

## MODULE 2

# DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT

Module **2**

## DECENTRALIZATION, REVENUE TRANSFERS, AND SOCIAL DEVELOPMENT



### 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?



## 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.

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## 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.

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# 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)
Village Development Committees (avg. pop. 10,000) <ul style="list-style-type: none"> <li>• drinking water</li> <li>• primary education facilities</li> <li>• primary health facilities</li> <li>• village roads</li> <li>• village irrigation</li> </ul>	Union Parishads (avg. pop. 27,000) <ul style="list-style-type: none"> <li>• rural roads, culverts</li> <li>• wells, water pumps, tanks, ponds</li> <li>• irrigation and drainage works</li> <li>• street lighting</li> </ul>	Gram Panchayats (avg. pop. 25,000) <ul style="list-style-type: none"> <li>• preprimary, primary, &amp; upper primary schools</li> <li>• dispensaries and hospitals</li> <li>• rural water supply</li> <li>• waste disposal</li> <li>• public toilets and bathing places</li> <li>• day care centers</li> </ul>	Communes (avg. pop. 8,000) <ul style="list-style-type: none"> <li>• village roads and bridges</li> <li>• village water supplies</li> <li>• village irrigation</li> <li>• primary school facilities</li> <li>• primary health care facilities</li> </ul>

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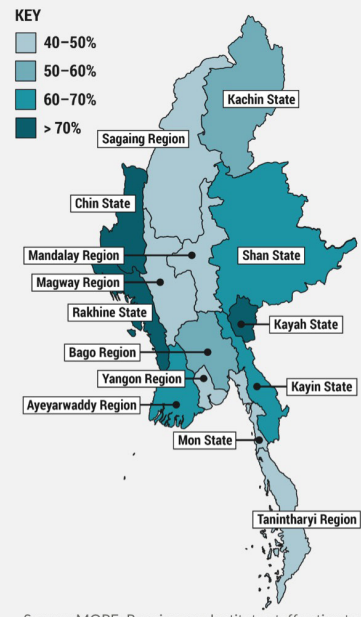
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# CAPITAL SPENDING AS A SHARE OF TOTAL BY STATE AND REGION

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.




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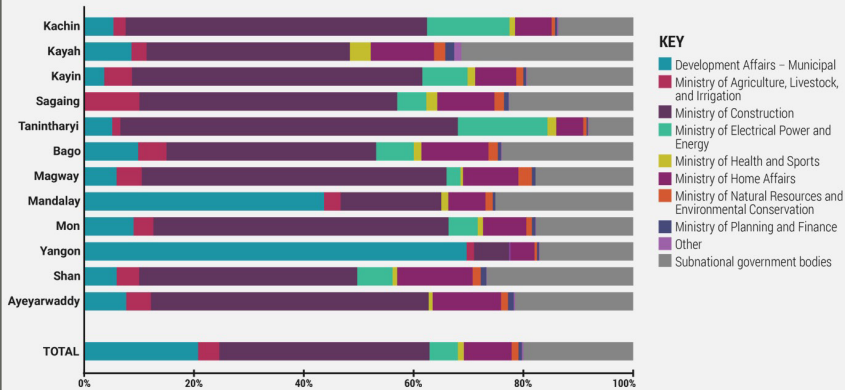
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## STATE/REGION GOVERNMENT EXPENDITURE IS BECOMING MORE DIVERSE

FY 2016/2017

### SHARE STATE/REGION EXPENDITURE BY MINISTRY AS OF TOTAL




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## 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.

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## 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.

