

FISCAL FEDERALISM IN MYANMAR

TRAINING MODULES

Policy Dialogues for Peace



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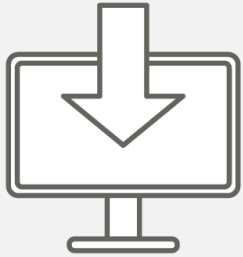
with Professor Paul A. R. Hobson

Matthew Arnold
Nicola Williams
Lea Lybecker
Kyaw Myo Oo

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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/

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

Kyaw Myo Oo, Senior Program Officer,
kyaw.oo@asiafoundation.org

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- Module 6 Fiscal federalism and Myanmar's peace negotiations

Module **1**

FISCAL FEDERALISM INTRODUCTION



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WHAT THIS MODULE WILL COVER

- 1 What is federalism?
- 2 What is fiscal federalism?
- 3 What do fiscal arrangements look like in Myanmar today?



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.

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.

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.

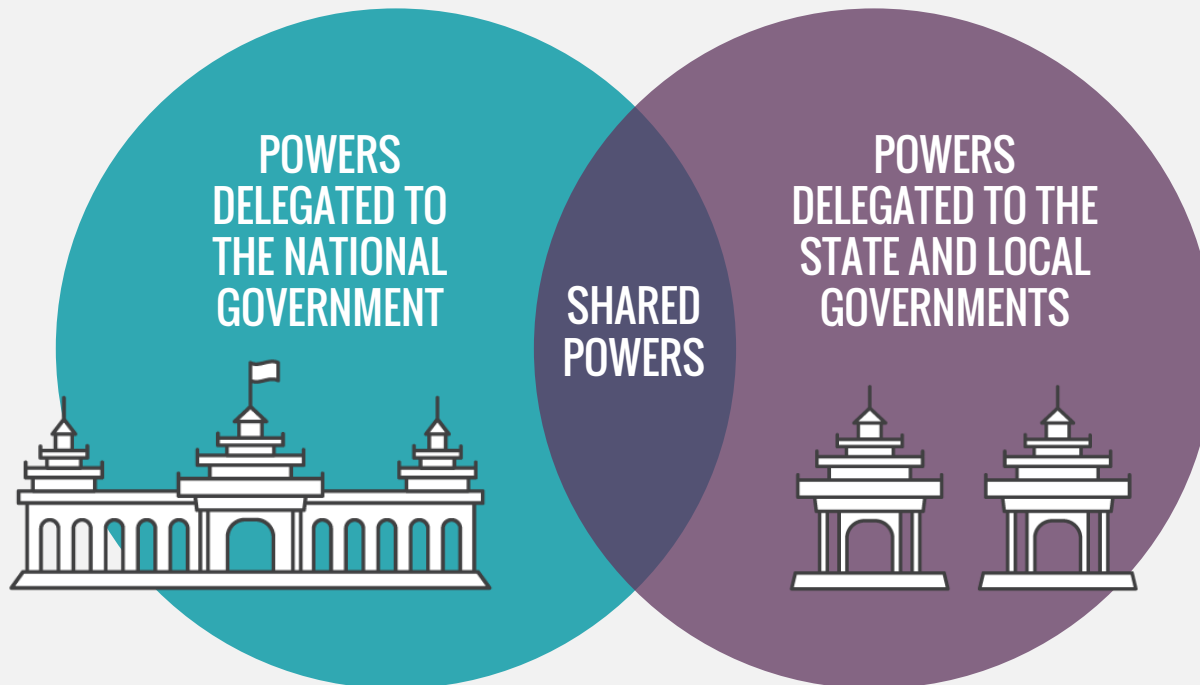
REVENUE TRANSFERS

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

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.



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.

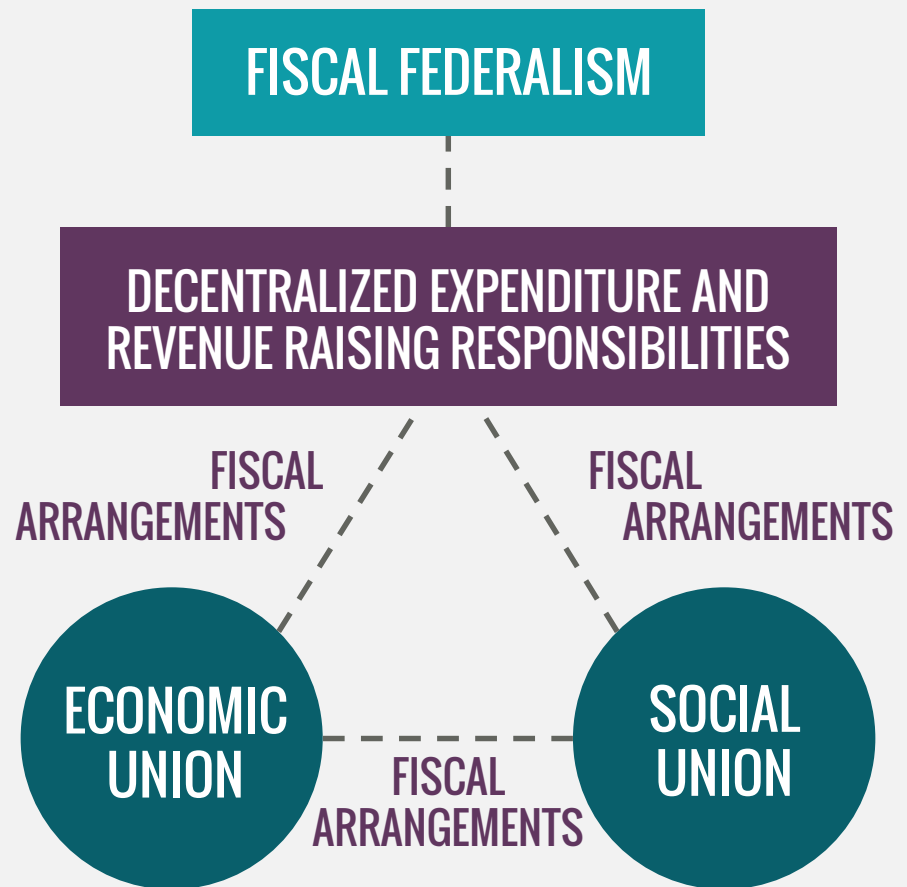
LEVELS OF GOVERNMENT:

- 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.

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.



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-Queens University Press. P.100.

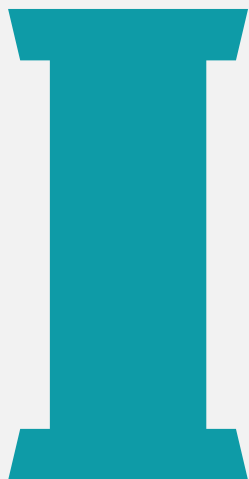
WHAT IS FISCAL FEDERALISM?

PILLARS OF FISCAL FEDERALISM



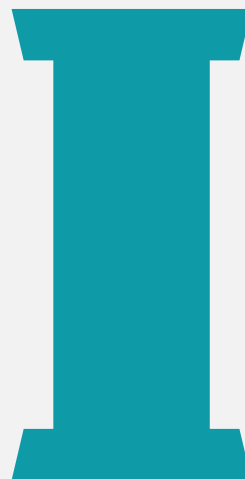
TAX BASES

Exclusive tax bases and shared tax bases



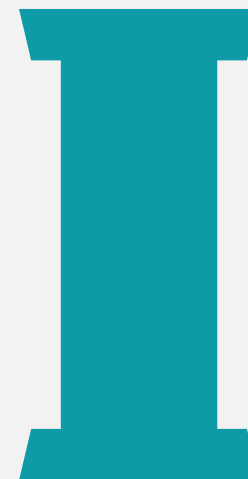
REVENUE SHARING ARRANGEMENTS

Tax revenues and natural resource revenues



HARMONIZATION

Taxes and expenditures

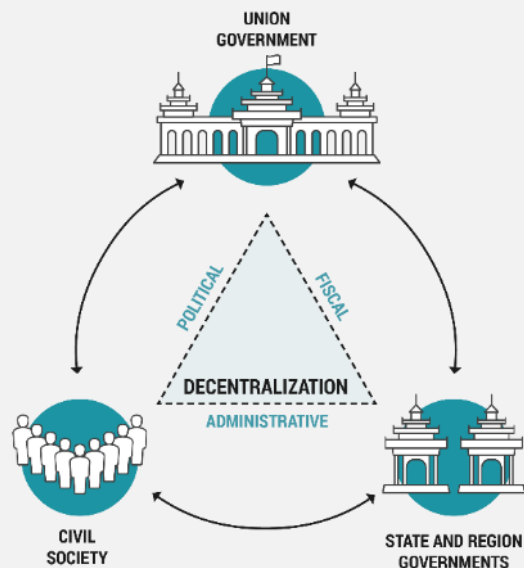


TRANSFERS & GRANTS

Equalization and use of the 'federal spending power'

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.

THE CONSTITUTION OF THE REPUBLIC OF THE UNION OF MYANMAR

2008

SCHEDULE

- | | |
|---|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Union government list of powers and responsibilities by sector: <ul style="list-style-type: none">● Economic sector● Social sector● Energy, electricity and mining sector● Management sector (general administration) |
| 2 | State and Region list of powers and responsibilities by sector (as above) |
| 5 | State and Region list of taxes and fees |

THE CONSTITUTION OF THE REPUBLIC OF THE UNION OF MYANMAR

2008

SCHEDULE II & V AMENDMENTS (2015)

Key points:

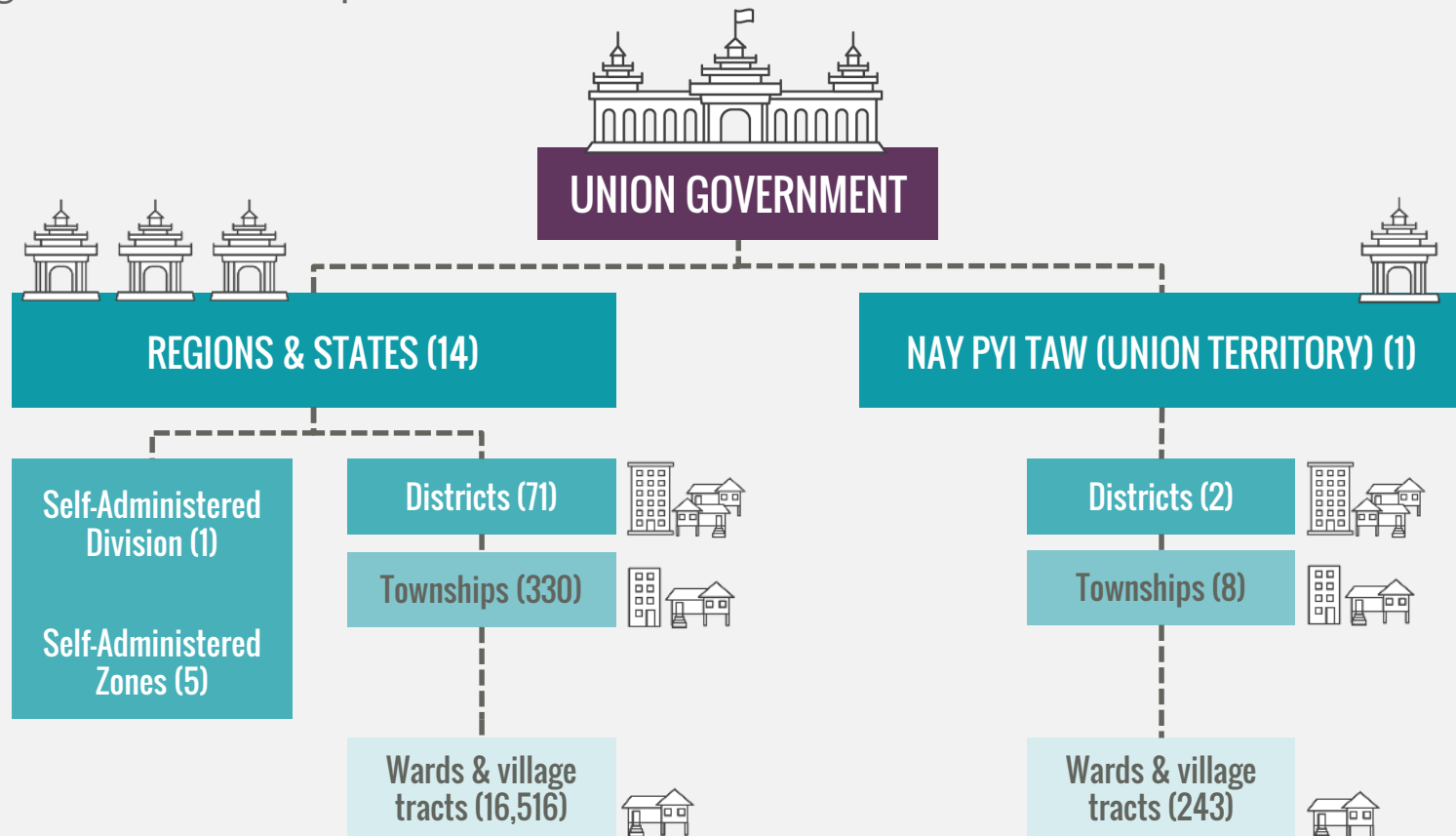
- Transfer of administrative function including tax collection.
- Sharing of tax bases (income tax, commercial tax).
- Creates potential for revenue sharing if acted on by the Union government.
- Unclear language and some of it may be 'placeholder' text, opening up the possibility of future laws.

EXERCISE

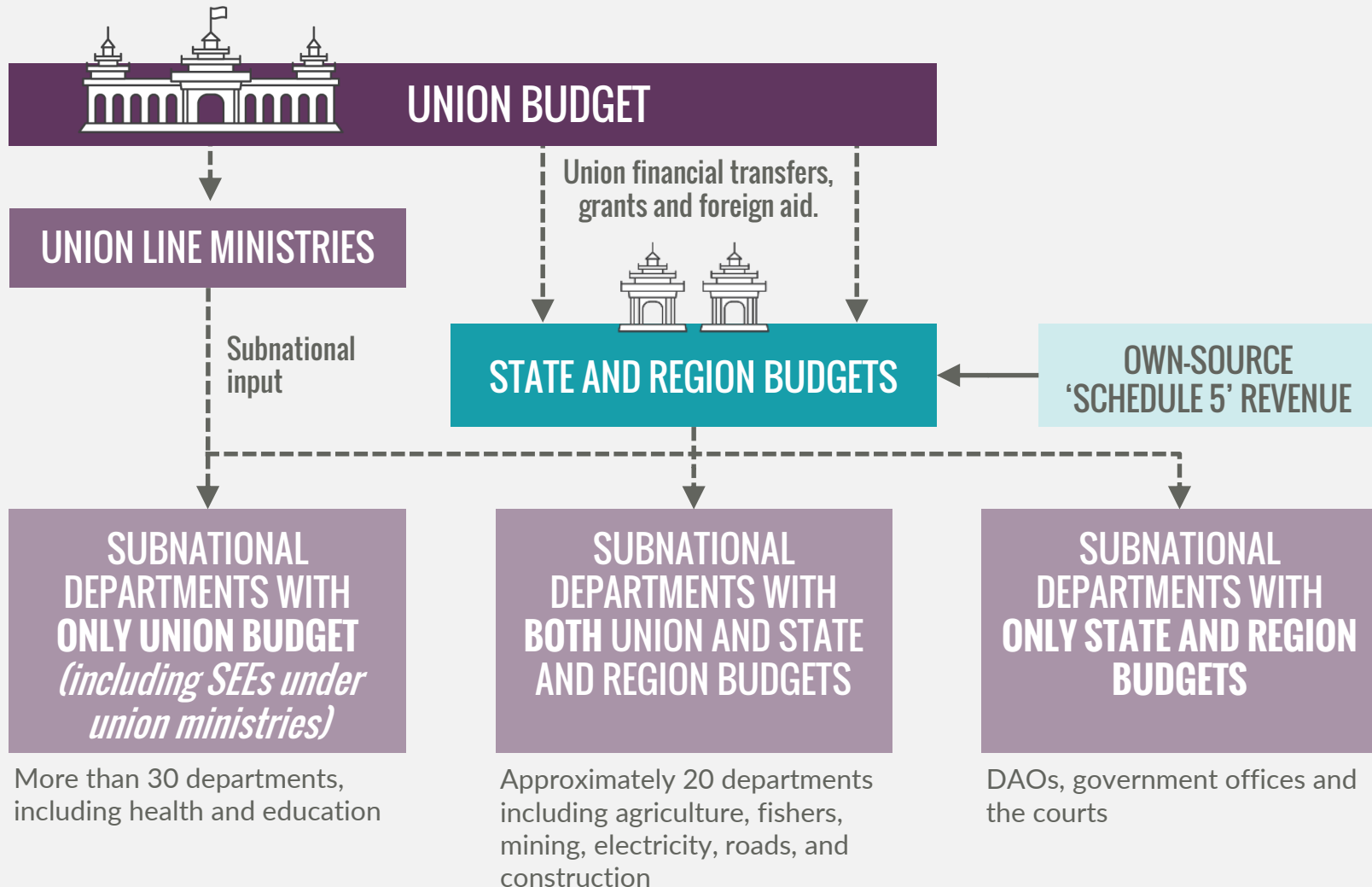
- Step **1** See handouts and review Constitution Schedules I, II, and V, including the 2015 Amendments.
- Step **2** **GROUP DISCUSSION** - 10 minutes
Are the 2015 Amendments substantive?
If yes/no why?
- Step **3** **PRESENTATION BY GROUPS** - 10 minutes
Nominate a speaker to present back in plenary.

STRUCTURE OF GOVERNANCE IN MYANMAR

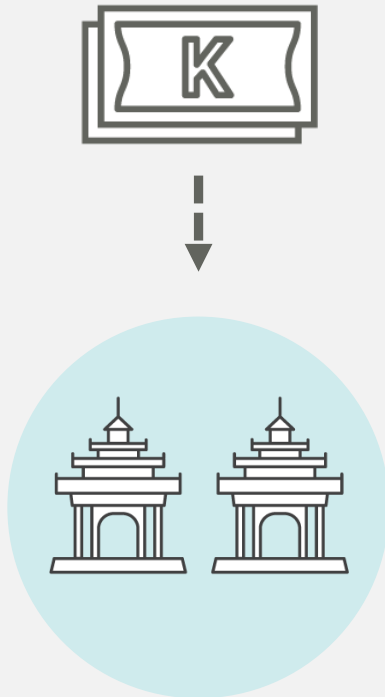
The 2008 Constitution formally established the state and region parliaments, assigning state and region government legislative responsibilities and providing states and regions the right to collect and spend revenues.



