

I Conclusion

Myanmar is going through a transition period, and fiscal decentralization is slowly taking place but with fragmented goals and policies. This requires a sound public financial management strategy that supports the fiscal decentralization by reforming the whole fiscal systems. Currently PFM reform is taking place, but this should be incorporated in the long-term national decentralization vision and strategy. To support this, existing laws and procedures should be amended, new laws should be enacted, and relevant policies should be set to support the inclusiveness of a decentralization reform strategy.

The Financial Commission should be strengthened and shift to a more policy setting body in designing a fiscal decentralization policy framework. The commission should develop and apply clear Union and Subnational sound fiscal policies. The future Hluttaw should also be aware of the National decentralization strategies, and Hluttaw committees should work in line with the technical experts to create a more transparent and budgetary system. Addressing the capacity challenges and strengthening the local capacity to keep up with the new fiscal policies will be greatly enhanced by the fiscal decentralization reforms.



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End Notes

- 1 Constitution of Myanmar (2008), Art. 229
- 2 The Union Ministries prepare budget on their own and are said to adapt the bottom-up approach; however, the current practice is collecting the wish list prepared from lower level units by combining them to create ministerial budget. The state/region budget department takes the lead in preparing the departments that are decentralized to the state/region governments through the schedule II in the Constitution. The budget proposal consists of wish lists submitted by the schedule II departments and also some schedule I departments. This was also said to have a bottom-up approach on collecting the wish lists.
- 3 Interview with the director from MoF
- 4 Interview with one of the members from Joint Public Account Committee
- 5 The number of composition is taken from this website: http://www.myanmarparliament.gov.mm/?page_id=11606

02 A Primer on Subnational Finances and Fiscal Decentralization in Myanmar

by Giles Dickenson-Jones and Cindy Joelene

I Introduction

This paper provides a brief summary of Myanmar's subnational fiscal structures in the interest of highlighting the relevance of Myanmar's subnational political, administrative and economic systems to public financial management reforms. Readers are directed to State and Region Public Finances in Myanmar by Dickenson-Jones, G., S Kanay De, and Smurra, A. for a more comprehensive treatment of the topic.⁶ The opinions expressed in this article are solely those of the authors and do not necessarily reflect those of MDRI-CESD.

Historically, Myanmar's political and fiscal systems have been highly centralized, making fiscal, administrative and political decentralization an important area of focus of recent reforms. In terms of fiscal decentralization, this has meant attempts to move fiscal resources, administrative processes and political authority from the central, or union, government, to subnational governments and lower administrative levels (Nixon et al. 2013; Nixon and Cindy Joelene 2014). Although there are a number of arguments made for decentralizing fiscal systems, broadly the motivation for doing so typically rests on the 'subsidiarity principle', which advocates the provision of public goods and services at lower levels of government so as to encourage a more efficient and effective allocation of public resources (Dabla-Norris 2006).

While the reasons theorized for fiscal decentralization improving the effectiveness of public expenditure are varied, advocates generally argue that by more widely distributing political power and narrowing the distance between communities and public institutions, governments will become more accountable and receptive to community needs thereby improving the way expenditure is allocated and revenue is mobilized. Equally however, decentralization may also result in a loss of efficiency as a consequence of not being able to leverage the economies of scale available to larger government entities, may make the policy process more open to capture by local elites, or create an incentive for the under provision of public goods by more decentralized authorities (Shah 2004; Porcelli 2009).⁷

Because of this, the success of fiscal decentralization depends on a number of contextual factors, such as the balance of administrative, political and fiscal authority held by subnational and national

institutions and the speed in which transfers of resources and authority occur. For instance, if expenditure responsibilities are provided to subnational government more quickly than resources, the provision of public goods may fall below acceptable levels. Alternatively, if the ability to raise revenue is decentralized too fast it may be that collections decline. While even if transfers in revenue and expenditure responsibilities are balanced it may be that authorities do not have sufficient capacity to manage public finances thereby increasing waste. Practically then, fiscal reforms need to be viewed systemically and sequenced alongside political and administrative reforms in a balanced fashion.

I Fiscal Decentralization In Myanmar

Within the context of many of its regional neighbors, such as India, China and Indonesia, Myanmar appears to be highly centralized with published subnational budgets accounting for a relatively low share of total government revenue and expenditure, at below ten percent. Notwithstanding this, it is important to recognize that 'on paper' fiscal transfers to states and regions have increased steadily in a relatively short time-frame growing from 2.2 percent of union budgeted expenditure in 2011-12 to 8.7 percent in 2015-16 (Martinez-Vazquez and Jorge 2011; Dickenson-Jones, S Kanay De, and Smurra 2015). In addition, while it is typical to use subnational budgetary shares as a measure of the extent of decentralization, the meaningfulness of such a measure depends on whether budgeted shares provide an adequate proxy of the ability of authorities to influence the allocation of resources assigned to them, meaning that the effective resources controlled by subnational authorities may be either higher or lower from what is implied by such ratios.

