

Module **5**

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



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The Asia Foundation

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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.

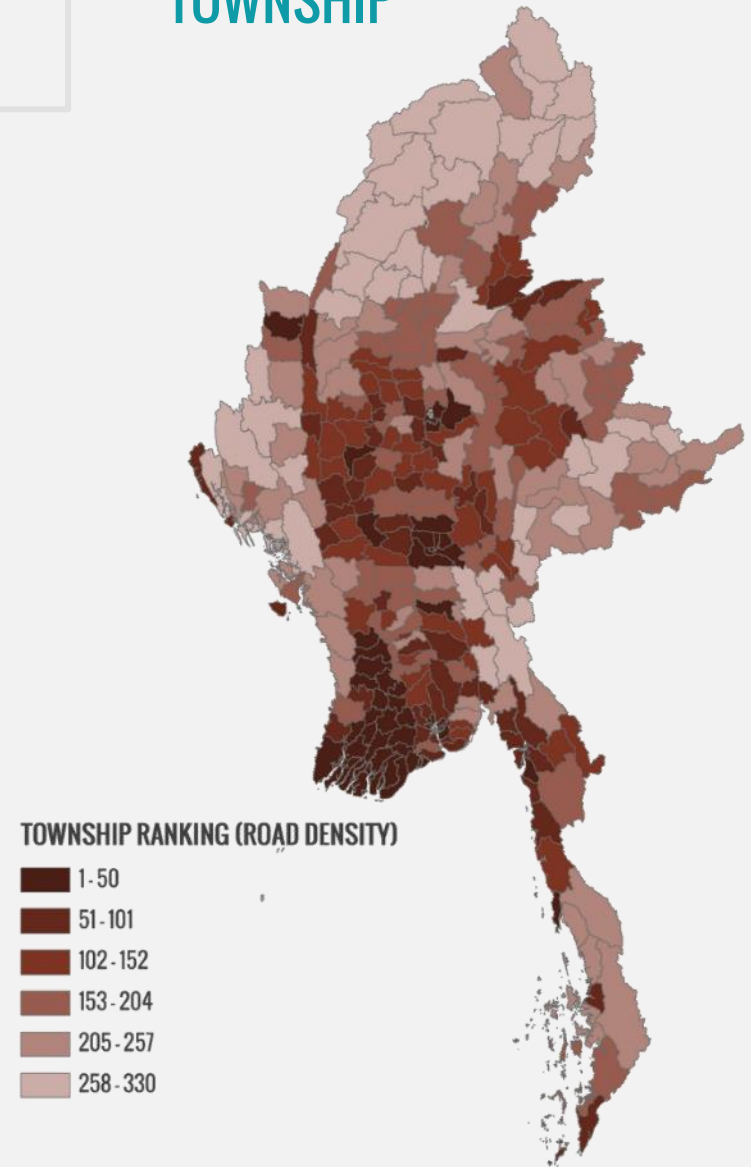
PUBLIC INFRASTRUCTURE AND PUBLIC SERVICES

- 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

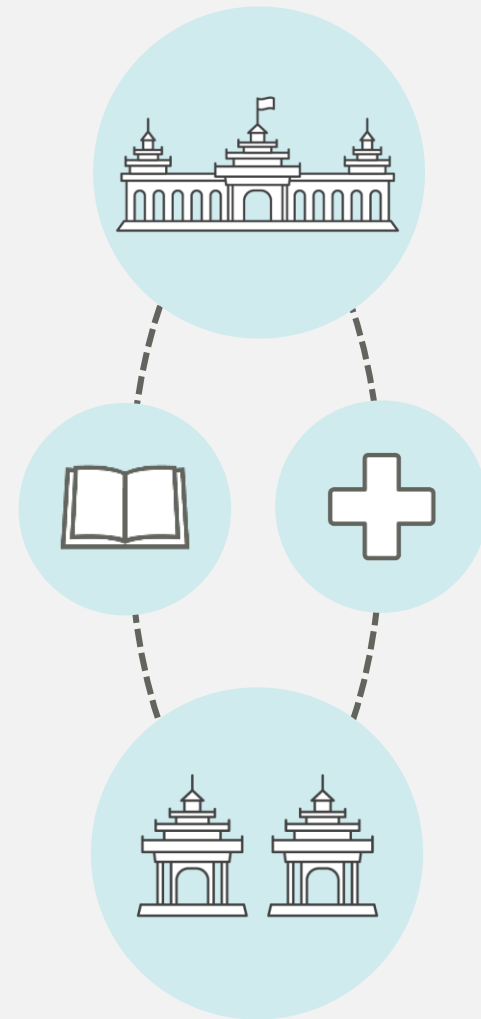


BUILDING A SOCIAL UNION

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.