STRUCTURE OF GOVERNANCE IN MYANMAR



CURRENT FISCAL ARRANGEMENTS IN MYANMAR



STATE/REGION OWN-SOURCE REVENUES

- Negligible amounts in most cases
- The 2015 Constitutional amendment adds further opportunities for increasing own source revenues

TAX REVENUE SHARING

- New arrangements beginning 2016-17
- The 2015 Amendments make reference to commercial and income taxes being available to States and Regions

GENERAL GRANT

- Transition from previous deficit grant to formula based beginning 2015-2016
- The basis for actual allocation remains elusive and the grant is as yet not fully effective

CURRENT FISCAL ARRANGEMENTS IN MYANMAR

FINANCIAL AND BUSINESS

- Excise revenue and custom duties
- Profits from state/region investment
- Income taxes
- Tax on investment and insurance
- Commercial taxes and tax on industrial activities

MUNICIPAL

- Revenue from Development Affairs Organizations

TRANSPORT

- Toll fees from using roads and bridges managed by state/region
- Taxes collected in vehicles on road transport and vessels on inland waterway transport
- Tax on shipbuilding, repair, and maintenance
- Tax on air transport

FISHERIES AND FORESTS

- Tax on all woods except teak and other restricted hardwoods
- Tax on fresh water fisheries
- Tax on coastal fisheries

LAND AND WATER

- Land revenue
- Water tax and embankment tax

MINING AND EXTRACTIVE INDUSTRIES

- Tax on minerals and mining
- Tax on oil and gas
- Salt tax

HOTELS AND TOURISM

- Tax on hotels and lodging houses
- Tax on tourism

SOCIAL

- Tax on private schools and training
- Tax on private hospitals and clinics
- Tax on housing and buildings
- Tax on arts, music, cinema

COURTS

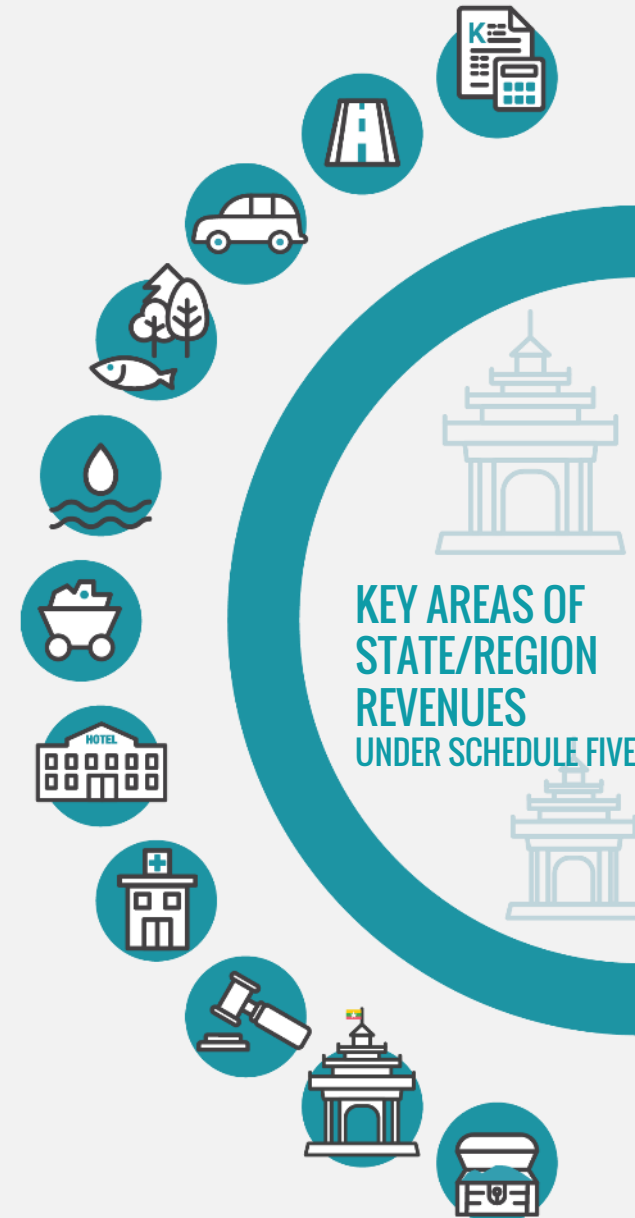
- Fines imposed by courts
- Taxes collected on service provision

UNION GOVERNMENT

- Revenue received from the Union Fund account

OTHER

- Treasure trove
- Unclaimed cash and property



CURRENT FISCAL ARRANGEMENTS IN MYANMAR

TAX REVENUE SHARING

- Tax revenue sharing appears to relate to the 2015 Amendments of the 2008 Constitution concerning income and commercial taxation
- 9 percent of total revenues of State and Region governments (2016-2017)
 - 15 percent of (non-import) commercial and special goods tax revenues
 - 5 percent of individual income tax (originally shared with DAOs) by Township
 - 2 percent of stamp duties (previously shared with DAOs) by Township
- **Tax revenues are shared on origin basis or derivation basis**

CURRENT FISCAL ARRANGEMENTS IN MYANMAR



100 million MMK to each township

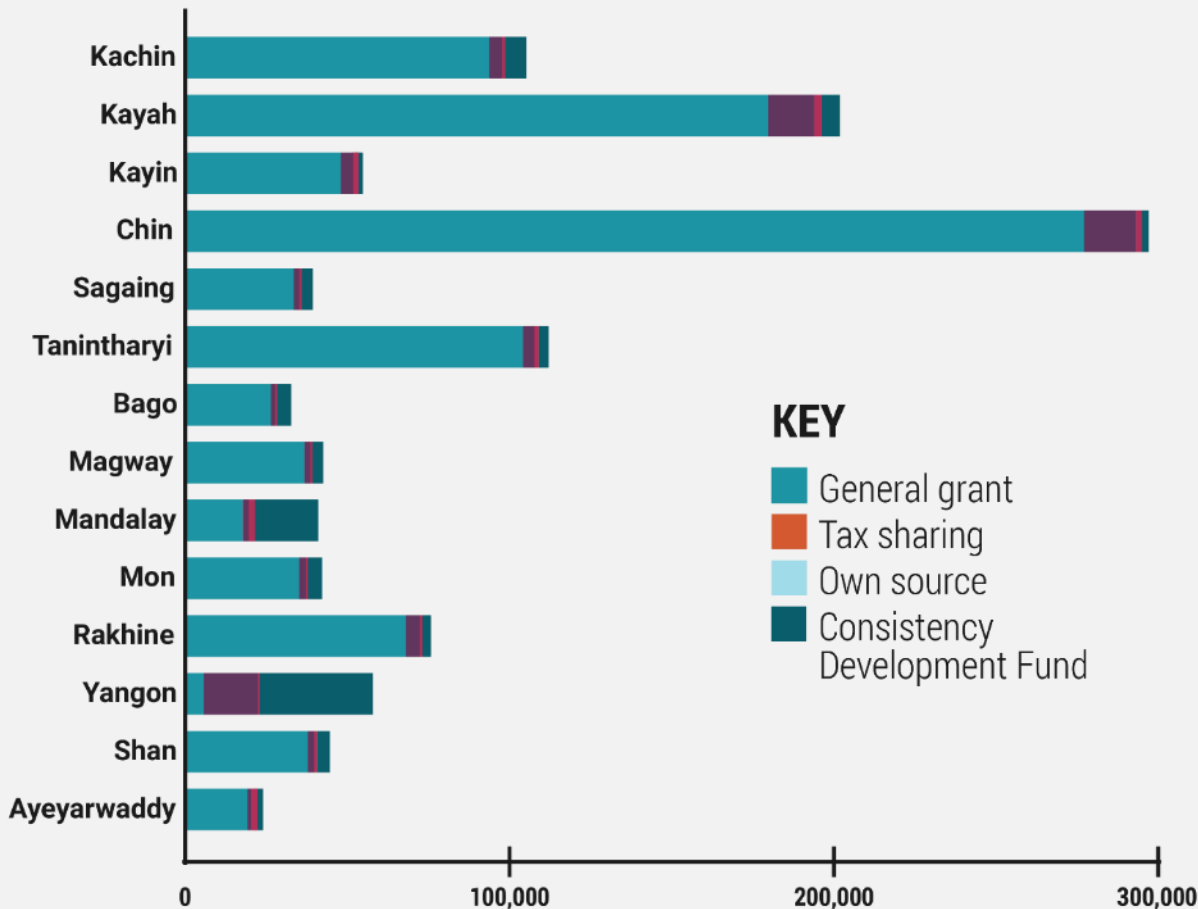


CONSTITUENCY DEVELOPMENT FUND (CDF)

- Established 2013-14
- 1% of overall fiscal transfers
- 100 million MMK to each Township
 - Unequal per capita
- Annual grants for small infrastructure and other investment projects at the constituency level
 - CDF is managed by the legislative branch
 - Selected through a planning process managed under the various Township committees

STATE/REGION REVENUE SOURCES PER CAPITA

FY 2016/2017



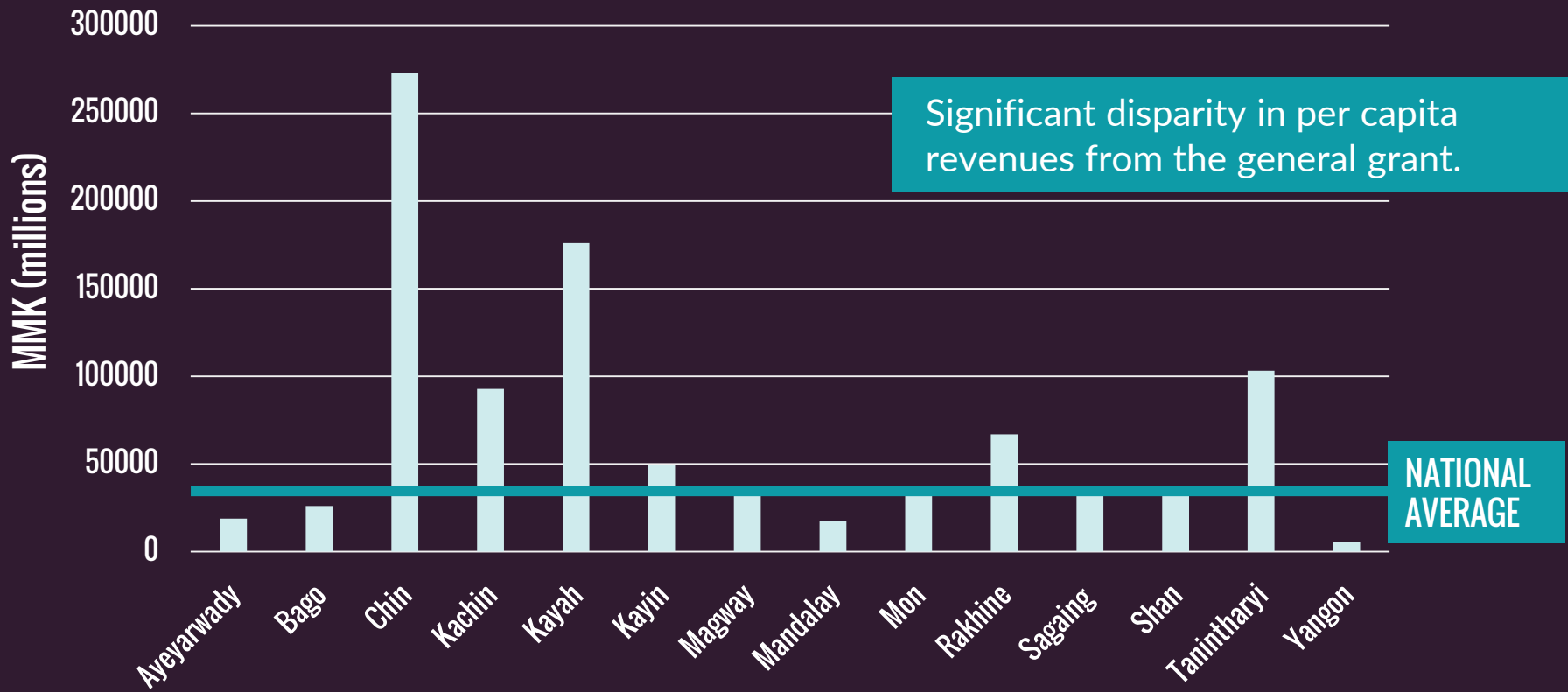
Fiscal transfers from the Union to State/Region governments take three forms: general grant transfers, tax-revenue sharing, and development funds. Fiscal transfers from central government are not unique to Myanmar.

The general grant transfer is the largest transfer from Union to subnational governments.

The second largest type of fiscal transfer is tax revenue sharing, whereby a portion of taxes are returned to the constituency where they were collected.

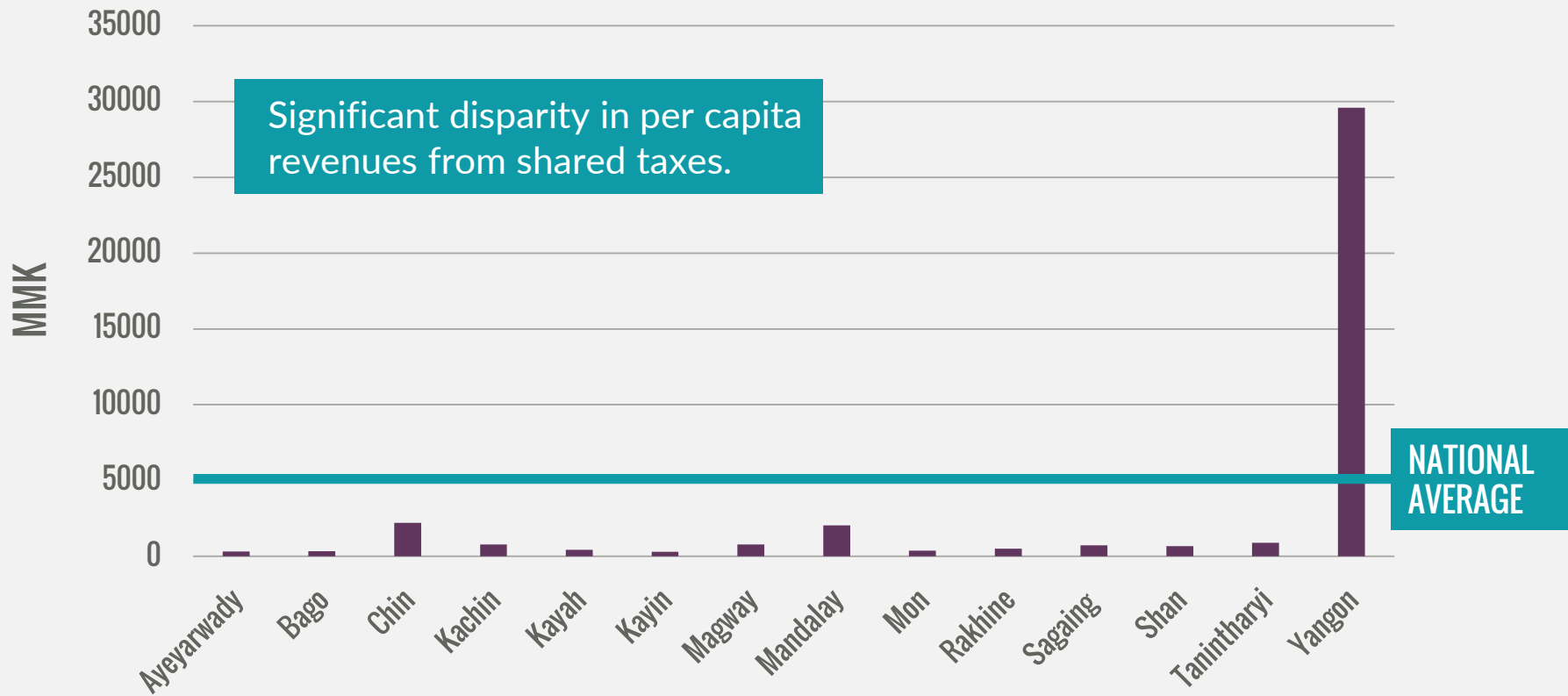
STATE/REGION GENERAL GRANT TRANSFER

FY 2016/2017



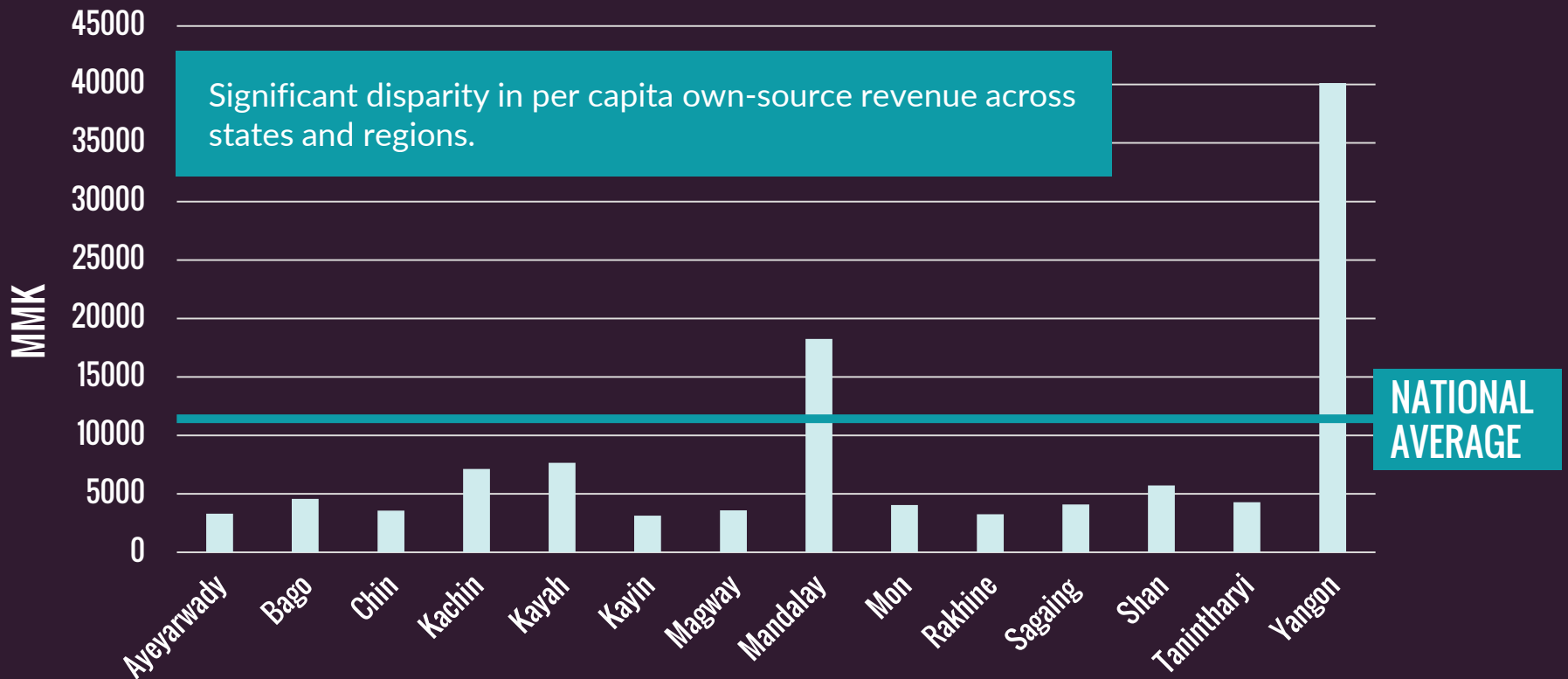
STATE/REGION SHARED TAX REVENUE PER CAPITA

FY 2016/2017



STATE/REGION OWN SOURCE REVENUE PER CAPITA

FY 2016/2017



SUMMARY OF KEY ISSUES

- Fiscal federalism is the about the fiscal arrangements between different levels of government. It is the 'glue' that binds both the economic union and the social union.
- Fiscal federalism is an evolving process in Myanmar.
- The 2008 Constitution and its 2015 amendments offer some scope for increasing the fiscal responsibilities of States and Regions.
- State and Region own-source revenue is negligible in most cases.
- States and Regions remain primarily dependent on revenue transfers from the Union government (general grant).
- There is considerable disparity in revenues per capita across States and Regions.
- On the whole, States get larger transfers per capita via the general grant when compared with Regions. States also have higher total revenue per capita.