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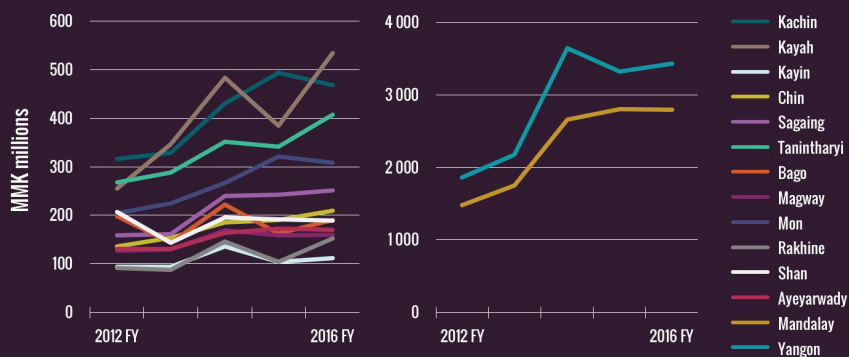
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## MUNICIPAL & CITY DEVELOPMENT COMMITTEE TAX COLLECTION

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



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

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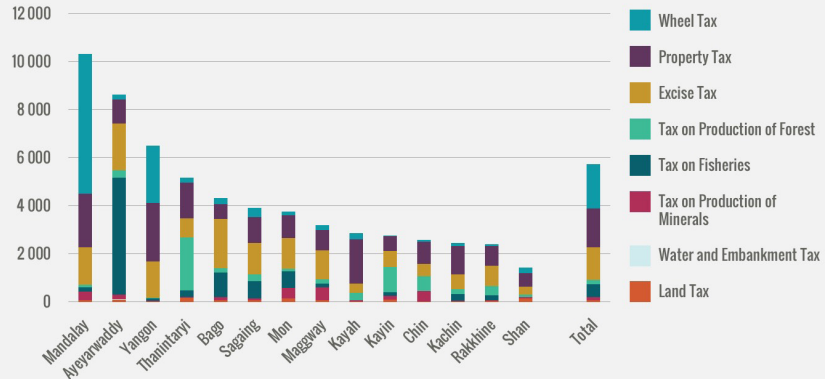
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# TAX COLLECTION BY ITEM

## ALL STATES AND REGIONS

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




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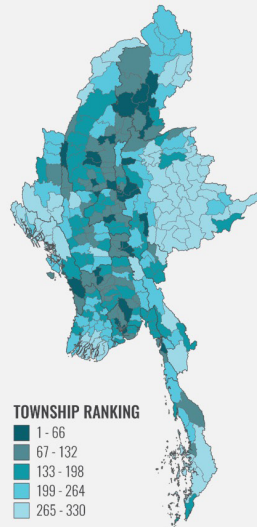
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# TOWNSHIP DEVELOPMENT INDEX

## 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




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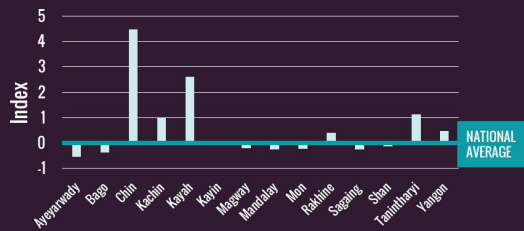
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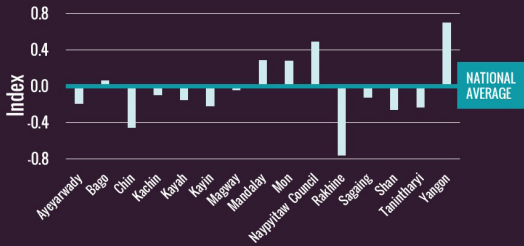
# PER CAPITA REVENUE AND DEVELOPMENT DISPARITIES

\*\* 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

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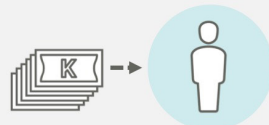
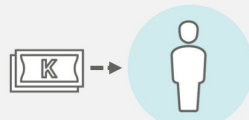
# PER CAPITA REVENUE AND DEVELOPMENT DISPARITIES

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 systematic 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.




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# 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.

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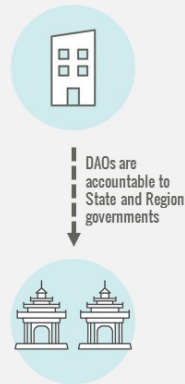
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# ASSESSING FISCAL DECENTRALIZATION

- 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.



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## 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 decentralisation, 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.

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## EXERCISE

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

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