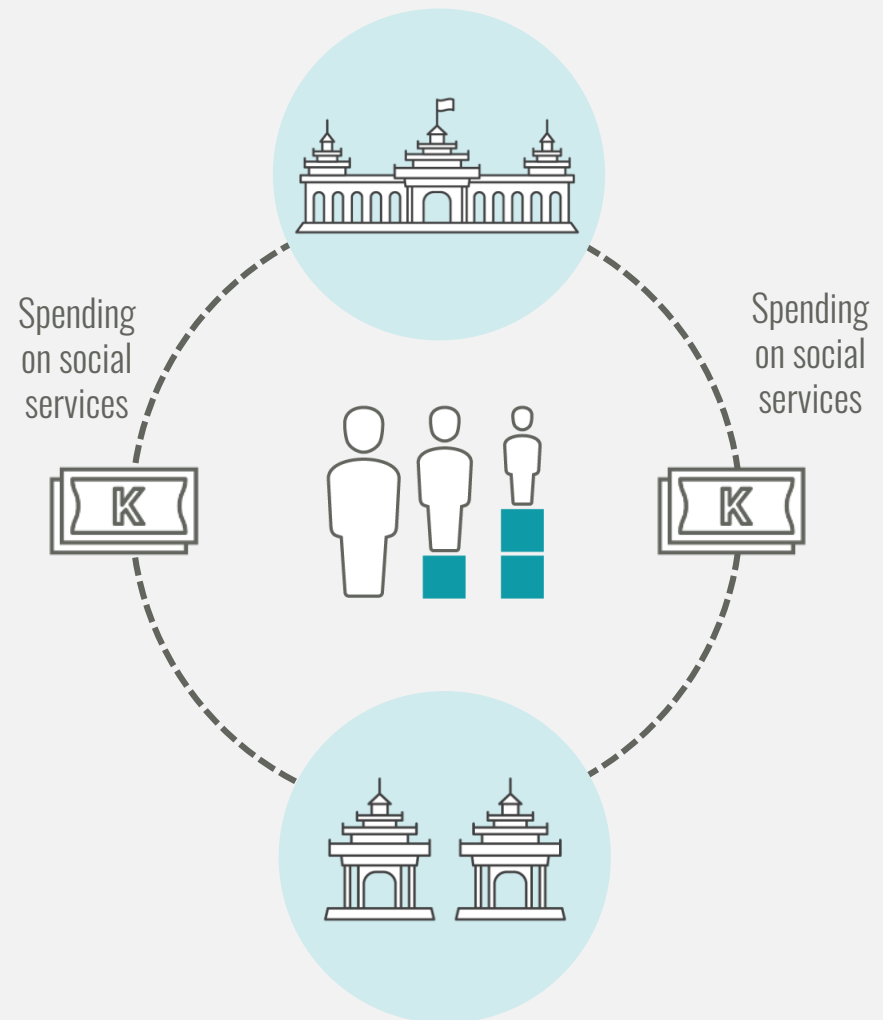


BUILDING A SOCIAL UNION

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



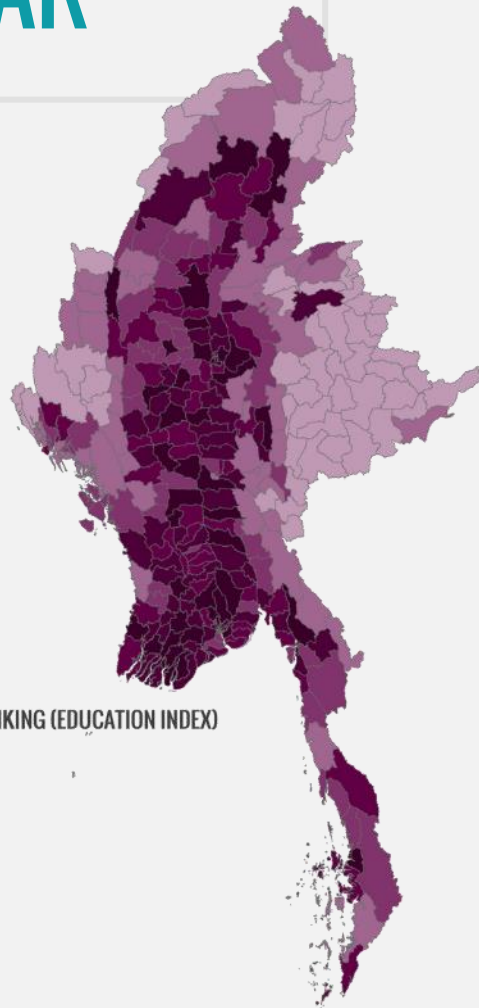
In a federal system, States and Regions should have additional responsibilities at the subnational level for education services with matching fiscal arrangements:

- 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.