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.

Module **2**

DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT



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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.

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

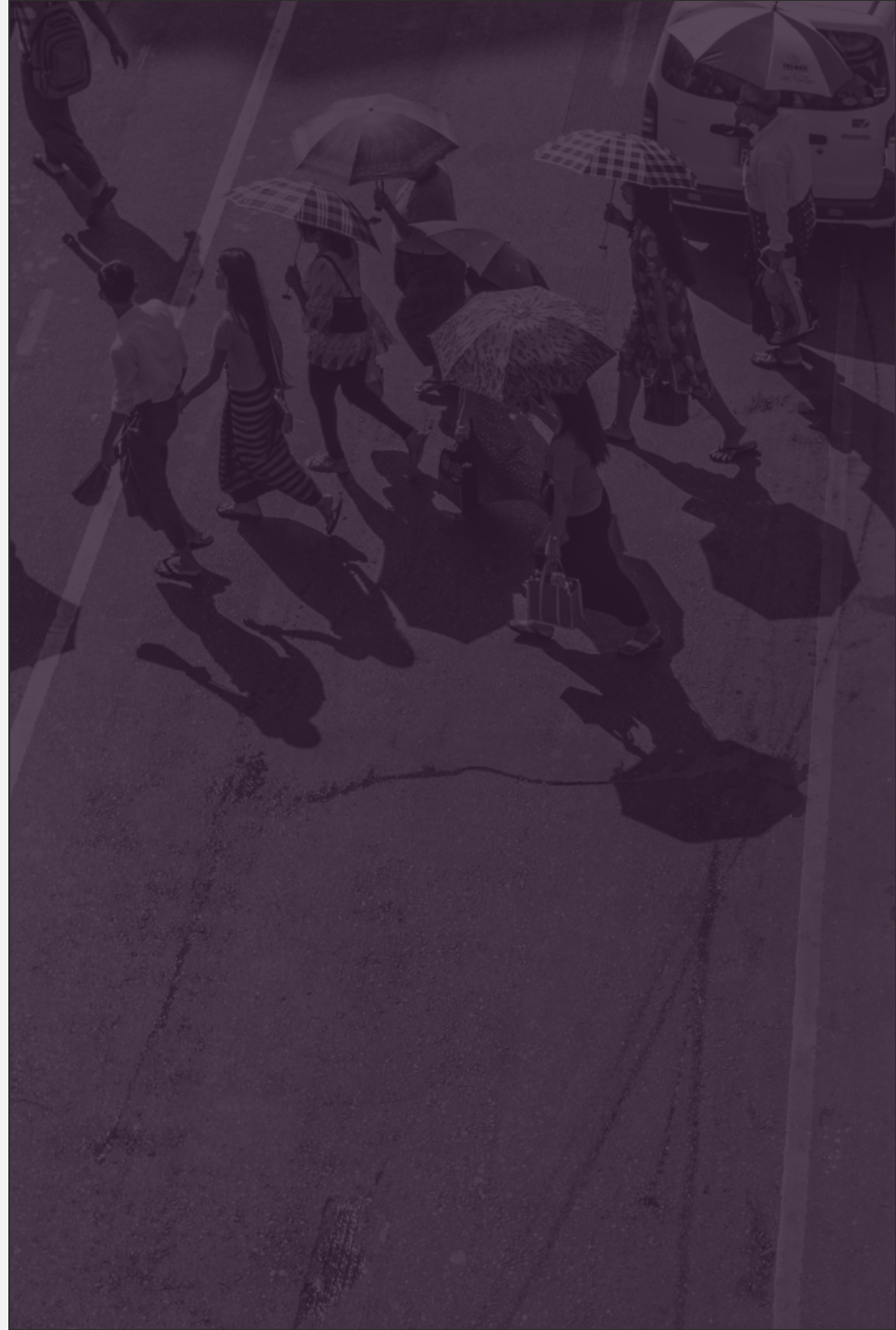
Revenues distributed per person.

REVENUE SHARING

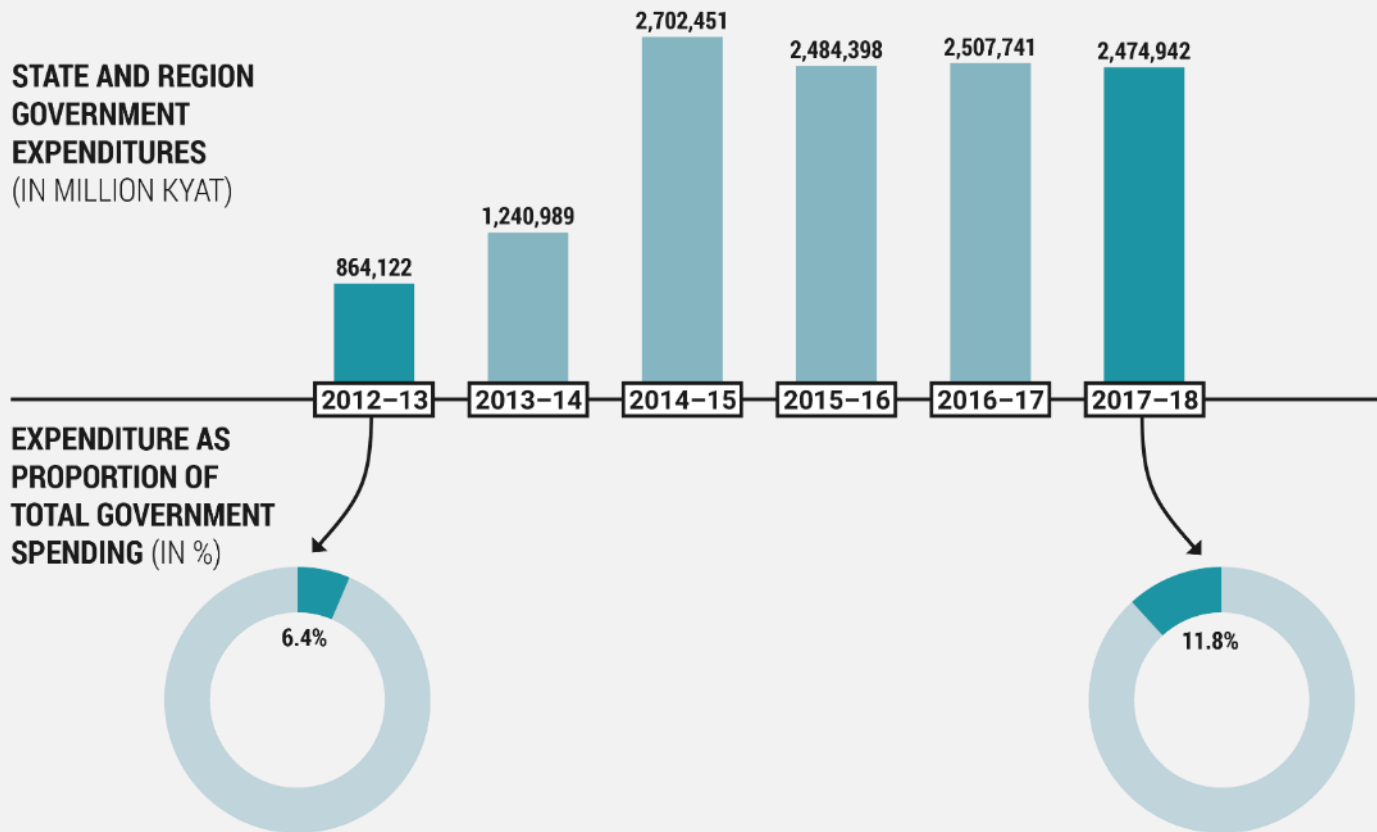
The dispensing of a portion of federal tax revenue to state and local governments.

WHAT THIS MODULE WILL COVER

- 1 What is the current status of the framework for fiscal decentralization?
- 2 What are current trends in fiscal decentralization and revenue sharing?
- 3 What are trends in human development versus per capita revenues?



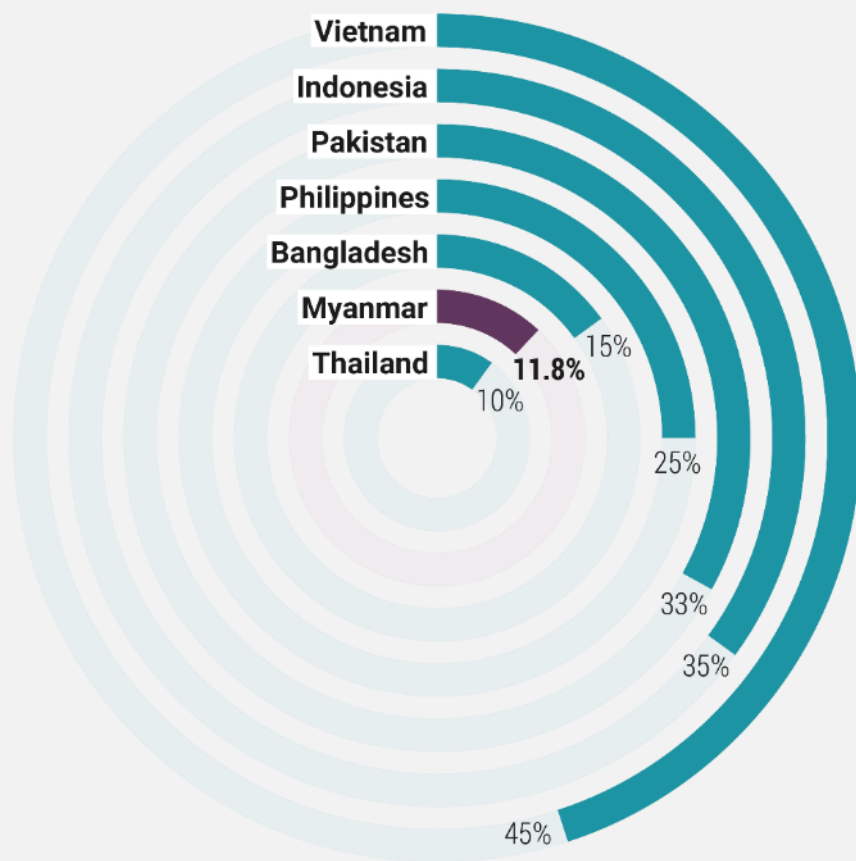
SUBNATIONAL EXPENDITURE HAS INCREASED



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 expenditure.

Spending by subnational governments equates to about 50,000 MMK/person on average across 14 states/regions.

SUBNATIONAL EXPENDITURE: COMPARATIVELY LOWER TO OTHER COUNTRIES



Increases in expenditure at the subnational level, both in absolute terms and as a proportion of total government spending, 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

State/Regions' share of government expenditure are significantly below that of many other Asian countries.

Source: Adapted from Minoletti 2016; International figures (2009) taken from Dickenson-Jones, De, and Smurra 2015, 44; Myanmar figure (2017/18) from Union Citizen's Budget and MOPF data.

SOME EXPENDITURE ASSIGNMENTS TO LOCAL GOVERNMENT ELSEWHERE IN ASIA

Nepal Local Self Governance Act (1999)	Bangladesh Union Parishad Act (2009)	Kerala State-India State Local Government Act (1994)	Cambodia Law on Commune & Sangkhat Administration (2001)
<p>Village Development Committees (avg. pop. 10,000)</p> <ul style="list-style-type: none"> • drinking water • primary education facilities • primary health facilities • village roads • village irrigation 	<p>Union Parishads (avg. pop. 27,000)</p> <ul style="list-style-type: none"> • rural roads, culverts • wells, water pumps, tanks, ponds • irrigation and drainage works • street lighting 	<p>Gram Panchayats (avg. pop. 25,000)</p> <ul style="list-style-type: none"> • preprimary, primary, & upper primary schools • dispensaries and hospitals • rural water supply • waste disposal • public toilets and bathing places • day care centers 	<p>Communes (avg. pop. 8,000)</p> <ul style="list-style-type: none"> • village roads and bridges • village water supplies • village irrigation • primary school facilities • primary health care facilities

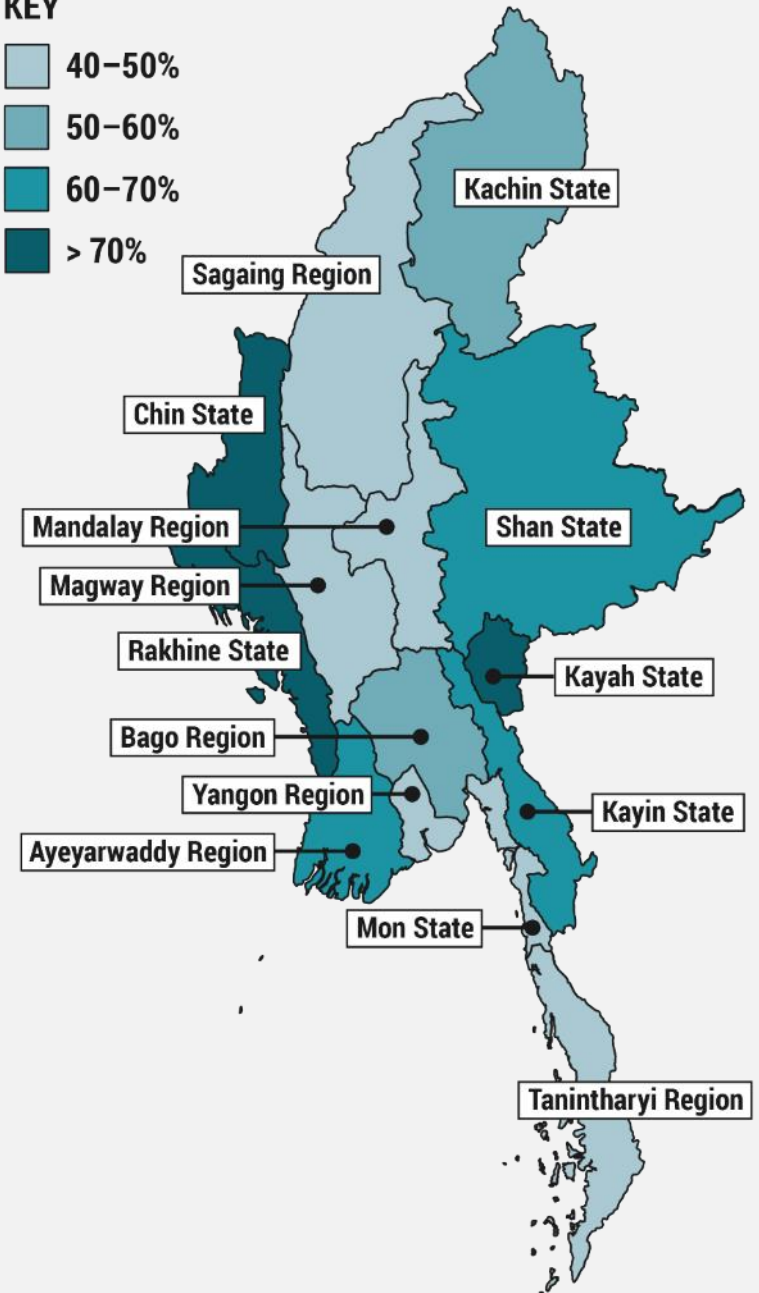
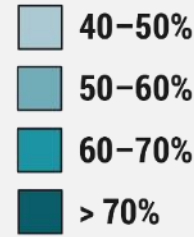
CAPITAL SPENDING AS A SHARE OF TOTAL BY STATE AND REGION

FY 2016/2017

Considerable variation across States and Regions (40 percent in Mon and 70 percent in Kayah).

Capital expenditure has grown as a share of total sub-national expenditure, from 36% in 2013-14 to nearly 55% in 2016-17.