For Myanmar fiscal decentralization has been an explicit focus of President U Thein Sein's government, with the Framework for Economic and Social Reforms expressing a desire to encourage more decentralized public financial management through a number of reforms, such as the implementation of more participatory processes for local budgeting (Government of Myanmar 2013). This has also been echoed by directives for greater coordination between the union government and state and region governments in addition to the creation of consultative bodies at the district, township, village tract and ward levels (Nixon and Cindy Joelene 2014).

Myanmar's subnational government comprises seven regions, seven states, and one union territory, Nay Pyi Taw. While states and regions are constitutionally equivalent, states cover areas with large ethnic minority populations and are located along Myanmar's borders, while regions encompass majority "Burman" areas (Nixon et al. 2013). Since their establishment state and region governments have become responsible for preparing their own budgets, collecting taxes, and undertaking expenditure with much of subnational government's formal authority over expenditures stemming Schedule 2 of the 2008 Constitution, while Schedule 5 provides a state's or region's rights to mobilize revenue (Dickenson-Jones, S Kanay De, and Smurra 2015).⁸

Within states and regions, there exists a range of subnational administrative groupings that are also used to functionally divide subnational political, administrative, and fiscal responsibilities. States and regions are divided into districts, which are made up by a collection of townships. Townships are then divided into village tracts, or their urban equivalent wards. Although revenue is collected by a number of subnational entities, under these groupings the General Administration Department (GAD), under the Ministry of Home Affairs, represents a key administrative structure within these grouping with a large number of taxes and fees being collected by the GAD at the township level (Kyi Pyar Chit Saw and Arnold 2014; Dickenson-Jones, S Kanay De, and Smurra 2015).

Both the day-to-day administration of states and regions, as defined by their executive powers and the submission of bills to the state and region hlttaws are restricted to the region or state 'legislative list' as per Schedule 2 of the 2008 Myanmar Constitution.⁹ The expenditure responsibilities of state and region governments are consequently defined by prescribed 'sectors' such as the "Agriculture and Livestock Breeding Sector" and sub-sectors such as "Fresh water fisheries" (Dickenson-Jones, S Kanay De, and Smurra 2015).

The right to collect revenue, is then defined chiefly according to the 19 items provided in Schedule 5 which range from specific taxes which are understood to have existed when the constitution was drafted, such 'water tax and embankment tax', to more general areas such as 'taxes collected on vehicles on road transport'.¹⁰ Of the revenue sources listed, the extent to which these rights are being exercised is unclear with only nine being explicitly listed in the 2013-14 subnational budget (Dickenson-Jones, S Kanay De, and Smurra 2015).

I Subnational Public Finances

When combining the expenditure responsibilities and revenue collections rights of subnational government, as described by the 2008 Constitution, states and regions can source revenue both from those areas defined under Schedule 5 and directly from via union government transfers.¹¹ Expenditure activities of subnational government then include those areas outlined in Schedule 2 and matters prescribed by union law (Nixon et al. 2013). A simplified diagram of these interactions is provided in Figure 1.

