

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?

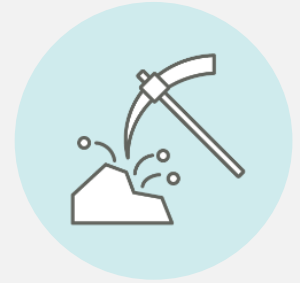


# NATURAL RESOURCES IN MYANMAR



- 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.

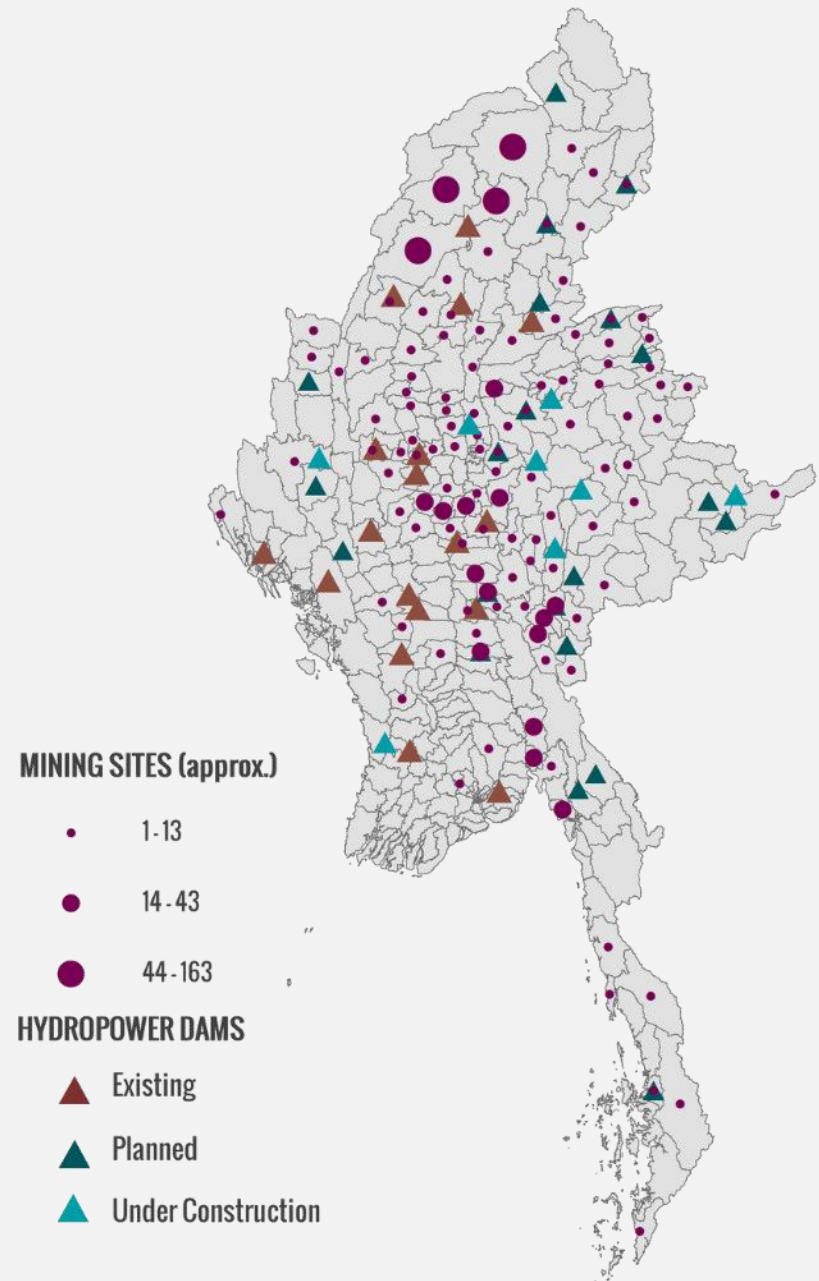
**30. Tax on Mineral and Mining** which are entitled to be carried out within the Region or State in accordance with the law enacted by the Union.

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)