KEY

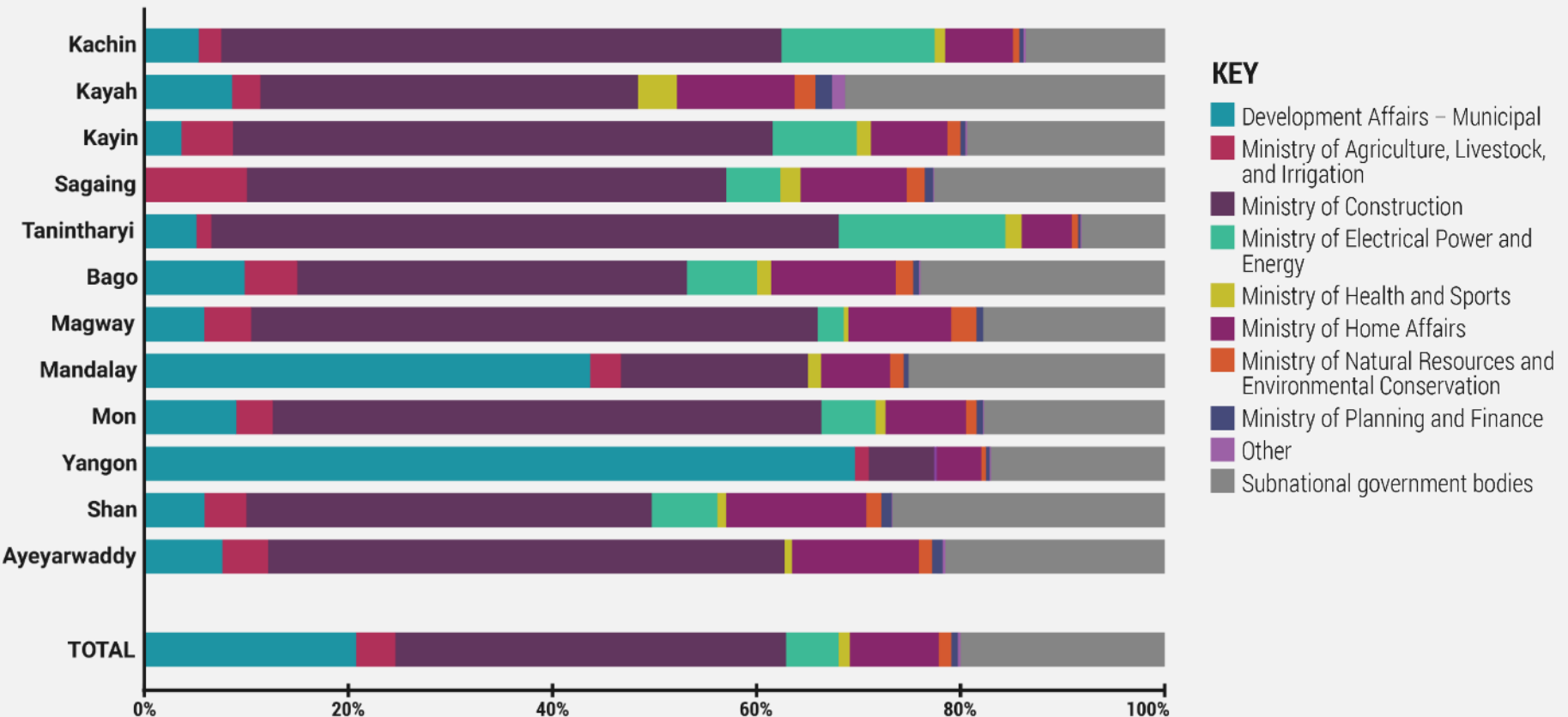


Source: MOPF; Renaissance Institute staff estimates

STATE/REGION GOVERNMENT EXPENDITURE IS BECOMING MORE DIVERSE

FY 2016/2017

SHARE STATE/REGION EXPENDITURE BY MINISTRY AS OF TOTAL



STATE/REGION GOVERNMENT EXPENDITURE IS BECOMING MORE DIVERSE

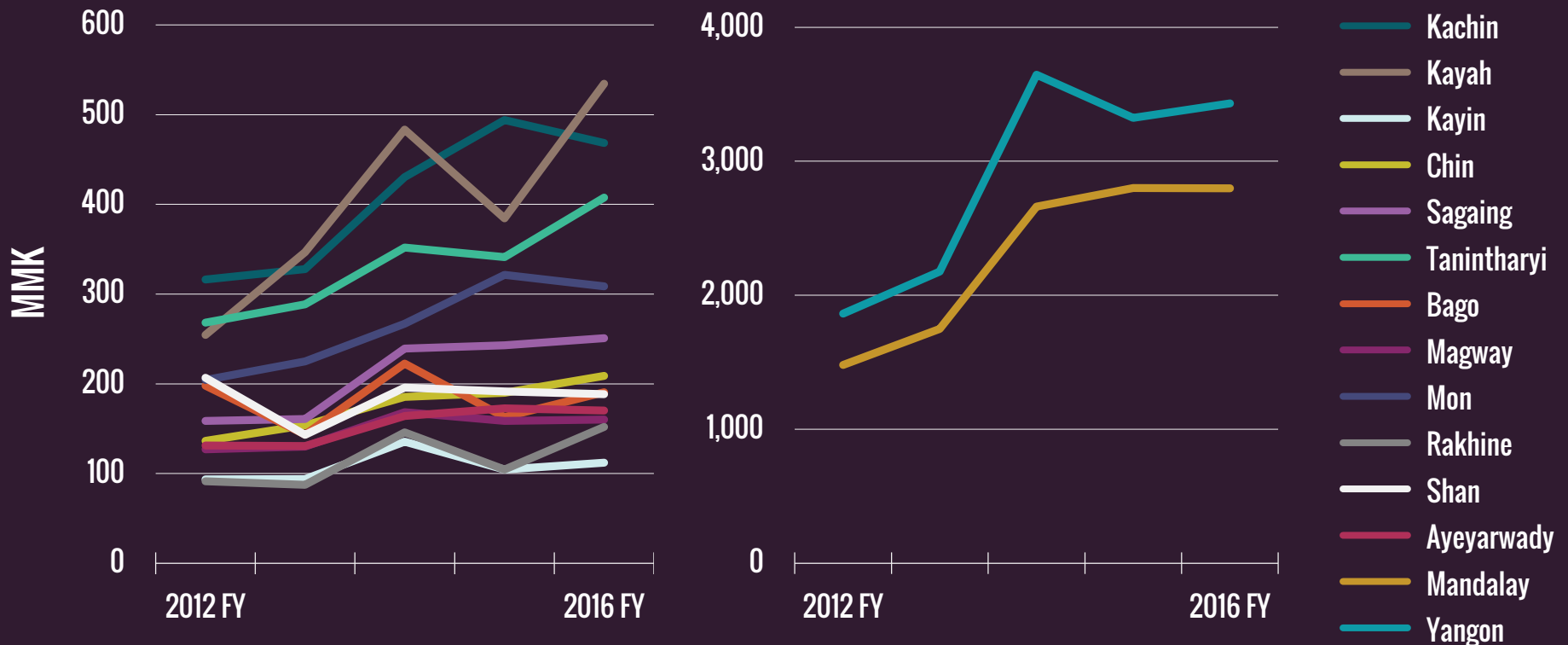
- The proportion of spending by the Ministry of Construction, mostly on trunk roads (highways) and bridges, has fallen from 54 percent of total State and Region expenditure in FY 2013/14 to 38 percent in FY 2016/17.
- As this percentage has fallen, State and Region governments have identified new areas for spending. The share of spending on electricity provision at subnational level has risen from none in 2013-14 to 5% in 2016-17, across 12 states/regions; up to 16% in Tanintharyi Region.
- Most of this spending is budgeted under the state/region cabinet office and could suggest an increase in discretion over a share of public resources.

FISCAL TRANSFERS VERSUS OWN-SOURCE REVENUES (MILLIONS OF KYAT)

- Fiscal transfers from the Union to State and Region governments take three forms: **general grant transfers, tax-revenue sharing, and development funds.**
- The general grant transfer is the largest transfer from Union to subnational governments.
- The total amount of State and Region government revenues has increased by 273% (nearly threefold) since 2012-13 to 2017-18. In FY 2017/18, general grant transfers constituted 69 percent of total State and Region government revenues nationwide.
- Own-source revenue, as a proportion of State and Region government revenue, has consequently decreased significantly. In Kayin State, for example, own-source revenue made up nearly 60 percent of total revenues in FY 2013/14 and 4.8 percent in FY 2017/18.
- On the whole, State and Region governments own-source revenues have not grown significantly over the past five years. This raises questions of whether the states/regions are being sufficiently empowered and incentivised to increase their own revenues.

MUNICIPAL & CITY DEVELOPMENT COMMITTEE TAX COLLECTION

DEVELOPMENT AFFAIRS ORGANIZATION (MUNICIPALITY) AND CDC* TAX COLLECTION PER CAPITA

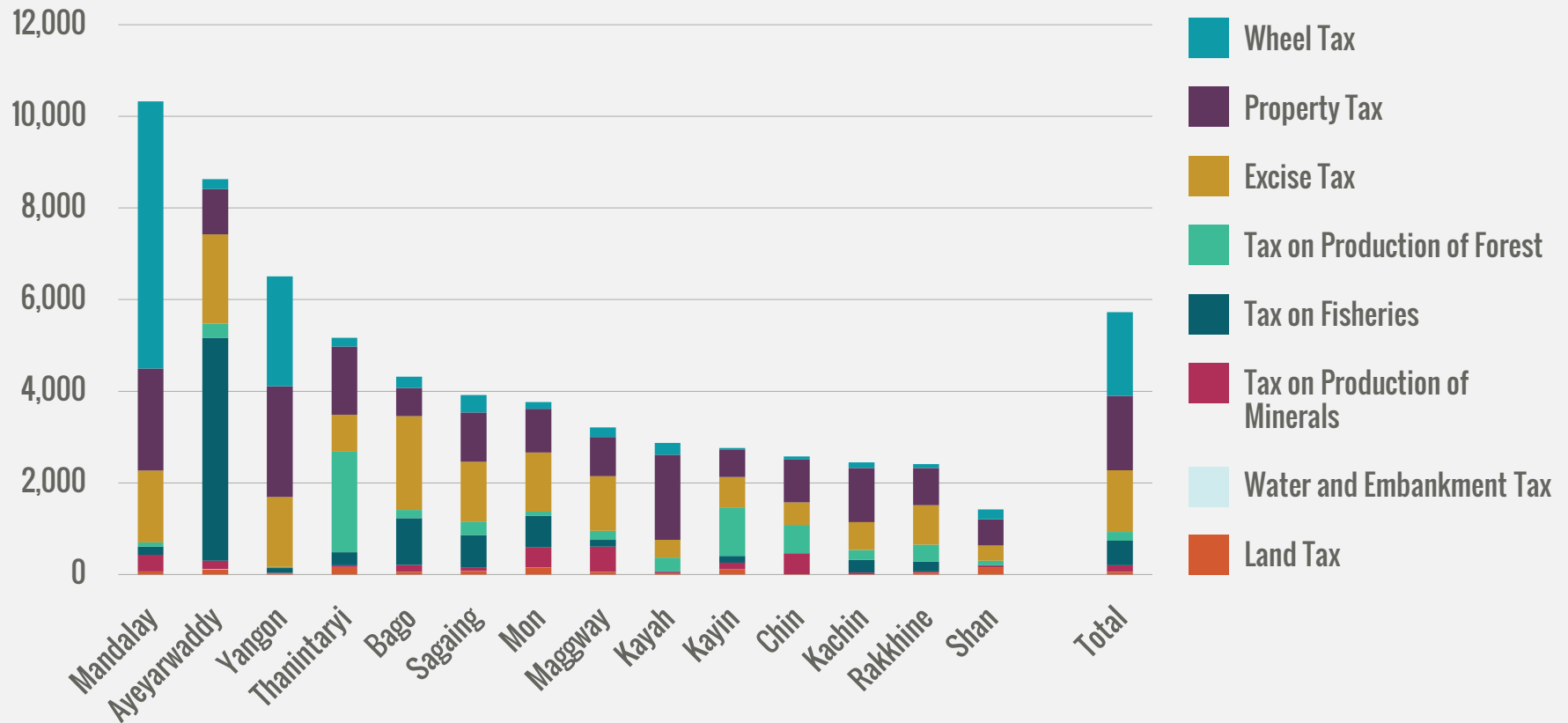


*City Development Committees (CDC) are present in Yangon and Mandalay.

TAX COLLECTION BY ITEM

ALL STATES AND REGIONS

SUBNATIONAL TAX COLLECTION (PER CAPITA, 2016-17 BE)

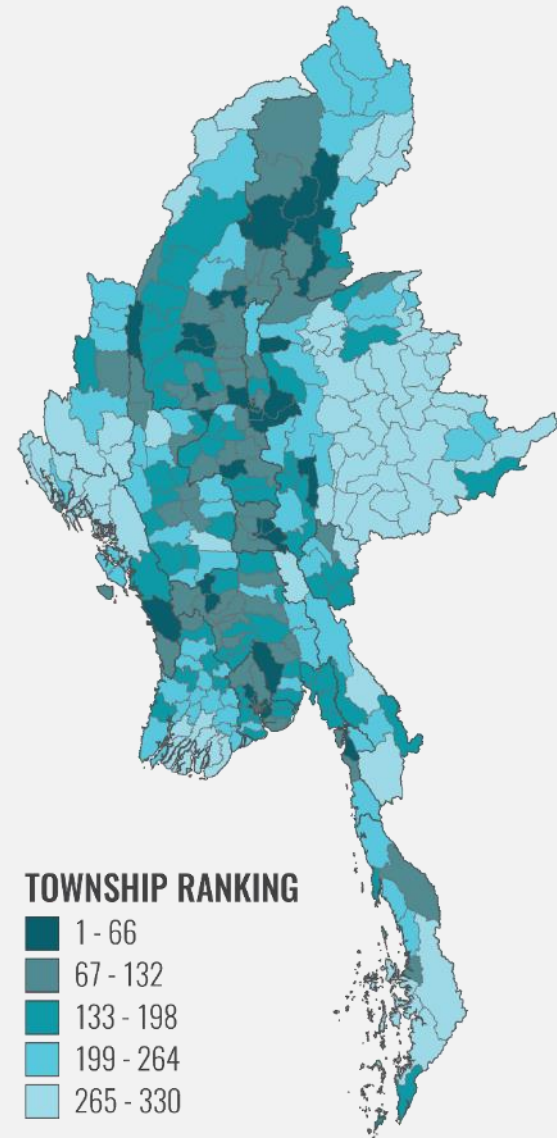


TOWNSHIP DEVELOPMENT INDEX

MEASURING SUBNATIONAL DEVELOPMENT

- The Township Development Index draws on human development data from Myanmar's census (2014).
- It combines indices on living standards, health, and education. The map on the right shows the ranking of townships in Myanmar based on the highest levels of development (dark colors) and lowest levels of poverty (light colours).

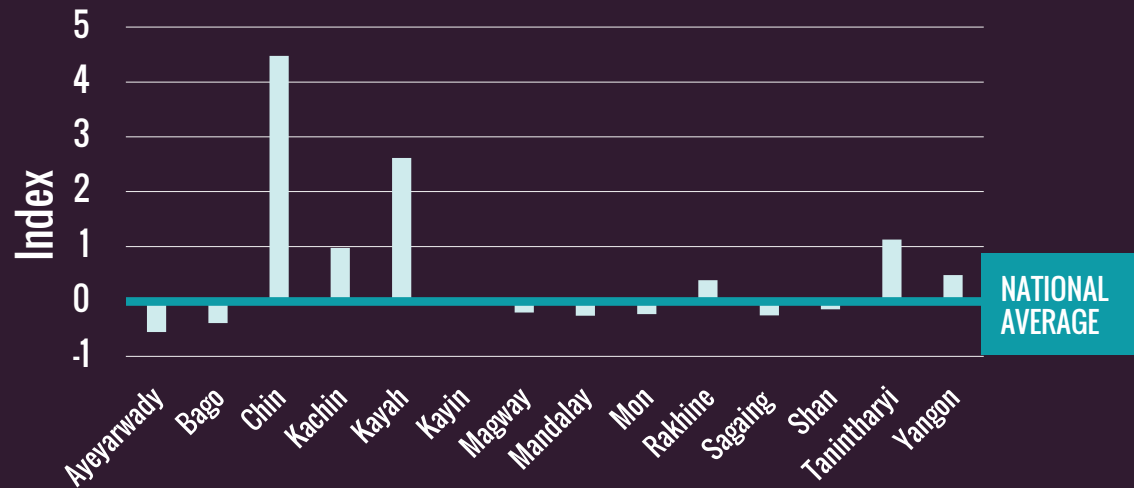
DIVERSE HUMAN DEVELOPMENT ACROSS MYANMAR'S TOWNSHIPS



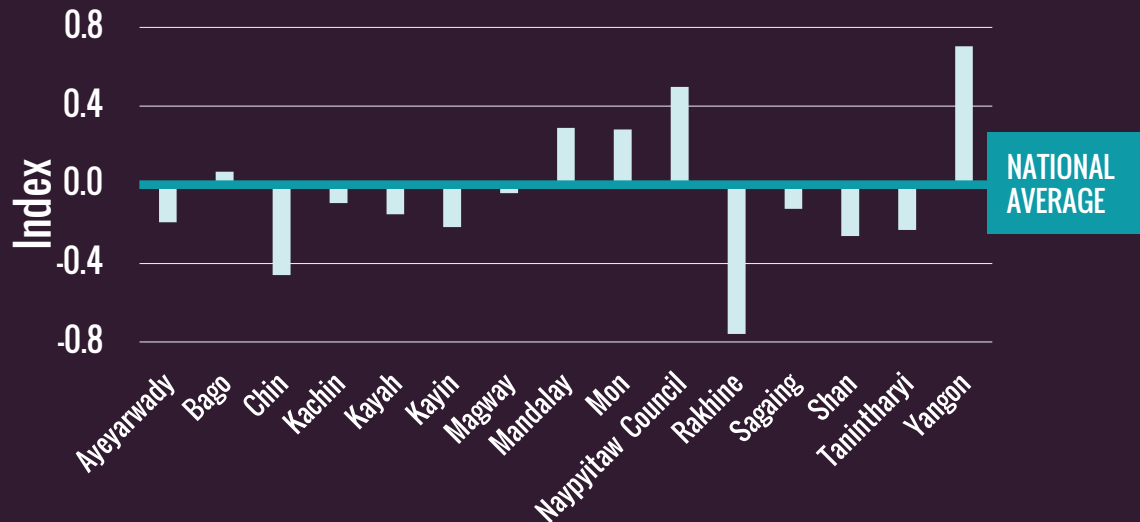
PER CAPITA REVENUE AND DEVELOPMENT DISPARITIES

****** The standard of living index combines indicators of household conditions, such as access to clean water and electricity, and household assets including a radio or bicycle possession.