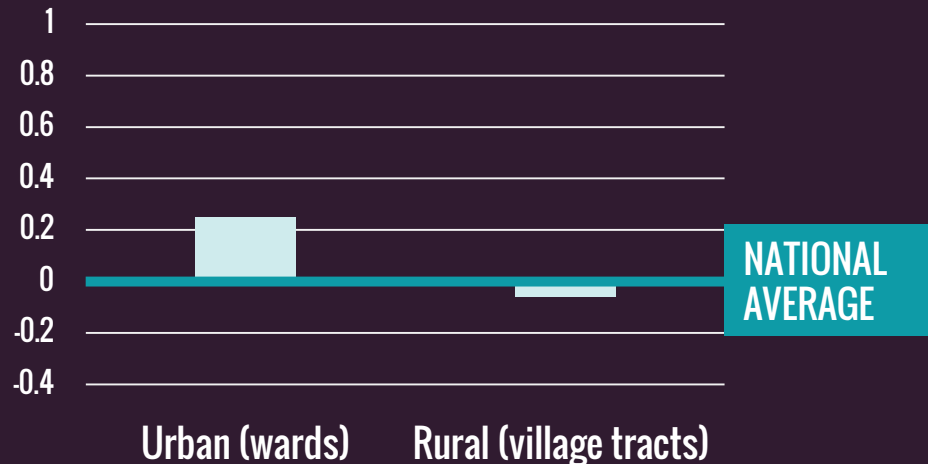
EDUCATION IN MYANMAR



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

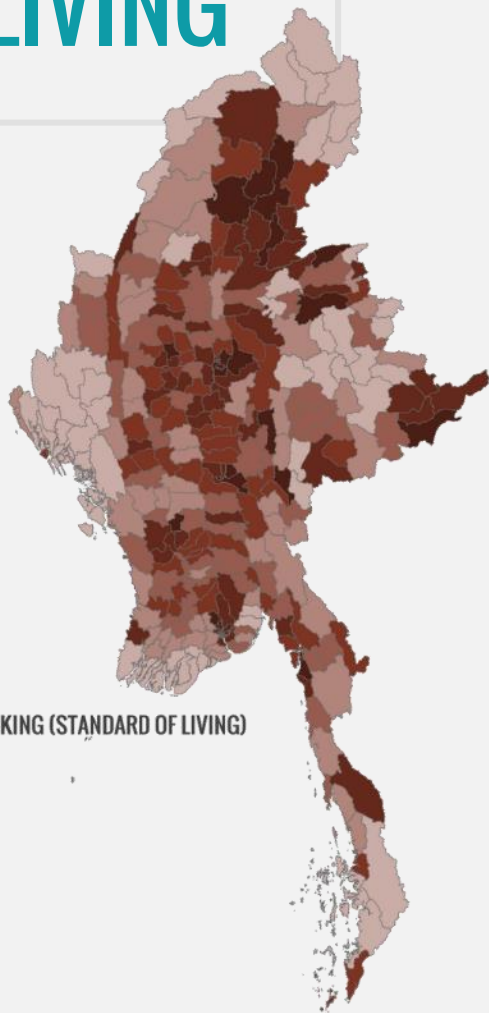
Development and poverty alleviation programs are of great importance in developing countries, along with health and education services.

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.

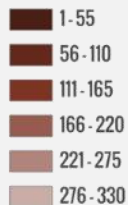
Subnational governments are, in theory, likely to be more aware of social assistance needs which can take many forms such as:

- 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



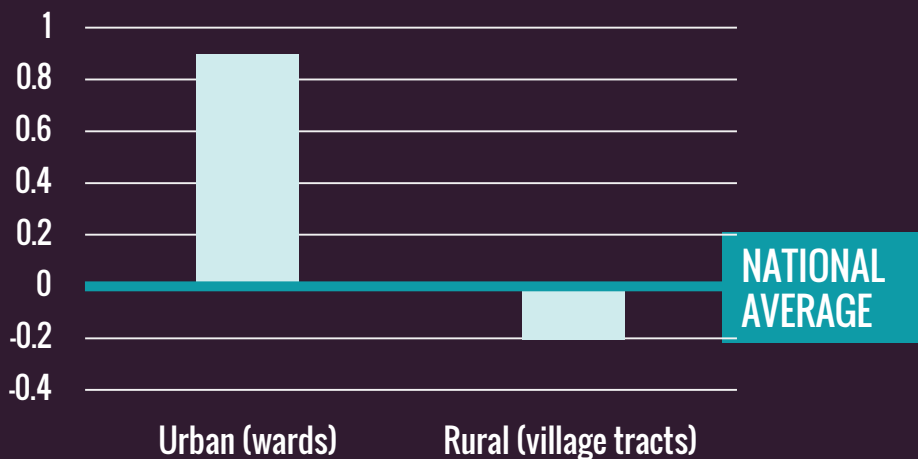
TOWNSHIP RANKING (STANDARD OF LIVING)