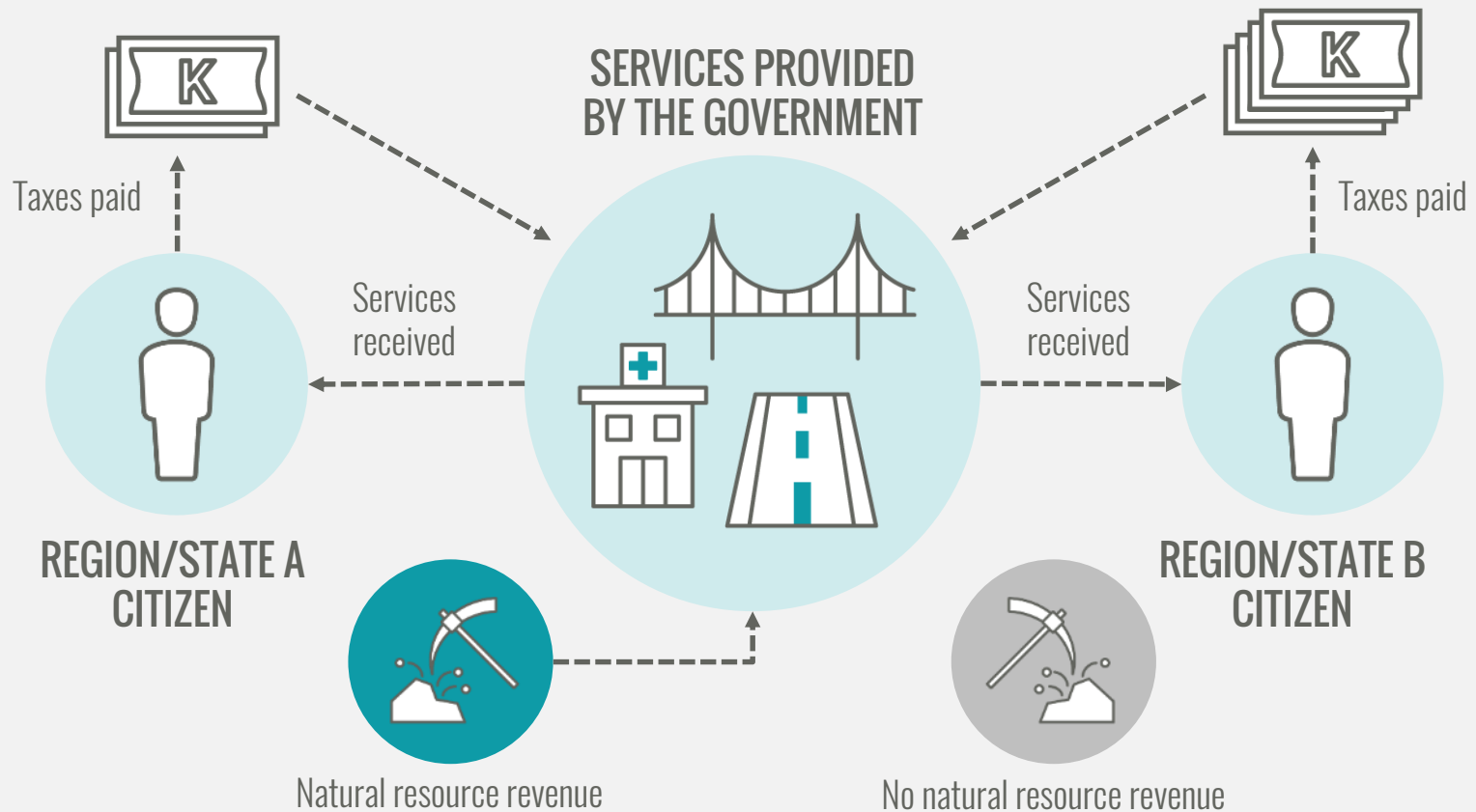
State-Federal  
(vertical sharing):  
A portion of resource  
rents transferred to the  
federal



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

# NET FISCAL BENEFITS (NFB)

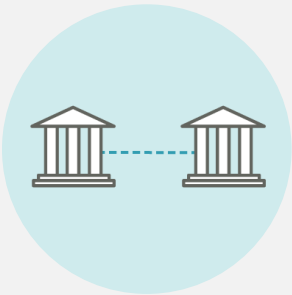
**NFB = BENEFITS RECEIVED - TAXES PAID**



# REVENUE SHARING OF NATURAL RESOURCES

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

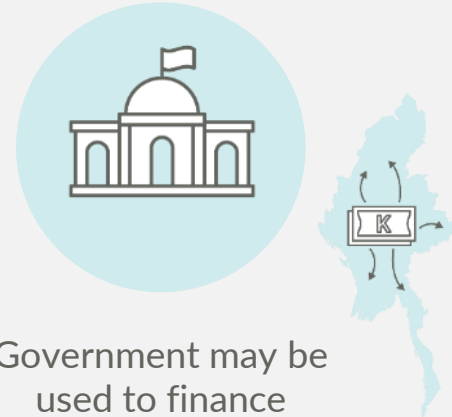
## OPTIONS FOR RENT SHARING:



State-to-State  
(horizontal  
sharing)



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



Government may be  
used to finance  
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# EQUALIZATION OF NATURAL RESOURCE REVENUES

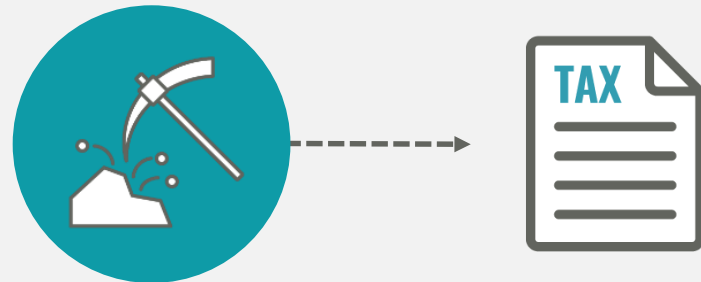
Redistribution of resource revenues from States or Regions with above average per capita resource revenues to those with below average per capita resource revenues, in other words equalization to the national average:

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.