PER CAPITA REVENUE INDEX*



STANDARD OF LIVING INDEX**



* State and Region per capita revenue divided by average per capita revenue

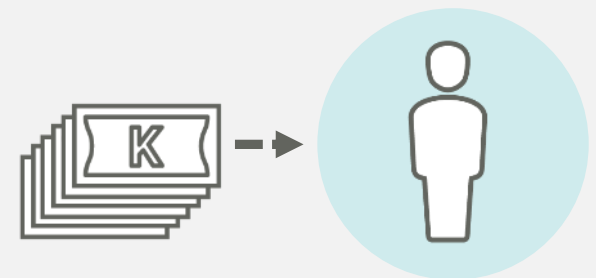
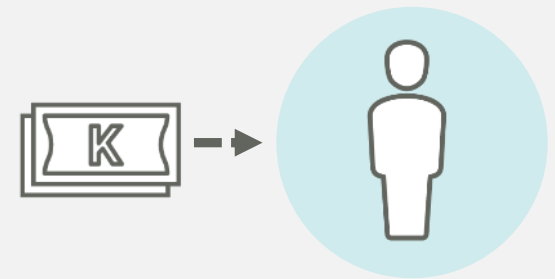
PER CAPITA REVENUE AND DEVELOPMENT DISPARITIES

There is considerable disparity in per capita revenues across States and Regions.

In term of per capita revenues for States and Region governments, there does not appear to be any discrimination against States.

Similarly there is considerable disparity in the level of development across States and Regions.

Per capita revenues do not fully reflect, nor respond to, the development needs of States and Regions.



ASSESSING FISCAL DECENTRALIZATION

- Restructuring of Myanmar's governance often falls more under the definition of **deconcentrating** which is a part of **decentralization**.
- Deconcentration 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:

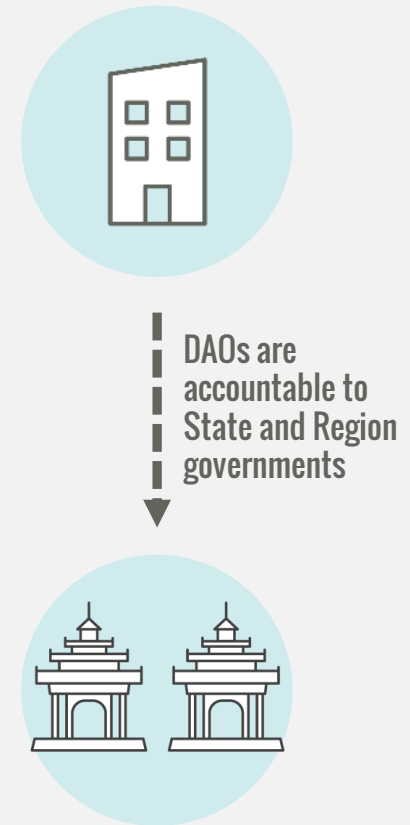
The transfer of authority and responsibility for public functions from the central government to subordinate or quasi-independent government organizations.

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.

ASSESSING FISCAL DECENTRALIZATION

- Subnational entities (States and Regions) remain strongly dependent on resources transferred from the Union, while subnational departments and state owned enterprises represent subnational agencies of Union Ministries (Development Affairs Organization/Department of Development Affairs is an exception).
- DAOs are the key example of a decentralized government body in Myanmar. They are collecting their own revenues and spending their own budgets according to local needs (urban services as opposed to health and education).
- Overall, the 'social union' is still largely managed by the Union government.



SUMMARY OF KEY ISSUES

- Subnational expenditure has increased in States and Regions largely due to fiscal transfers from the Union government.
- Capital expenditure has grown as a share of subnational expenditure, which is becoming more diverse in terms of areas of allocation (eg. State and Region government bodies, construction, electricity, natural resources, municipalities).
- The restructuring of Myanmar's governance system since 2011 falls much more under the definition of deconcentration, which is part of, with subnational entities remaining strongly dependent on resources transferred from the Union.
- The Union government remains largely in control of fiscal responsibilities and arrangements to build a social union.
- Furthering more concrete decentralization of decision-making power is necessary to build accountability mechanisms, devolve decision making, and target the needs of citizens.

EXERCISE

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

Module **3**

FISCAL FEDERALISM AND EQUALIZATION



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The Asia Foundation

THIS CURRICULUM HAS BEEN DEVELOPED BY:

The Asia Foundation

with Professor Paul A. R. Hobson

Matthew Arnold
Nicola Williams
Lea Lybecker
Kyaw Myo Oo

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WHAT THIS MODULE WILL COVER

- 1 What is the role of equalization in a federal system?
- 2 What are the different fiscal transfers in Myanmar?
- 3 How do equalizing elements of the fiscal transfer system work in Myanmar? How does equalization work in other contexts?
- 4 Should equalization reflect different needs to promote equity?



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.

EQUITY AND EQUALITY

EQUALITY



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

EQUITY

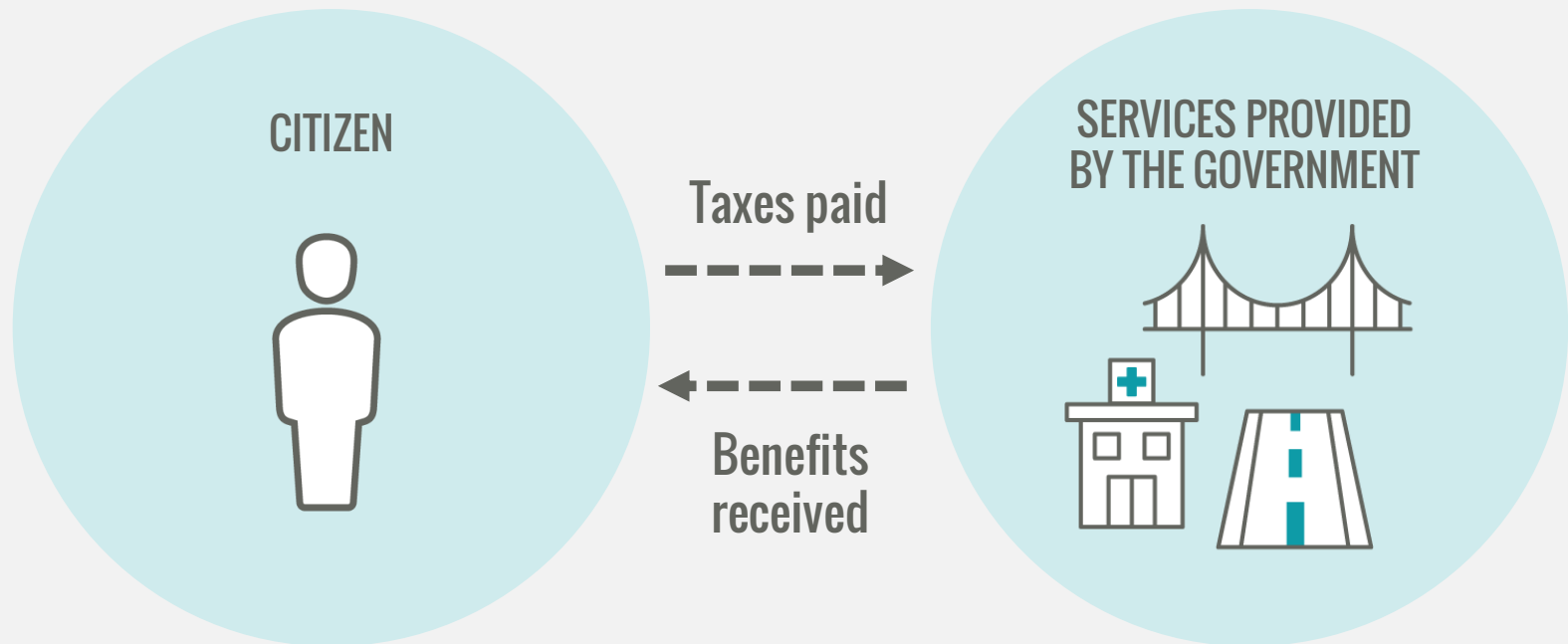


Equity is the quality of being fair and impartial; justice according to natural law.

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.



DIFFERENCES IN NET FISCAL BENEFITS



- States with below average income provide below average level of benefits per capita
- Net fiscal benefits will be lower for residents of states with below average incomes than those in states with above average incomes
- This is called **fiscal inequity**

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.

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.

THREE EXAMPLES OF EQUALIZATION

AUSTRALIA

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.

CANADA

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.

GERMANY

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.

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.

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

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

GENERAL GRANT

GENERAL GRANT:

A revenue based transfer based on need and fiscal capacity. Formula based since 2015-2016.

DISTRIBUTION FORMULA (WEIGHTING):



Land area
Population
Poverty rate

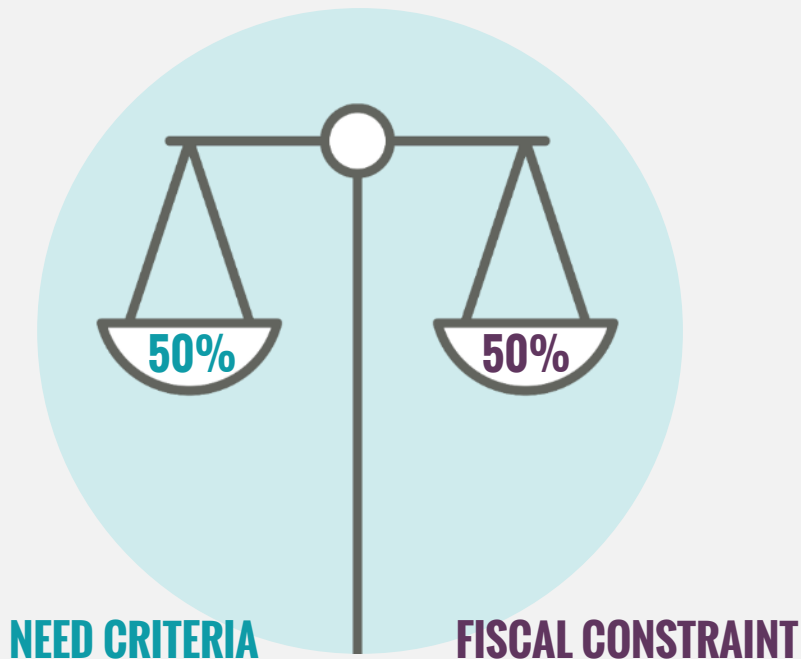
NEED CRITERIA

Tax collection per capita
% Urban population
GDP per capita

FISCAL CONSTRAINT

CURRENT FISCAL ARRANGEMENTS IN MYANMAR

DISTRIBUTION FORMULA (WEIGHTING):



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**

DISTRIBUTION OF GENERAL GRANT

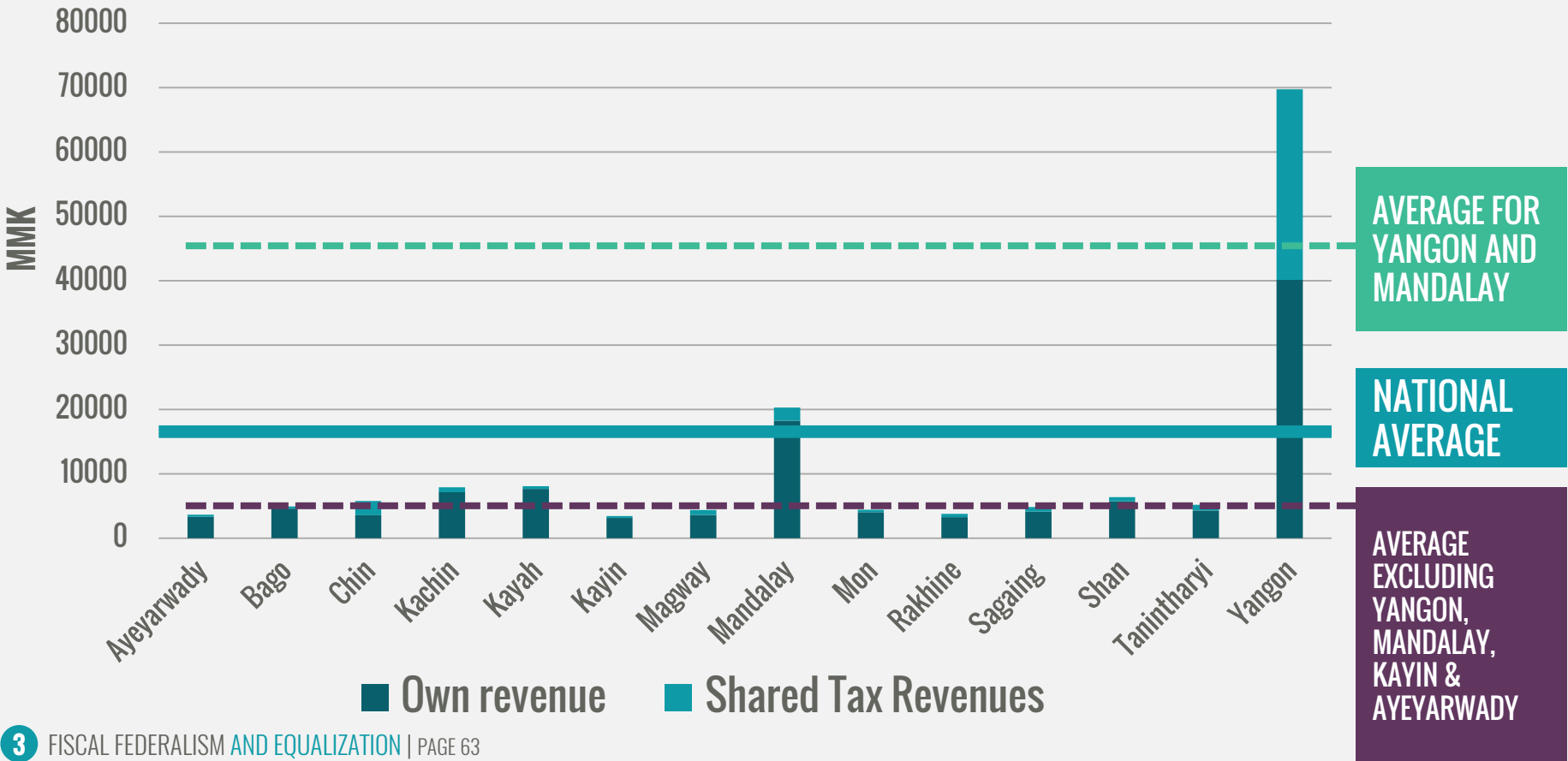
- Previously, general grant transfers were conceived as ‘deficit financing’
 - Annual State and Region government budget submissions were reviewed by the Union government and a determination was made of the amount by which projected deficits would be offset for each State and Region.
- Since 2015/16, 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.

DISTRIBUTION OF GENERAL GRANT

- Very wide variance of per capita revenues between states/regions.
 - Not justified by any corresponding variance in relative 'need' or 'fiscal capacity'.
- Some states/regions which have similar population and poverty index often enjoy very different levels of revenue/expenditure.
- Some states/regions with higher population and poverty index enjoy much lower revenue/expenditure levels.
- No correlation of revenue/expenditure levels with the two principal 'need' indicators.
- Huge per capita total revenue disparities across states/regions.

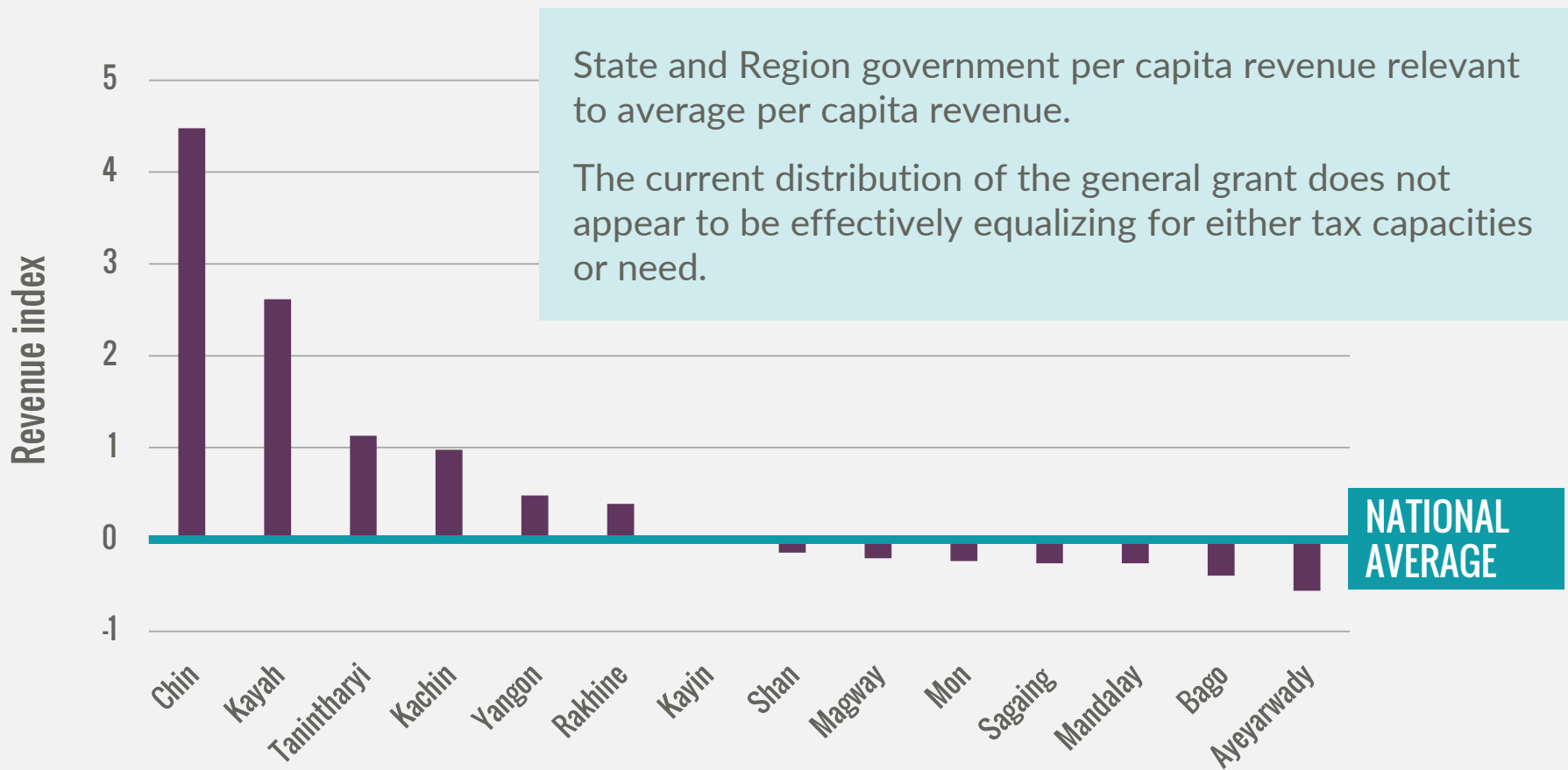
EQUALIZING FOR STATE/REGION PER CAPITA REVENUE DISPARITIES

FY 2016/2017



STATE/REGION PER CAPITA REVENUE INDEX

FY 2016/2017



SUMMARY OF KEY ISSUES

- The role of equalization in a federal system is to enable sub-national levels of government to provide reasonably comparable levels of public services given reasonably comparable levels of taxation.
- The different fiscal transfers in Myanmar are the Community Development Fund, shared taxes (commercial and special goods taxes, income tax and stamp duty), and the general grant.
- Because revenue sharing in Myanmar is on a derivation basis, this results in further fiscal disparity across States/Regions.
- In principle, the general grant could be designed to equalize for fiscal disparities, but in practice it does not: fiscal disparity remains across States/Regions in Myanmar.