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



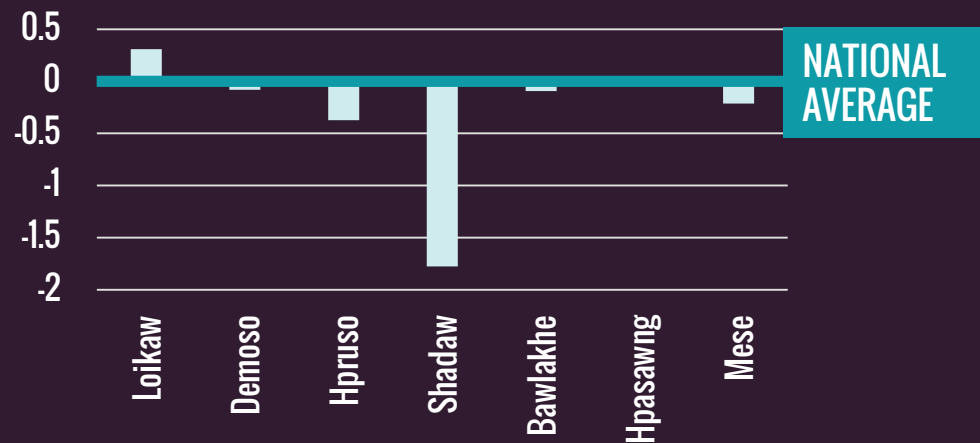
TOWNSHIP AND VILLAGE TRACTS AND WARDS DEVELOPMENT INDEX

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.