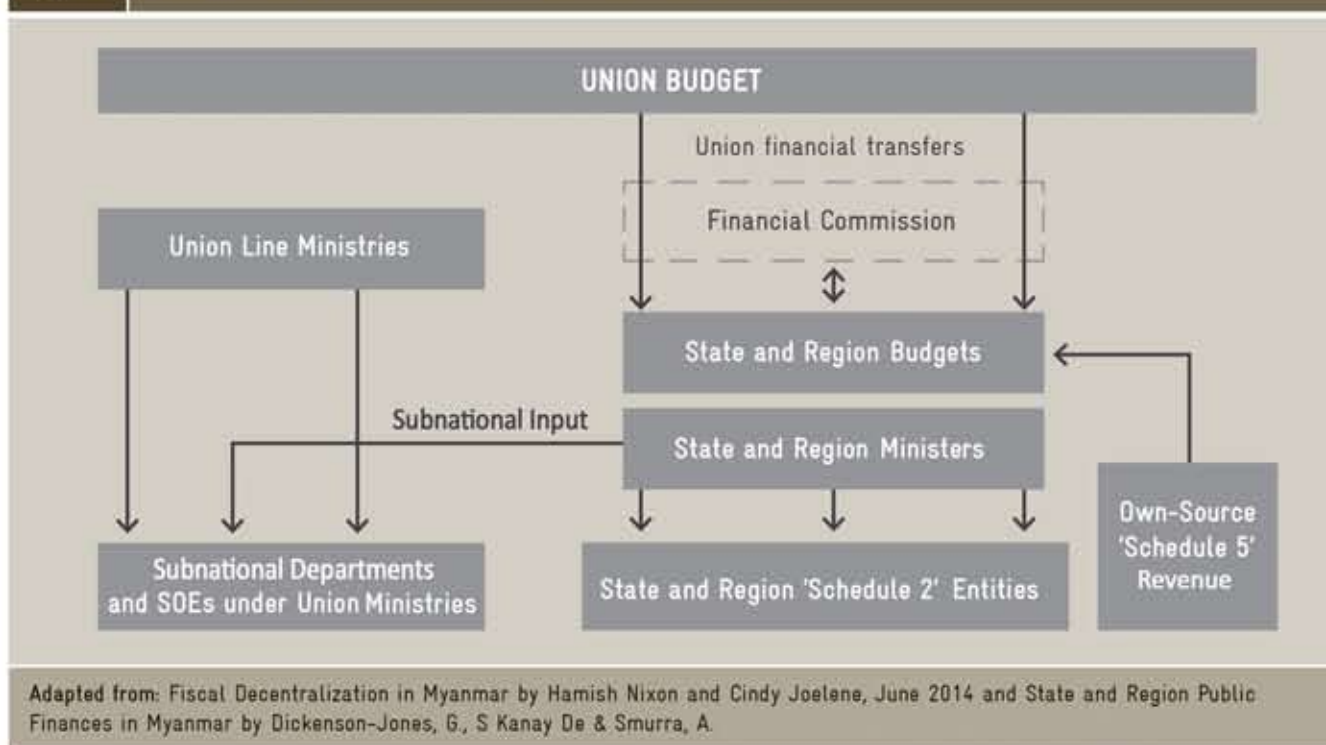
On a practical level the operation of subnational budgets is quite different to that described in Figure 1, with most revenue being sourced from union financial transfers and most expenditure being conducted by entities not directly under the control of subnational ministers. For instance, in 2013-14 approximately half of all revenue received by state and region government was provided by the union, while similar proportions are spent by the Department of Public Works¹², meaning that the source and destination of public resources is directed by a relatively narrow range of institutions. In addition, because of the heavy reliance on funding from the union, subnational budgets need to be harmonized with the union budget, requiring the Financial Commission sometimes make amendments to state and region budget proposals (Dickenson-Jones, S Kanay De, and Smurra 2015):

While states and regions have full statutory authority to determine budgeting priorities, spending discretion is limited in practice by the union-level Finance Commission, which ultimately decides how much budget support each state and region will receive from the union Fund through a process that is neither transparent nor based on objective criteria.¹³

Public Financial Management in Myanmar, The Asia Foundation, 2014.

This is also mirrored from an administrative perspective, with Myanmar's subnational government being heavily reliant on union administrative structures. For instance, budgeted expenditure appears to be mainly conducted by entities accountable to parent union Ministries, that are only informally accountable to subnational Ministers. On the other hand, a large proportion of self-source revenue such as excise licenses, forestry taxes and land taxes are collected by subnational departments of union ministries, such as the GAD (Dickenson-Jones, S Kanay De, and Smurra 2015).¹⁴

Figure 1 An Overview of Subnational Government and Public Finances



I Conclusion

Although the high level of centralization is not unexpected given Myanmar has only recently undertaken reforms targeting greater levels of fiscal decentralization, from a practical standpoint it tends to suggest standard measures of decentralization, such as the expenditure and revenue assigned to subnational government, are unlikely to be meaningful proxies for the extent of public resources controlled by subnational government. However, perhaps more importantly, it also suggests a situation in which the potential benefits of fiscal decentralization depends heavily on the functioning of a limited number of processes and institutions, such as how expenditure is conducted by Public Works, the extent subnational government can utilize existing administrative infrastructure to collect revenue and the formal and informal relationships of union and subnational governments that informs resource allocation.

More generally it also presents a situation in which taking a 'birds eye' view of subnational finances risks ignoring many of the informal relationships and processes that define how fiscal decentralization policies manifest themselves practically as part of budget formulation, execution, reporting and oversight. For instance, in the past some ministries have prepared budgets along administrative lines, rather than thematic or sectoral lines, without a medium term policy perspective, thereby risking that

budgets are based on past processes rather than a future outlook (Nixon and Cindy Joelene 2014; The Asia Foundation 2014; World Bank 2012).

While it is not clear to what extent past practices still inform current allocations, given Myanmar is only in the relatively early stages of fiscal and political decentralization and that a formalized vision of subnational government's role in public finances is still being developed, it is likely that many informal processes which have developed under a highly centralized system are still informing the operation of public finances.