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.

Module **4**

FISCAL FEDERALISM AND NATURAL RESOURCES



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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.

WHAT THIS MODULE WILL COVER

- 1 Where is natural resource extraction taking place?
- 2 What are options for natural resource responsibility?
- 3 What are options for natural resource revenue sharing?
- 4 How do natural resource revenues affect net fiscal benefits (NFBs)?
- 5 What are the equalization implications of disparities in natural resource revenues?



NATURAL RESOURCES IN MYANMAR



- Natural resource exploitation is a core driver of Myanmar's national economy.
- In 2012-2013 close to 70 percent of Myanmar's exports came from natural gas, mining, and timber.
- Natural gas is Myanmar's top export. In 2017-18 it took up 50 percent of export revenues bringing in US\$3,100 million.
- Natural resources are a central issues in peace negotiations. They cut across issues of federalism, economic issues, and social affairs.
- Ways to improve natural resource governance and benefit sharing are part of wider policy discourses and reform agendas.

NATURAL RESOURCES IN MYANMAR



- The 2015 Myanmar Mines Law amended the 1994 Mines Law (The State Law and Order Restoration Council Law No 8/94). Its enactment was delayed due to needing initial amendments and implementation rules.
- State-owned economic enterprises (SEEs) collect the majority of fiscal revenues (50 percent) for government. Most of this is from the extractive sector on behalf of the government. The Myanmar Oil and Gas Enterprise (MOGE), Myanmar Gems Enterprise (MGE) and Myanmar Timber Enterprise (MTE) are some of the biggest entities and most powerful SEEs.
- Myanmar is member of the global Extractive Industries Transparency Initiative (EITI) promoting improved accountability and transparency in the extractive sector.

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.

2008 CONSTITUTION SCHEDULE V

Schedule V:

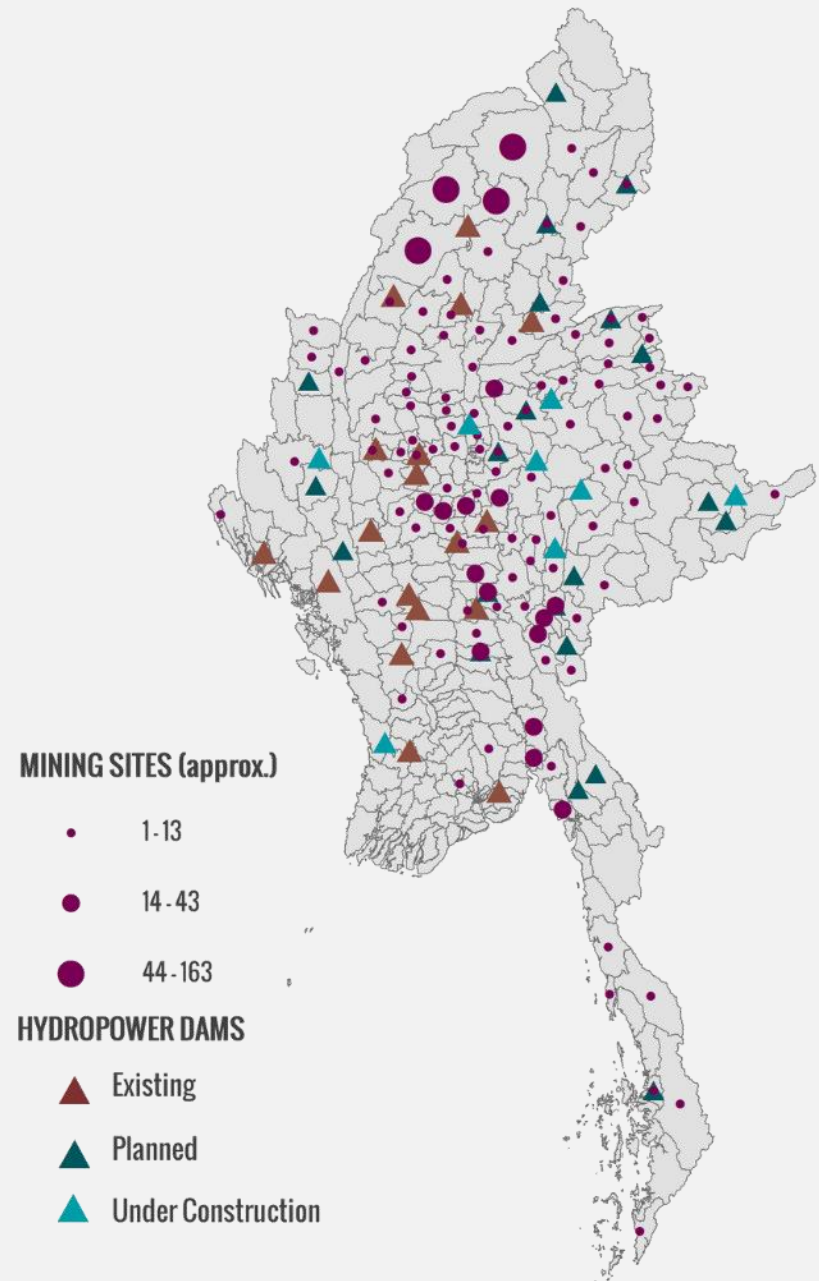
29. Tax on Oil and Gas which are entitled to be carried out within the Region or State in accordance with the law enacted by the Union.

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.

NATURAL RESOURCE EXTRACTION

- There is a lot of disparity in the distribution of natural resources and extractive activity across Myanmar's States and Regions.
- Estimate mining sites from satellite imagery (year 2016) demonstrate that the highest level of extractive activity takes place in Sagaing Region with the lowest levels in Chin State.
- The significant disparity among different areas in the country raises the potential need for equalization programs to ensure all citizens can benefit from the country's natural resource wealth.



Source: EcoDev-ALARM (2016); ICEM (International Centre for Environmental Management) (2016)

OPTIONS FOR NATURAL RESOURCE RESPONSIBILITY

- 1 Union government ownership and management.
- 2 State/Region ownership and management.
- 3 Shared (States/Regions with Union) ownership and management with Union paramountcy.
- 4 Shared (State/Region with Union) ownership and management with State/Region paramountcy.

OPTIONS FOR NATURAL RESOURCE REVENUE SHARING

INDIRECT REVENUE SHARING

Only e.g. through financing of State/Region infrastructure projects.

DIRECT REVENUE SHARING

- Union government to State/Region government.
- State/Region government to State/Region government.
- State/Region government to Union government.

NATURAL RESOURCE REVENUES

- The distribution of natural resource revenues between federal and state governments is contentious everywhere.
- Where ownership of natural resources rests with central government, can be used to confer benefits on all citizens:
Principle: A nation's natural resources belong to the 'people'.
- Where ownership of natural resources rests with states, it can give rise to significant disparities in **net fiscal benefits**:
Principle: State/Region residence confers a share in ownership on residents.
- Disparities in net fiscal benefits due to state ownership must be equalized to ensure fiscal equity.
- The distribution of revenue should also take into consideration the social and environmental impacts of resource extraction.

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.

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)



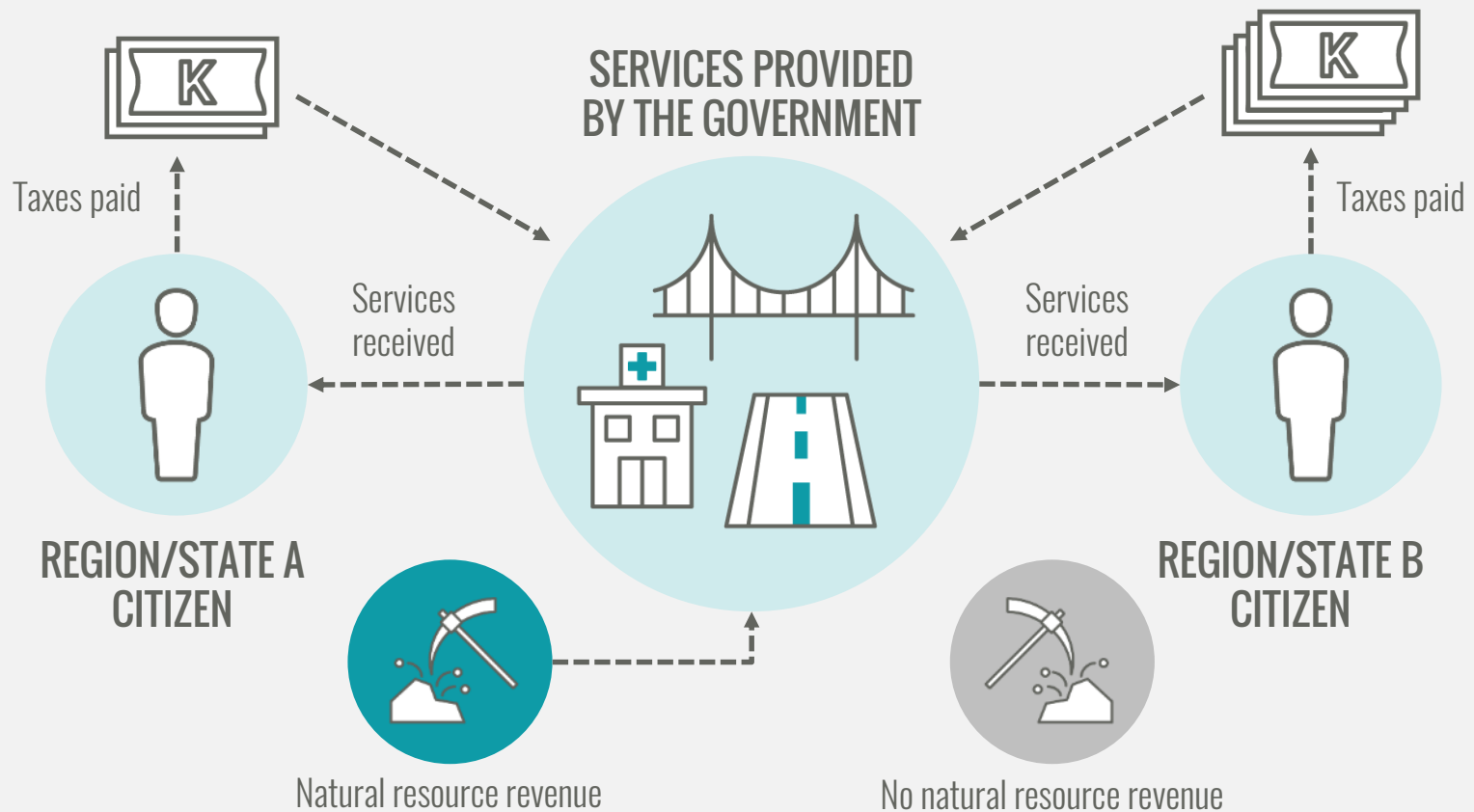
State-Federal
(vertical sharing):
A portion of resource
rents transferred to the
federal



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

NET FISCAL BENEFITS (NFB)

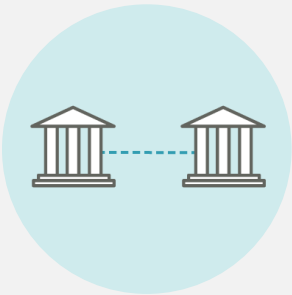
NFB = BENEFITS RECEIVED - TAXES PAID



REVENUE SHARING OF NATURAL RESOURCES

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

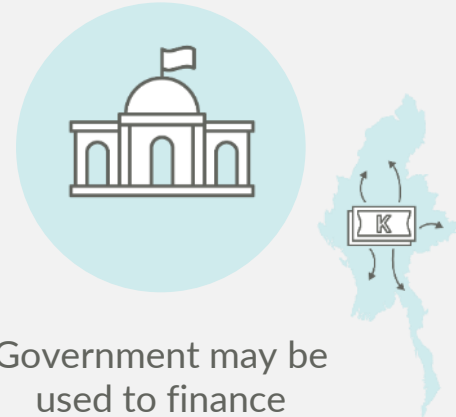
OPTIONS FOR RENT SHARING:



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.

EQUALIZATION OF NATURAL RESOURCE REVENUES

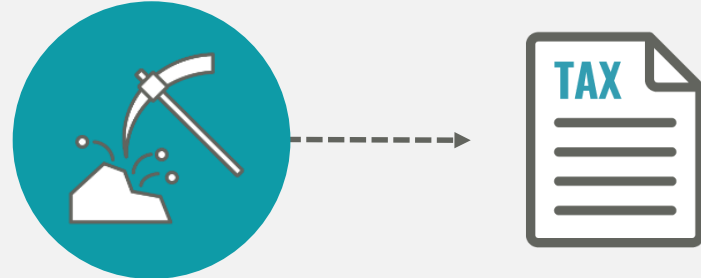
Redistribution of resource revenues from States or Regions with above average per capita resource revenues to those with below average per capita resource revenues, in other words equalization to the national average:

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



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.



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.

SUMMARY OF KEY ISSUES

- There is significant disparity in natural resource endowments across States and Regions in Myanmar.
- There is nothing in the 2008 Constitution that prevents the Union government from entering into a natural resource revenue sharing agreement with the States and Regions through the fiscal arrangements.
- State or Region ownership of natural resources in a federal system would introduce significant fiscal disparity across States and Regions. This would need to be addressed via equalization.
- Equalization could result from resource revenue sharing from among States and Regions.
- In addition, resource revenue sharing agreements can be developed between subnational governments and the Union government.

Module **5**

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



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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.

WHAT THIS **MODULE** WILL COVER

- 1** How can fiscal federalism help build an economic union and importantly a social union?
- 2** What role can subnational governments (State/Region and local government) play in building a social union?
- 3** How can needs-based fiscal arrangements be pursued for improved infrastructure, health, education, and social assistance?



A WORD FROM PROFESSOR RONALD WATTS



... where the administration of a substantial portion of federal legislation is constitutionally assigned to the governments of the constituent units.....the constitutional expenditure responsibilities of the regional governments are significantly broader than would be indicated by the distribution of legislative powers taken alone.



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

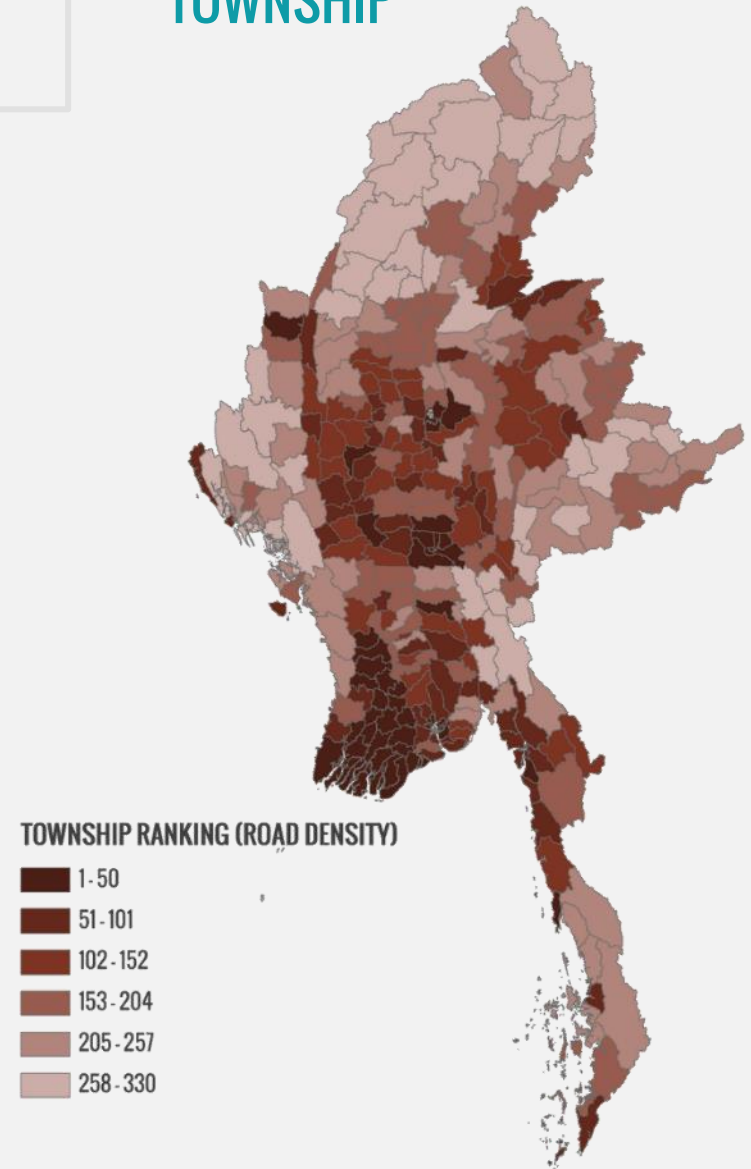
PUBLIC INFRASTRUCTURE AND PUBLIC SERVICES

- Most spending for public infrastructure and public services remains highly centralized in Myanmar.
- In many countries capital expenditure responsibilities are shared across all levels of government.
- Building roads and bridges in a federal system helps to strengthen an economic union, while building schools and hospitals strengthens the social union.
- In addition, building human capital, in particular strong administrative capacity in both Union and State/Region governments helps to strengthen both the economic union and the social union.