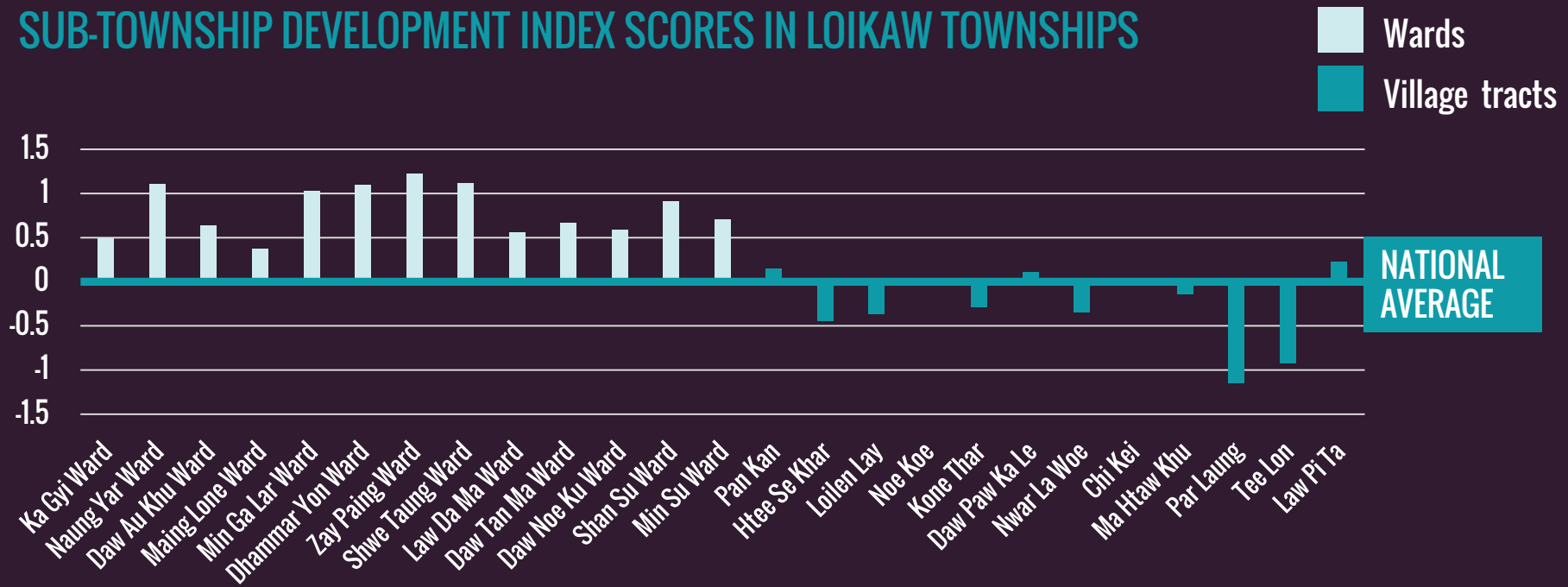
TOWNSHIP DEVELOPMENT INDEX SCORES IN KAYAH STATE



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

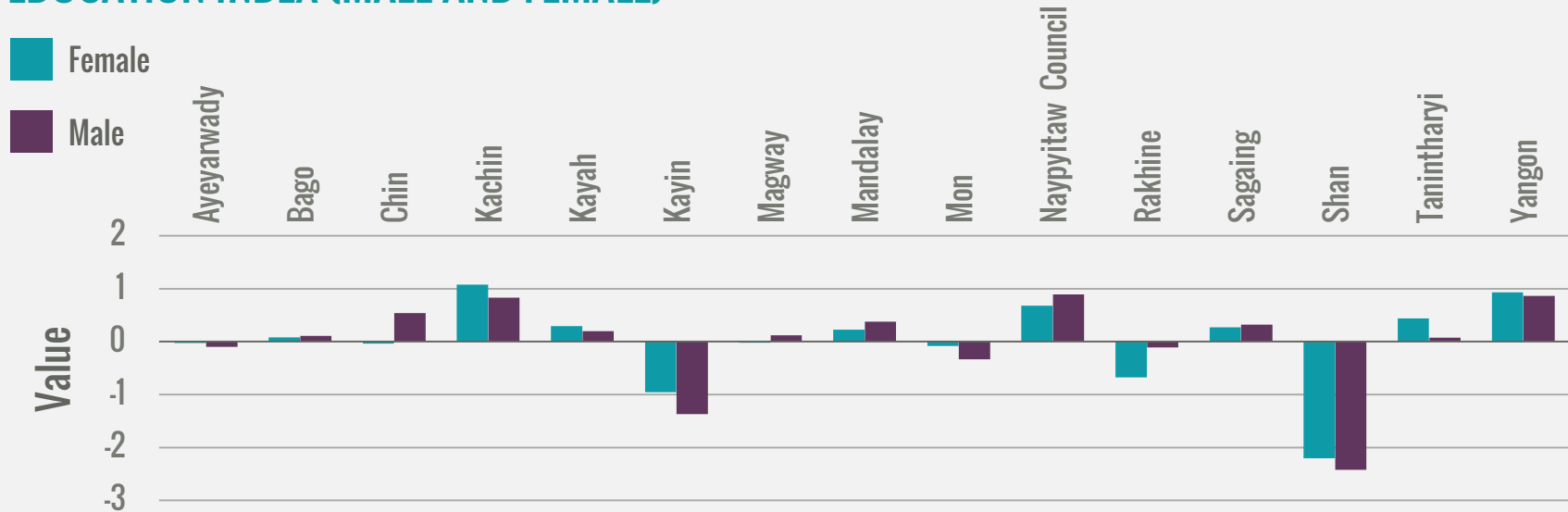


INTEGRATING GENDER INTO A SOCIAL UNION

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.

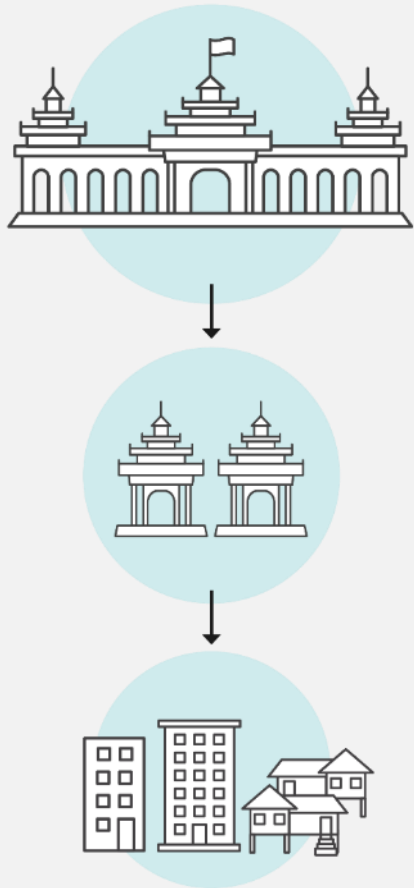
BUILDING LOCAL GOVERNMENT



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.