Although this is unsurprising, it does suggest that public financial management reforms in Myanmar have the potential to result in 'on paper' success, such as greater resource shares being notionally allocated sub-nationally, without these successes resulting in tangible changes on the ground.¹⁵ Although there are a range of reasons this might occur, such as a change being misaligned with the incentives of implementing parties, it can present a clear risk to achieving meaningful reform if superficial success obscures failures in implementation. There is therefore a clear need when considering public finance reforms in Myanmar to match changes to formal public finance systems and processes with the informal processes and relationship that define their application.

End Notes

- 6 <http://asiafoundation.org/publications/pdf/1544>
- 7 Readers are directed to 'Fiscal Decentralisation and efficiency of government: A brief literature review by to Porcelli F' 2009 for a good summary of the theory behind decentralization.
- 8 Although descriptions of Myanmar's 2008 Constitution in this article have been based on the English translation provided by Myanmar's Ministry of Information, it is important to recognize that in some instances the practical interpretation of terms differ between the English and Burmese versions.
- 9 Executive powers are outlined in Chapter V, Sections 249-253 of the 2008 Constitution. Section 249 in particular notes that executive powers extend to administrative matters which Region or State Hluttaws has the power to make laws.
- 10 At the time of writing it is understood that amendments to Schedules 2 and 5 had been submitted for consideration to parliament. Proposed changes will potentially provide state and region governments with new revenue streams and additional areas of legislative responsibility.
- 11 'Revenue received from the Union Fund Account' is also listed under Schedule 5.
- 12 The Department of Public Works, under the Ministry of Construction, was predominantly responsible for the construction and maintenance of bridges, roads and airports. It has recently been divided into separate specialized departments focusing on building administration, bridges and highways.
- 13 The Financial Commission was established under the 2008 Constitution as part of wider decentralization efforts. Key roles of the Financial Commission are to harmonize the Union budget with State and Region budgets, to recommend the provision of supplementary funding, and to advise on financial matters (Dickenson-Jones, S Kanay De, and Smurra 2015).
- 14 Development Affairs Organizations (DAOs) are one exception to this, being largely independent and self-funded. DAOs collect revenue through a range of license fees, taxes and service charges such as property taxes, wheel taxes and community contributions. DAOs, are predominantly responsible for the delivery of municipal services, such as waste removal, street lighting etc. Generally, each of Myanmar's townships have at least one DAO (Arnold et al. 2015).
- 15 The practice of introducing reforms for reasons other than to create meaningful change is sometimes described as 'isomorphic mimicry'. In the context of PFM reforms this might mean the adoption of improved accounting standards to comply with external demands, without making changes to the way public resources are sourced and allocated (Andrews, Pritchett, and Woolcock 2013).



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03 Mobilization of Tax Revenues

by San Thein

I Introduction

Myanmar's revenue-to-GDP ratio has significantly increased over the past three years (Table 1). Myanmar's revenue-to-GDP ratio was only 7% of GDP during the period FY 2005 – 2009, the lowest among ASEAN countries (ADB, 2010). In contrast, under the new government, revenue mobilization as a

percentage of GDP has significantly increased from 11.4% of GDP in 2010 to 24.2% in 2014. The major sources of revenue are taxes and duties and contributions from the State Economic Enterprises (SEEs).

Country	Average(2005-2009)	2010	2011	2012	2013	2014	Average
Brunei	51.0	51.8	60.4	52.6	46.7	na	52.9
Cambodia	11.9	13.2	13.2	15.2	15.0	15.7	14.5
Indonesia	17.6	14.5	15.5	15.5	15.0	15.5	15.2
Laos	13.9	15.7	16.4	17.7	18.1	17.2	17.0
Malaysia	21.6	20.0	10.9	22.1	21.6	20.6	19.0
Myanmar	7.0	11.4	12.0	23.3	23.2	24.2	18.8
Philippines	15.6	13.4	14.0	14.5	14.9	15.1	14.4
Singapore	16.3	14.3	14.7	15.4	15.1	15.7	15.0
Thailand	17.0	17.3	18.0	18.3	18.1	17.1	17.8
Vietnam	28.4	27.6	26.1	22.7	22.1	21.5	24.0

Source: Asian Development Outlook 2010 & 2015

This paper tries to elaborate on the mobilization of tax revenues, especially commercial tax and income tax collected by the Internal Revenue Department (IRD).

promotion of an equitable distribution of wealth and help the central government raise enough financial resources to allow for a certain level of public expenditures to meet a desired social goal without creating any impediment on economic growth.

I The Role Of Taxation In Raising Revenues

Sources of funds for most governmental budget expenditures and infrastructure financing are income taxes, customs duties, excise duties, and general sales taxes such as value-added taxes (VATs). In developing countries tax policy is adopted by the central government. An efficient tax policy can contribute to the

In many developing countries, taxation is being increasingly used as an instrument for the removal of poverty and inequalities, and on the other hand, it indirectly helps promote social and economic justice, proper allocation of resources, and reduction of regional imbalances. Governments of most developing countries usually try to collect more revenues to meet their