PUBLIC INFRASTRUCTURE

- 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.

ROAD DENSITY PER TOWNSHIP

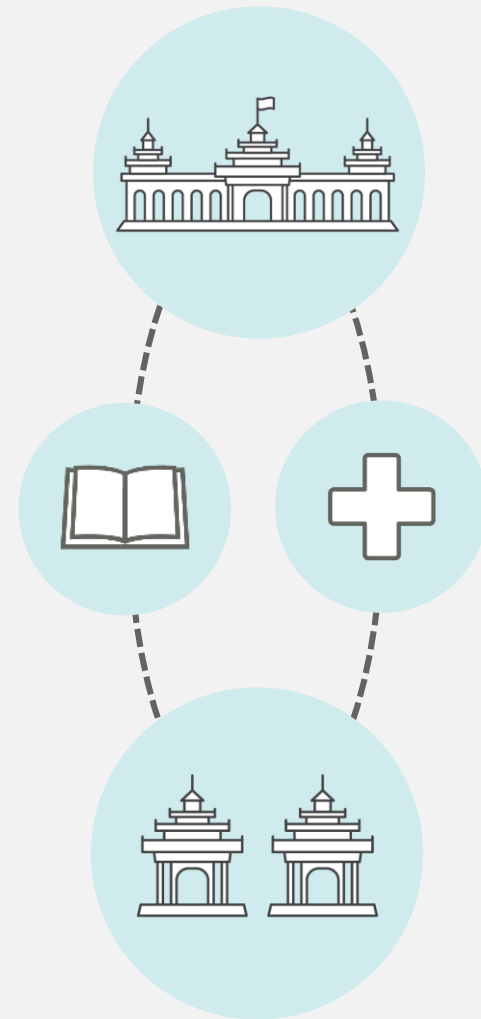


BUILDING A SOCIAL UNION

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 an 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.

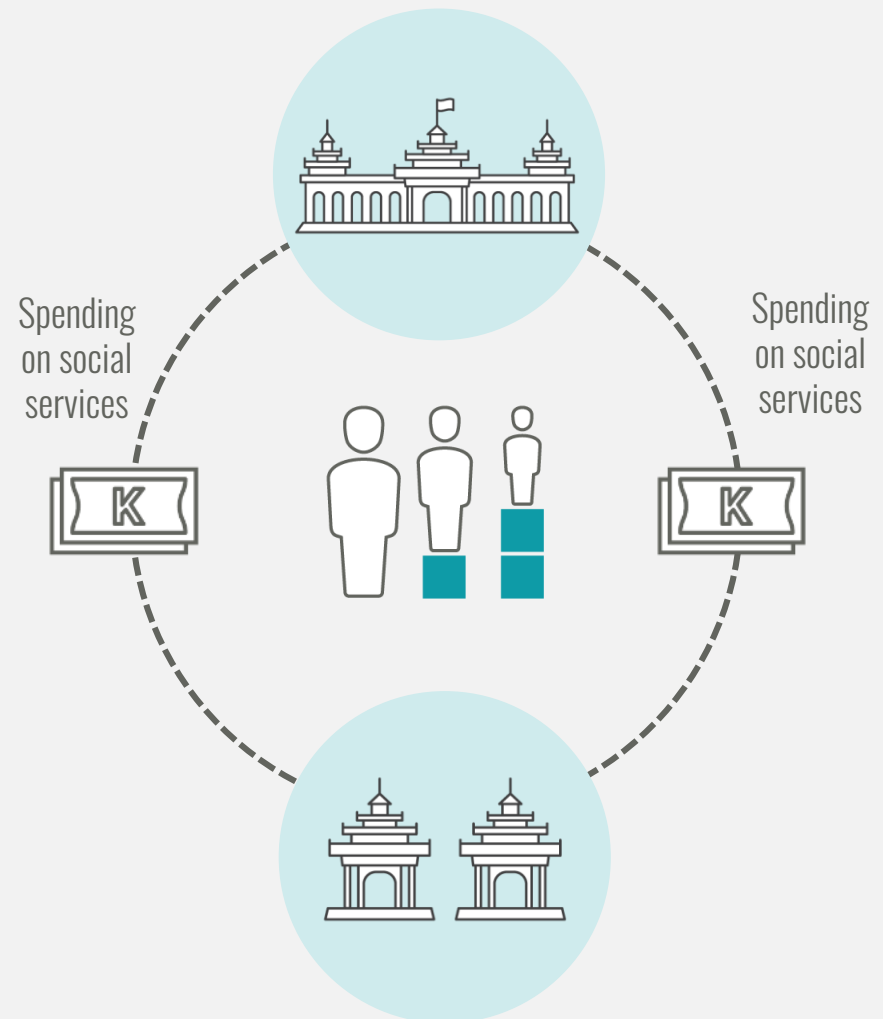


BUILDING A SOCIAL UNION

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.



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.

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

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

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;

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.

EDUCATION: BUILDING A SOCIAL UNION



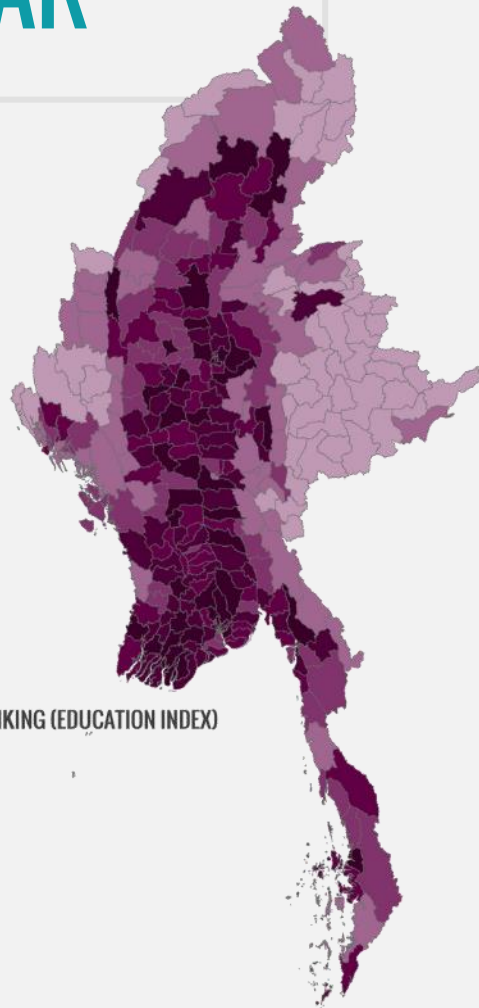
In a federal system, States and Regions should have additional responsibilities at the subnational level for education services with matching fiscal arrangements:

- 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 services providers includes the **Mon National Education Committee (MNEC)** established via the New Mon State Party (NMSP):

- 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.

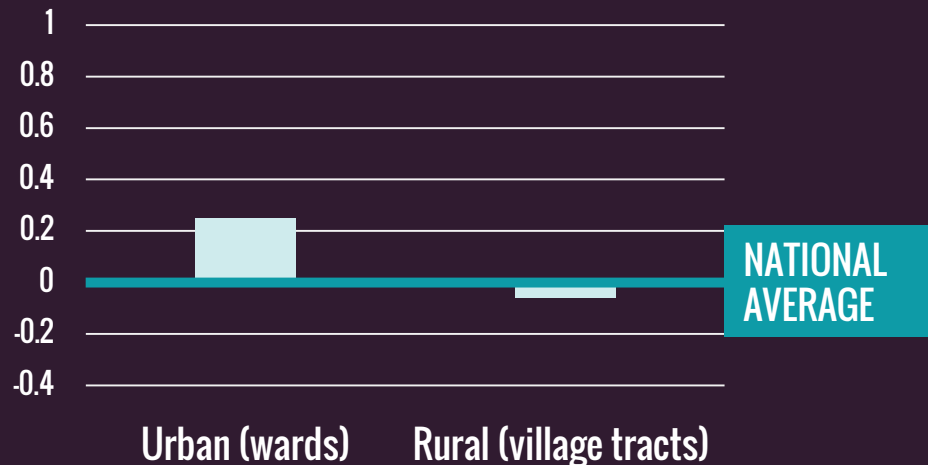
EDUCATION IN MYANMAR



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 Kayin.
- Kachin, Naypitaw 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



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

SOCIAL ASSISTANCE: BUILDING A SOCIAL UNION

2008 CONSTITUTION SECTION 9. SOCIAL SECTOR

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

8. Management Sector

- a) Development matters;
- b) Town and housing development;

2015 CONSTITUTION AMENDMENTS

2. At the Region or State Legislative List, Schedule 2 of the Constitution:

- a) 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;
- b) relief and rehabilitation matters which are entitled to be carried out within the Region or State in accord with law enacted by the Union;

SOCIAL ASSISTANCE: BUILDING A SOCIAL UNION

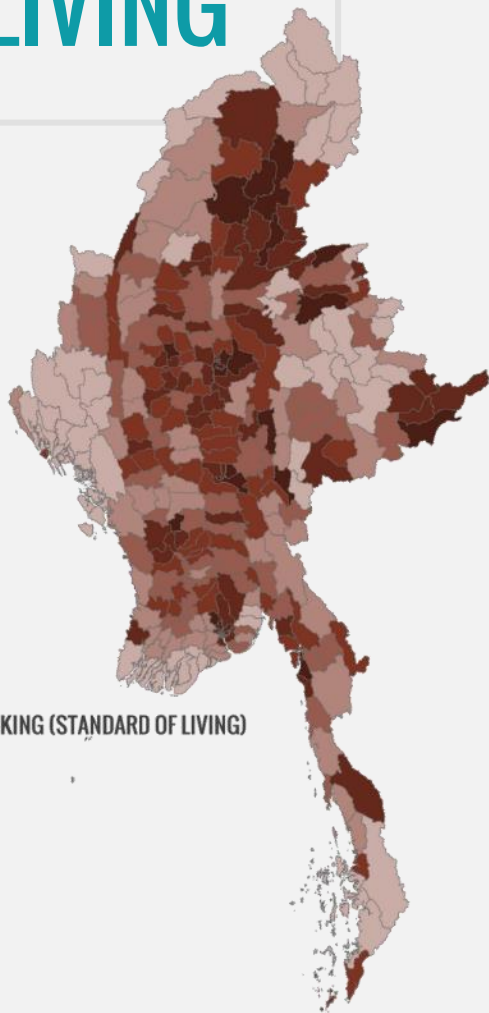
Development and poverty alleviation programs are of great importance in developing countries, along with health and education services.

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.

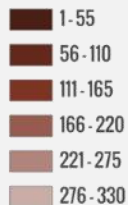
Subnational governments are, in theory, likely to be more aware of social assistance needs which can take many forms such as:

- 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

STANDARD OF LIVING



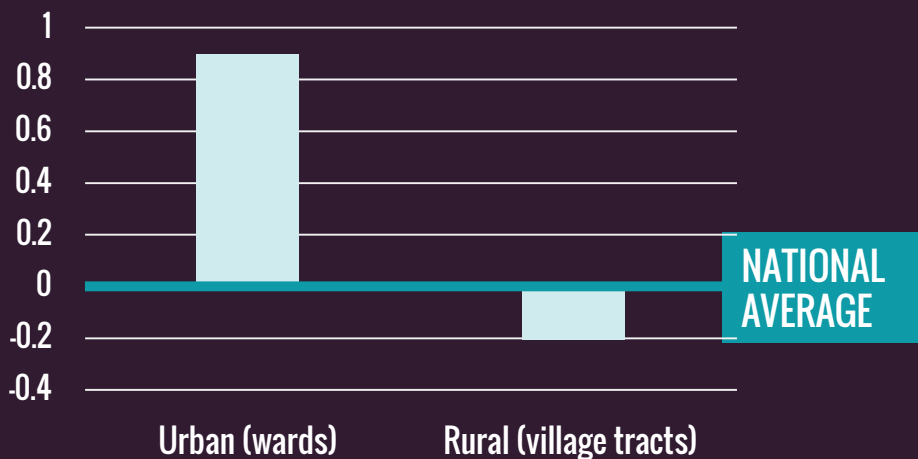
TOWNSHIP RANKING (STANDARD OF LIVING)



STANDARD OF LIVING INDEX

- Living standards (house hold assets and conditions) in Myanmar differ greatly from township to township.
- The difference in standard of living between urban and rural areas in Myanmar is markedly high and should be considered in terms of targeting areas to improve household conditions, such as providing access to electricity or clean drinking water.
- It is important to understand living standards and poverty levels to allocate specific purpose grants or block grants.

URBAN/RURAL DIVIDE AT SUB-TOWNSHIP LEVEL



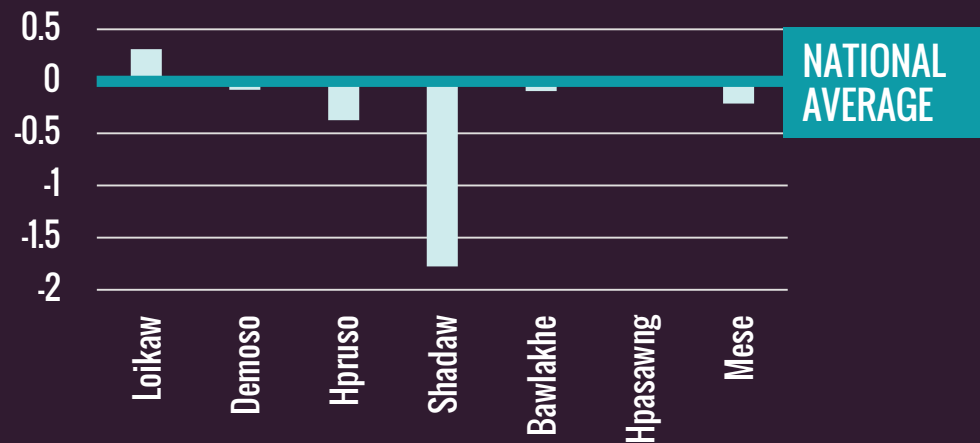
TOWNSHIP AND VILLAGE TRACTS AND WARDS DEVELOPMENT INDEX

Increased devolution of social services to the subnational level *potentially* allows for improved targeting of populations based on poverty levels and needs.

The township and sub-township development indices illustrate the variance of development levels and to pinpoint where needs are greatest.

For instance, in Kayah State, Loikaw township has a higher level of development than the national average, while Shadaw is among the least developed townships in the country.

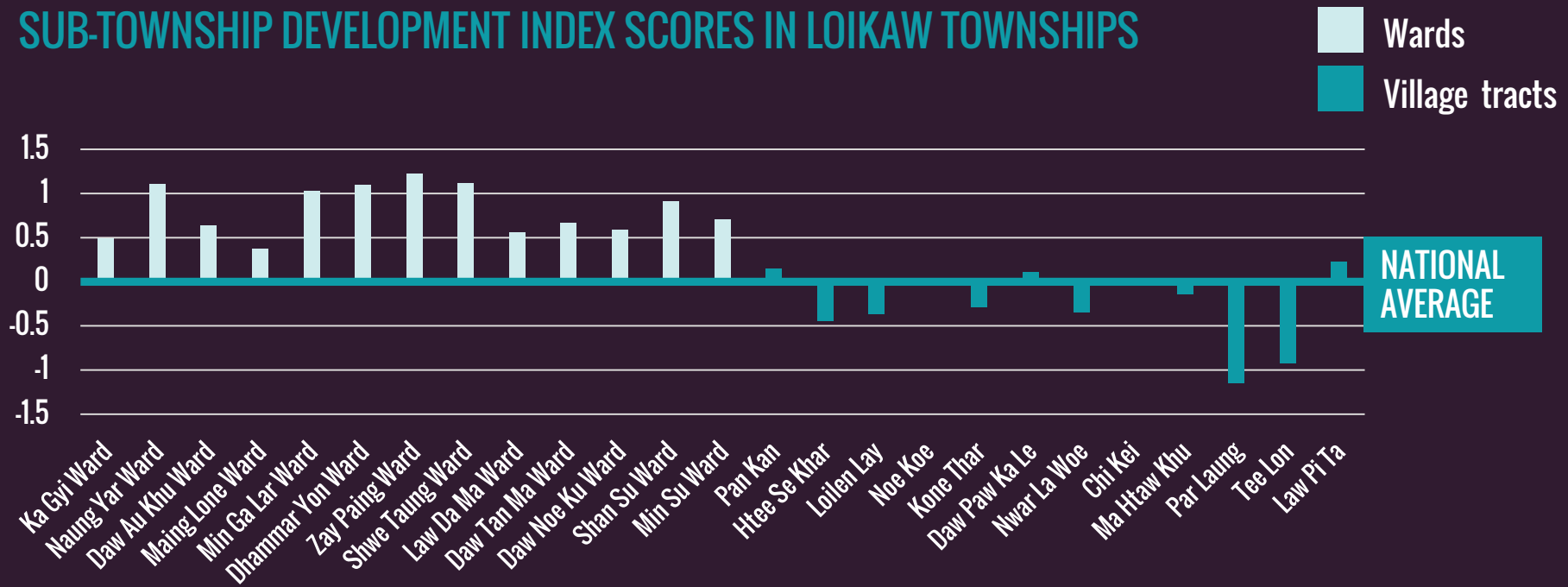
TOWNSHIP DEVELOPMENT INDEX SCORES IN KAYAH STATE



TOWNSHIP AND SUB-TOWNSHIP DEVELOPMENT INDEX

Drilling further down, the township with the highest development score in Kayah state, Loikaw, display significant variety in the level of development across wards and village tract. Urban areas are consistently more developed than rural areas.

