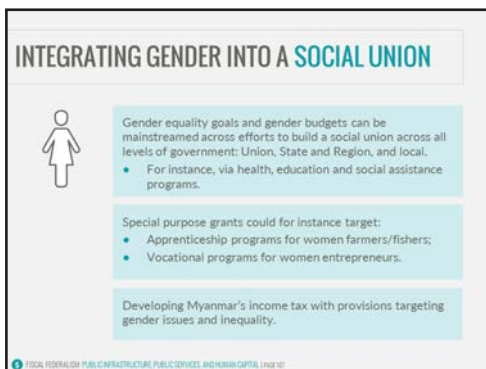
**PAGE 105**

→ Highlight that the graph shows even lower levels of development down to the ward and village tract level. Even in one township, such as Loikaw, there can be significant diversity among village tracts and wards.



**PAGE 106**

- Being a man, boy, women or girl influences our opportunities in life. Men and women in Myanmar and elsewhere have different social, economic, political, and cultural status.
- These factors need to be understood by governments, as the impacts of policy on men and women will be different. Understanding the specific needs of women or men can allow for improved service provision
- To target inequalities and promote women's empowerment there are measures which can be applied. This includes the use of specific purpose grants.
- Speak to the graphic and highlight that this breaks down men and women's education levels across State and Regions.



**PAGE 107**

- Go over slide bullet points.
- Ask the audience: do they know of government programs which target women or girls' empowerment?

**EXERCISE**

Step 1 Review slides on building a social union (health, education and social assistance)

Step 2 **GROUP DISCUSSION** - 15 minutes  
What should be the responsibilities of States/Region in building a social union?  
What fiscal arrangements can support these responsibilities?

Step 3 **PRESENTATION BY GROUPS** - 10 minutes  
Nominate a speaker to present back in plenary.

FISCAL FEDERALISM: PUBLIC INFRASTRUCTURE, PUBLIC SERVICES, AND HUMAN CAPITAL | PAGE 108

**PAGE 108**

- Ask participants to break into groups.
- Review slides on building a social union.
- Highlight the purpose of the exercise is not just to list what responsibilities or powers States and Regions should have. It is also to demonstrate ways to finance these responsibilities.

**BUILDING LOCAL GOVERNMENT**

There is a fundamental problem in Myanmar's local governance system in terms of accountability, participation and responsiveness. Myanmar currently has a local administration but no local government.

- There is a need to build a third tier of government at the local level. Most federal countries have local governments.
- Decentralized decision-making at the local level, in theory promotes an ability to respond to diversity and local needs. Local governments are central to building a social union and direct engagement with citizens.
- A three tier government system allows for the customizing of decisions making to the level at which services and infrastructure is needed and resources are directly allocated.

FISCAL FEDERALISM: PUBLIC INFRASTRUCTURE, PUBLIC SERVICES, AND HUMAN CAPITAL | PAGE 109

**PAGE 109**

- Emphasize the first key message: Myanmar has a local administration but no local government. There is a need to build a third tier of government. Many federal systems indeed have three tiers.

**BUILDING LOCAL GOVERNMENT**

A three tier government system requires independent revenue sources at the local level.

- In other countries, local governments are often funded by property taxation and state to local transfers as well as national to local transfers.
- In some cases, local governments have access to the income and sales tax bases/revenues.
- The greater the degree of decentralization, the greater the need for equalization at the local level.

Please see the module on *Building a Local Government* for more information.

FISCAL FEDERALISM: PUBLIC INFRASTRUCTURE, PUBLIC SERVICES, AND HUMAN CAPITAL | PAGE 110

**PAGE 110**

- While negotiations for peace continue, efforts can be made to increase local decentralization and work towards building a third tier of government.
- There are provisions in the 2008 Constitution which can be interpreted as features of a local government. For instance:
- 288. Administration of district and township level shall be assigned to the Civil Services personnel. (chapter 5, section 288)
- This provision places districts and townships under the administrative authority of the 'civil service'. This could potentially be interpreted as civil service personnel of ministries run by the civilian government.
- The 2008 Constitution does not characterize an expansive role mandated role of the GAD for local government, nor does it outline that the GAD must remain entirely under the Ministry of Home Affairs across all administrative levels.



## MODULE 6

# FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS

### BUILDING LOCAL GOVERNMENT



A three tier government system requires independent revenue sources at the local level.

- In other countries, local governments are often funded by property taxation and state to local transfers as well as national to local transfers.
- In some cases, local governments have access to the income and sales tax bases/revenues.
- The greater the degree of decentralization, the greater the need for equalization at the local level.

Please see the module on *Building a Local Government* for more information.

- 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.
- 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.
- This module therefore focuses on fiscal federalism in the peace process.

## 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.

The diagram consists of four overlapping circles. The top circle is labeled 'POLITICAL AFFAIRS: FEDERALISM'. The bottom circle is labeled 'ECONOMIC AFFAIRS: FISCAL FEDERALISM'. The left circle is labeled 'NATURAL RESOURCES AND LAND'. The right circle is labeled 'SOCIAL AFFAIRS'. All four circles overlap in a central area.

FISCAL FEDERALISM AND RWANDA'S PEACE PROCESS (page 114)

PAGE 114

- Read over all bullet points.
- Explain diagram: fiscal federalism intersects with different working groups in the peace process. Highlight that the circles represent a working group in the government-led peace talks.

## 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.

FISCAL FEDERALISM AND RWANDA'S PEACE PROCESS (page 115)

PAGE 115

- Refer to Module One where the Pillars of Fiscal Federalism were introduced.
- These core concepts remain important to improving the technical depth of issues discussed in the peace process, particularly economic affairs and natural resources.

## 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.

FISCAL FEDERALISM AND RWANDA'S PEACE PROCESS (page 116)

PAGE 116

- Introduce slide. Ask the group: Is equalisation an important tool to use in a federal system? Yes/No and Why?

**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.

FISCAL FEDERALISM AND HUMANITARIAN PEACE PROCESS (page 117)

**PAGE 117**

→ Highlight the examples on shared tax bases and tax harmonisation presented here as principles.

**IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS**  
Pillars of Fiscal Federalism

**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.

- 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.

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

FISCAL FEDERALISM AND HUMANITARIAN PEACE PROCESS (page 118)

**PAGE 118**

→ Present slide.

→ Emphasize that: a grant is a voluntary current or capital transfer between government units, or between a multinational organization and a national government. This slide is referring to a government to government grant.

**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

FISCAL FEDERALISM AND HUMANITARIAN PEACE PROCESS (page 119)

**PAGE 119**

→ Present slide.

→ Highlight the maps representing IDPs as collected by humanitarian organizations. This type of information could potentially be used to help target special purpose grants for conflict affected IDPs.

→ Also highlight it is not unusual for peace processes to have victim assistance type provisions. In the case of the Colombia peace process the Victim Assistance Law for persons affected by armed conflict came before the final peace agreement was signed.

- Peace process stakeholders can consider the use of specific purpose grants or other victim assistance to address multiple issues, including the targeting of conflict-affected populations.

## 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.

FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS (PAGE 120)

PAGE 120

- Present slide.
- Ask question to participants: How important are budget transparency issues?

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

FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS (PAGE 121)

PAGE 122

- Present slide.
- If there is time discuss SOE reform: What can be done outside (reforms) or within negotiations? What is the best way to address this agenda?

## FISCAL FEDERALISM: THE CONSTITUTION, LAWS & POLICY

It is uncommon for federal countries to have economic issues and equalization built into their constitutions. These measures 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

26. (1) Without affecting 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

- promoting equal opportunities for the well-being of Canadians;
- furthering the economic development to reduce disparity in opportunities; and
- 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 AND MYANMAR'S PEACE PROCESS (PAGE 124)

PAGE 124

- Emphasize that it is uncommon for federal countries to have economic issues in their constitutions. These measures are mostly pursued by policy and laws.
- Constitutional reform may not be needed to address many of the economic issues outlined in this curriculum.
- An rare example of a provision being incorporated in a constitution is the Canadian constitution which has a provision on equalisation.

**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 AND MYANMAR'S PEACE PROCESS (PAGE 125)

**PAGE 125**

- Present slide options outlined.
- Ask participants: What do you think are feasible options in the short term? What can be done now?

**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.

FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS (PAGE 126)

**PAGE 126**

- Present slide.
- Ask participants: What are specific priorities for long-term change?

**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?

FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS (PAGE 128)

**PAGE 128**

- This exercise can be done in plenary or in groups. If several discussions have already taken place in plenary, make this a group session.
- Consider the discussion question.
- If the group are not so concerned about the 'peace process', ask them to consider what are key short and long-term objectives to pursue fiscal federalism in Myanmar?