SUB-TOWNSHIP DEVELOPMENT INDEX SCORES IN LOIKAW TOWNSHIPS

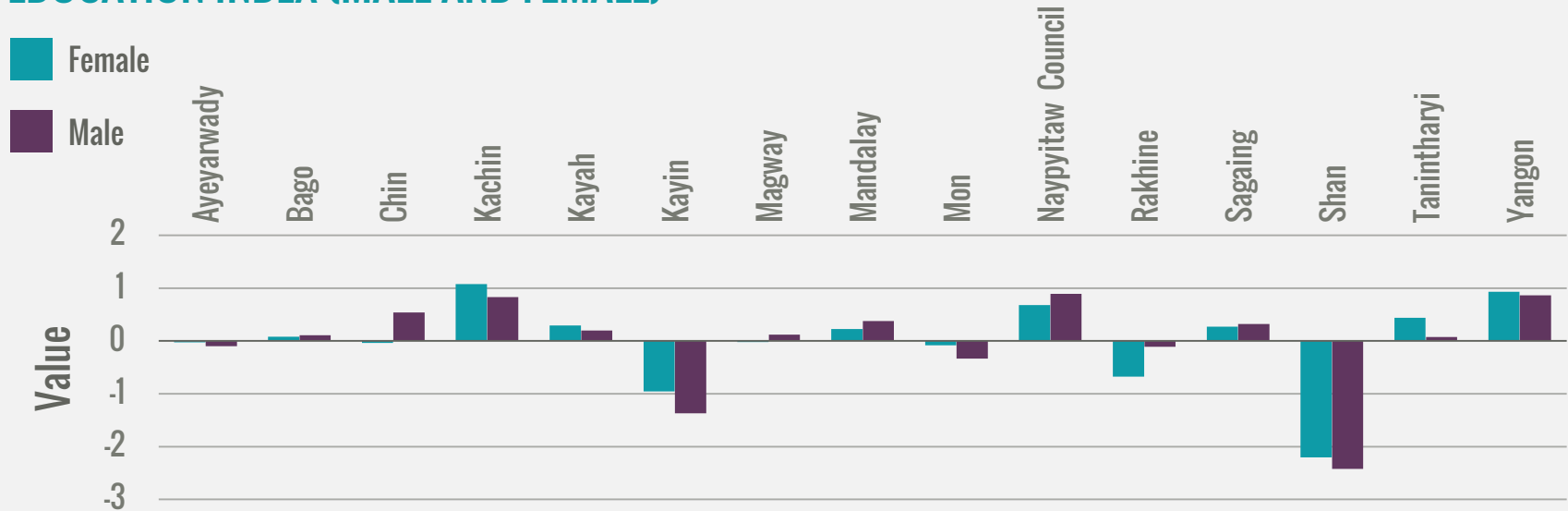


INTEGRATING GENDER INTO A SOCIAL UNION

Specific purpose grants are options to target issues of gender inequality and promote women’s empowerment, particularly in areas of high inequality trends:

- Low high school education levels in some areas.
- High disparities between male and female labor force participation; inequitable income distribution.

EDUCATION INDEX (MALE AND FEMALE)



INTEGRATING GENDER INTO A SOCIAL UNION



Gender equality goals and gender budgets can be mainstreamed across efforts to build a social union across all levels of government: Union, State and Region, and local.

- For instance, via health, education and social assistance programs.

Special purpose grants could for instance target:

- Apprenticeship programs for women farmers/fishers;
- Vocational programs for women entrepreneurs.

Developing Myanmar's income tax with provisions targeting gender issues and inequality.

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.

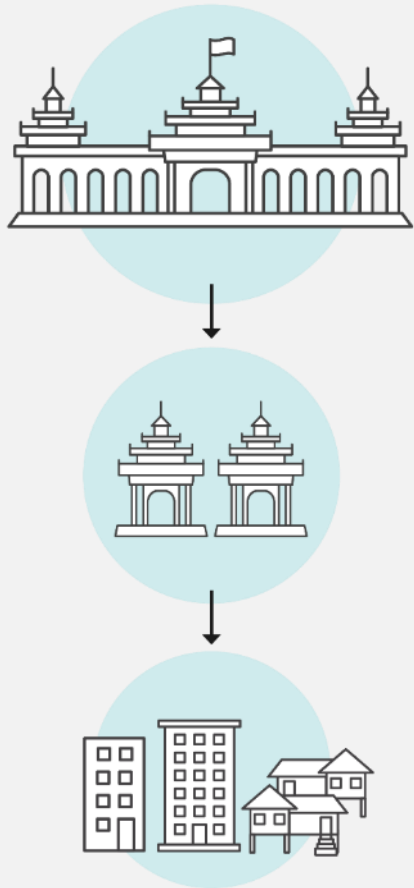
BUILDING LOCAL GOVERNMENT



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.

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.

SUMMARY OF KEY ISSUES

- The constitutional expenditure responsibilities of subnational governments are significantly broader than would be indicated by the distribution of legislative powers taken alone.
- Beyond building roads and bridges, State and Region governments' responsibilities should extend to building the social union to promote development.
- 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.
- Accompanying intergovernmental fiscal relations should reflect national equity and efficiency goals in a federal model.
- There is a wealth of available evidence on local development to shape the targeting of local fiscal transfers and arrangements based on citizens' needs.

Module **6**

FISCAL FEDERALISM AND MYANMAR'S PEACE PROCESS



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FROM THE AMERICAN PEOPLE



The Asia Foundation

THIS CURRICULUM HAS BEEN DEVELOPED BY:

The Asia Foundation

with Professor Paul A. R. Hobson

Matthew Arnold
Nicola Williams
Lea Lybecker
Kyaw Myo Oo

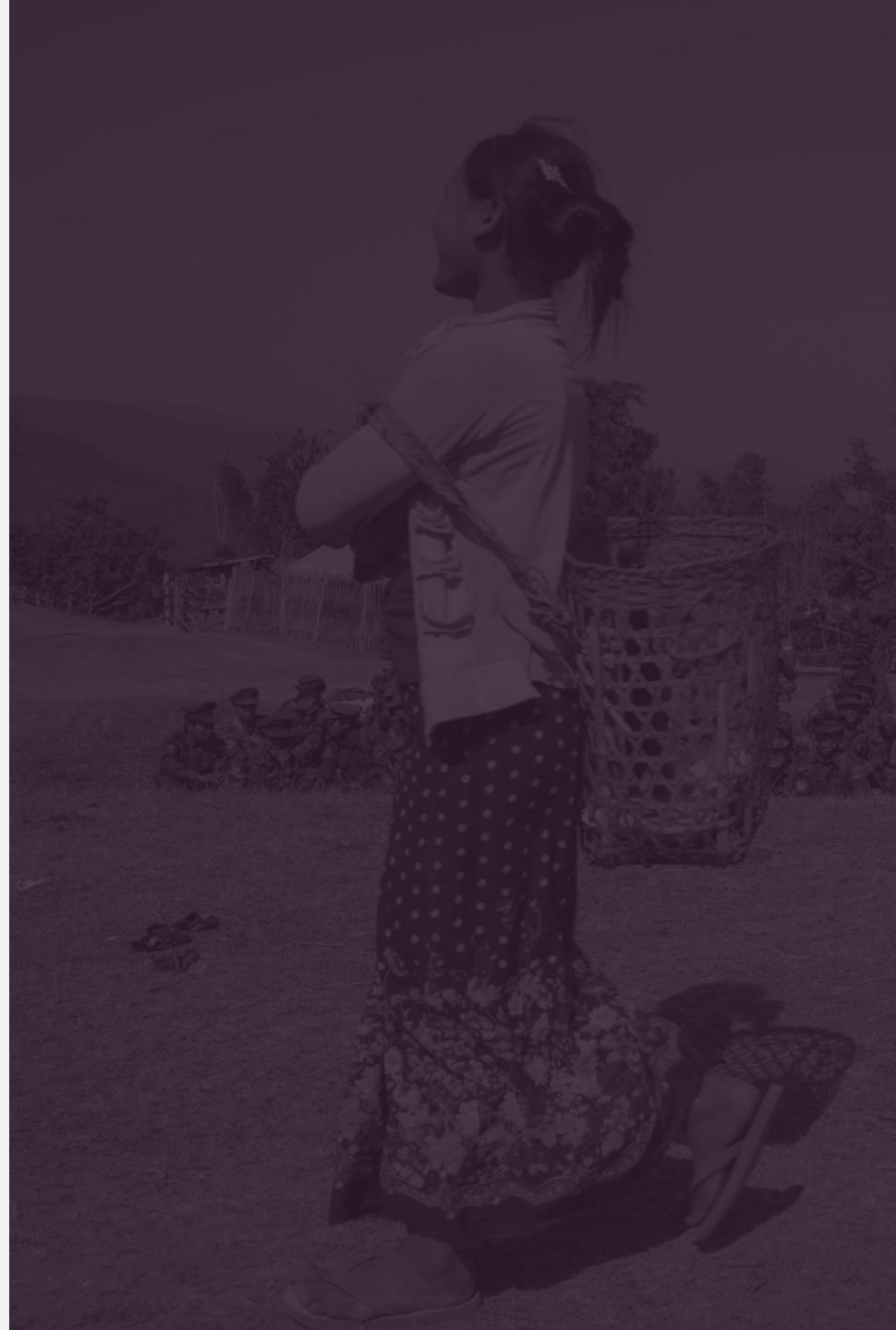
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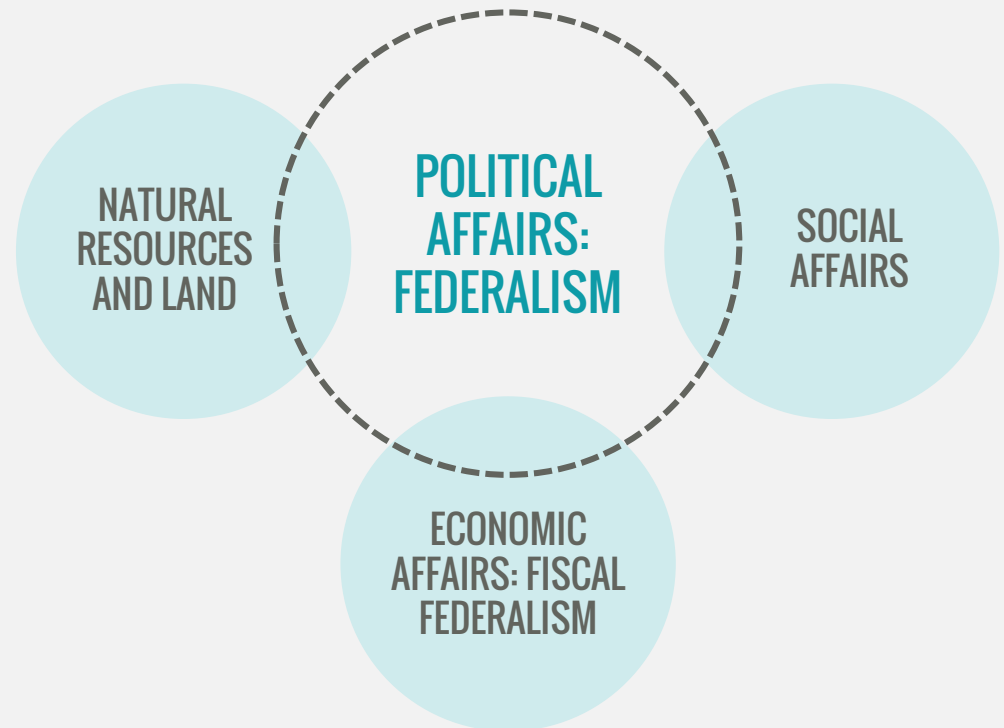
WHAT THIS MODULE WILL COVER

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



FISCAL FEDERALISM AND THE PEACE PROCESS

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



IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism

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

REVENUE SHARING ARRANGEMENTS

NATURAL RESOURCES:

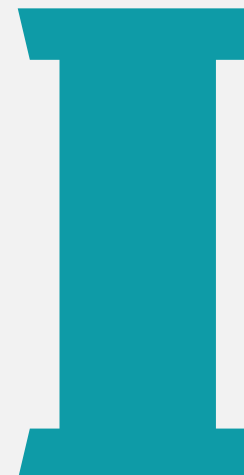
An explicit resource revenue sharing system between the Union and State and Region governments catalyzes long-term economic and social development planning, builds strong health and education systems, and promotes investment in social infrastructure.

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



IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism



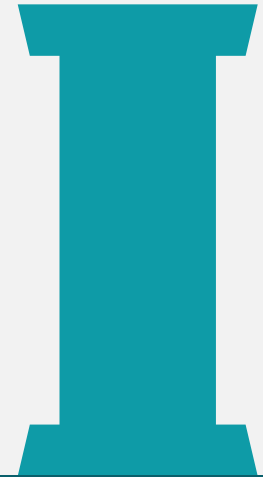
REVENUE SHARING ARRANGEMENTS

EQUALIZATION:

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

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism



SHARED TAX BASES

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

TAX HARMONIZATION

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

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS

Pillars of Fiscal Federalism

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

GRANTS*

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

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

PRESENCE OF INTERNALLY DISPLACED PERSONS

2006, 2016

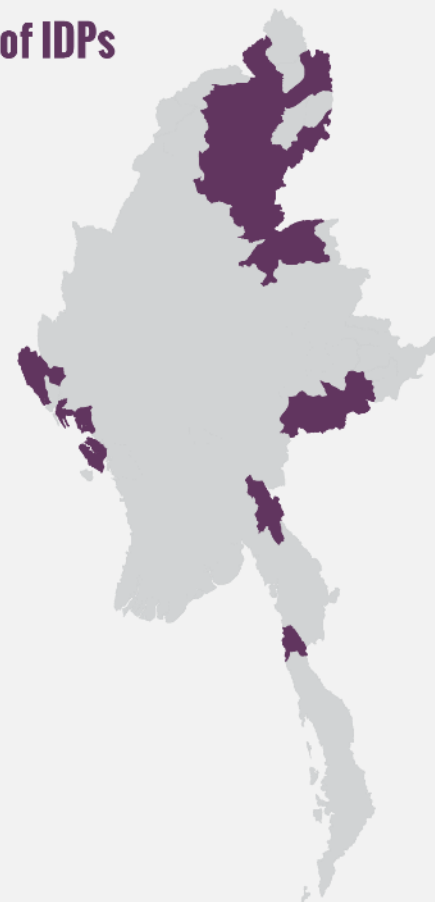
The two maps show persons registered by humanitarian organizations who have been displaced due to armed conflict during different cycles of subnational conflict.

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

**Presence of IDPs
2006**



**Presence of IDPs
2016**



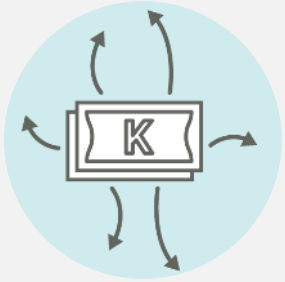
IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



BUDGET TRANSPARENCY AND CORRUPTION

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

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



FISCAL DECENTRALIZATION WITHIN AND OUTSIDE OF NEGOTIATIONS

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

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



STATE OWNED ECONOMIC ENTERPRISE (SEE) REFORM

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

For more information on SEE reform:

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

IMPORTANT ECONOMIC ISSUES FOR THE PEACE PROCESS



INCREASING TECHNICAL POLICY CAPACITY

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

FISCAL FEDERALISM: THE CONSTITUTION, LAWS & POLICY

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

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

Canada's Constitution EQUALIZATION AND REGIONAL DISPARITIES

36.

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

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

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

FISCAL FEDERALISM: IMMEDIATE AND LONG-TERM OPPORTUNITIES

IMMEDIATE OPTIONS

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

For instance:

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

FISCAL FEDERALISM: IMMEDIATE AND LONG-TERM OPPORTUNITIES

LONGER-TERM OPPORTUNITIES

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

SUMMARY OF KEY ISSUES

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

EXERCISE

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

APPENDIX

This curriculum draws on data and literature from The Asia Foundation and partners on governance and fiscal arrangements in Myanmar:



OTHER REFERENCES:

Boadway, R. & Shah, A. 2009. *Fiscal Federalism: Principles and Practice of Multiorder Governance*. Cambridge University Press.

Boadway, R.W & Hobson, P.A.R. 1993. *Intergovernmental Fiscal Relations in Canada: Canadian Tax Paper No. 96*. Canadian Tax Foundation.

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

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

TERMS

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.

COMMERCIAL TAX: A sales tax on various commercial transactions (i.e. meals and services).

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

CURRENT EXPENDITURE: General government expenditure for small expenses such as salary payments, pension funds, employee benefit calculations, treasury bonds and money raised to pay tickets on domestic and foreign debt interest paid on savings.

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

TERMS

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.

DEFICIT FINANCING: Planned expenditure by the government to put more money into the economy than it takes out via taxes.

DERIVATION BASIS: 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.

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.

EQUAL WEIGHTING: Each component counts equally in the calculation.

TERMS

EXPENDITURE: How government resources are distributed among citizens.

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

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.

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

FISCAL INEFFICIENCY: Inefficient migration due to differences in Net fiscal Benefits across jurisdictions.

FISCAL CAPACITY: The capacity of a jurisdiction to generate revenues from various tax bases at standardized tax rates.

TERMS

FISCAL CONSTRAINT: A measure of fiscal capacity based on various indicators such as per capita GDP, per capita revenues generated.

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.

HORIZONTAL EQUITY: The principle of horizontal equity says that persons who are equally well-off in the absence of government should be equally well-off in its presence—the equal treatment of equals.

INCOME TAX: a personal tax levied on annual income. Usually progressive and subject to certain deductions.

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

TERMS

OWN-SOURCE REVENUE: The revenue that the local government raises directly by levying taxes, fees and charges from land, business activities and provision of services, excluding inter-governmental fiscal transfers.

PARAMOUNTCY (UNION OR STATE/REGION): the 'paramount' has the highest rank of authority.

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

REVENUE: Funds collected from the public that arise from the government's exercise of its sovereign or governmental powers. Revenues come from various sources, including individual and corporate income taxes, excise taxes, customs duties, estate and gift taxes, fees and fines, contributions for social insurance programs, and miscellaneous receipts (such as earnings of the government reserve system, donations, and bequests).

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

TERMS

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

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

SPECIAL GOODS TAX: Excise taxes on certain goods, e.g., tobacco.

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

TAX HARMONIZATION: The process of making taxes similar across a region by increasing taxes in lower-tax areas to match the higher-tax areas.

VERTICAL EQUITY: The principle of vertical equity is concerned with the appropriate amount of redistribution from the better-off to the less well-off members of society.