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INFORME

FEDERAL FISCAL ARRANGEMENTS OF MYANMAR

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En este documento se analizan los actuales acuerdos fiscales de Myanmar, haciendo hincapié en tres elementos principales: la asignación de responsabilidades, la asignación de ingresos y la transferencia intergubernamental. En cada sección se exponen en primer lugar los principios rectores, a los que sigue una descripción de las disposiciones actuales estipuladas en la constitución de 2008 y, por último, se presenta una valoración sobre estas características.

Palabras Clave: Federalismo fiscal, Myanmar, transferencias intergubernamentales, asignación de ingresos, asignación de responsabilidades

ABSTRACT

This paper analyzes Myanmar's current fiscal arrangements, emphasizing three main elements: responsibility assignment, revenue assignment, and intergovernmental transfer. In each section, guiding principles are first spelled out, and it is followed by a description of the current arrangements stipulated by the 2008 constitution, and finally, remarks on the arrangements are presented.

Keywords: Fiscal Federalism, Myanmar, intergovernmental transfer, revenue assignment, responsibility assignment

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I. INTRODUCTION

Myanmar is a country of around 51 million people with diverse ethnicities, languages, and cultures. It has experienced a variety of governance regimes since independence in 1948 from the British. After independence, Myanmar adopted parliamentary democracy, which was ended by a military coup in 1962. The country was run by a one-party system (Burma Socialist Program Party) to realize the so-called “Burmese Way to Socialism” until 1988. A nationwide uprising happened in 1988, which terminated the one-party system. The State Peace and Development Council (SPDC), which was transformed from State Law and Order Restoration Council (SLORC), governed the country for 22 years.

Following the nationwide uprising in 1988, the military junta took office and pledged to hold a general election in 1990. The National League for Democracy (NLD), led by Aung San Su Kyi, won a landslide victory in the election, but the junta refused to call a National Assembly as it pledged. Instead, a national convention was called in 1993 to draft principles for a new constitution by which a new government could be formed. The drafting process is seen as arbitrary, non-representative, and non-participatory (Croissant 2014) (Yash 2008). Given the military government’s influence over the drafting process, the primary purpose that could be achieved by the constitution is to maintain the military’s dominance over the civilian governments during the transition (Croissant 2014) (Yash 2008). The draft of the constitution was launched in December 2007. A referendum was held in May 2008, and the junta announced that the constitution was approved by the majority of people.

In 2010, a general election was held, and a process of reforms was started. According to (Bünthe and Portela 2012), two underlying factors, internal and external, are responsible for these reforms. The internal factor is that the military believes that it is secure for them to initiate the reform process, and the external one is the increasing concern by the military of Chinese economic dominance in Myanmar.

The 2008 constitution allows the existence of subnational governments guaranteed by the constitution, constitutional power-sharing among different government tiers, and a constitutional tribunal to resolve intergovernmental conflicts. A noteworthy feature of the constitution is military involvement in executive and legislative bodies at both the union and region/state level. According to Brand (2012), Myanmar could be described as a ‘quasi-federal’ state under the 2008 constitution.

According to the 2008 constitution, the Republic of the Union of Myanmar comprises seven regions where the majority of Bamar people reside, seven states where ethnic minority people reside, one union territory, and self-administered areas within states and regions. The union legislature is bi-cameral collectively called as the Pyidaungsu Hluttaw and consists of the upper house (called as Amyotha Hluttaw) representing states and regions, and the lower house (called as Pyithu Hluttaw) representing people and townships. State and regional legislatures are uni-cameral. The President heads the executive branch at the union level, and state/regional governments are headed by Chief Ministers who are nominated by the President and approved by the state/regional legislature. At the union and state/regional level, one-fourth of the legislature’s seats are taken by the military. On the executive side, three ministries, namely the Ministry of Defense, the Ministry of Security and Home Affairs, and the Ministry of Border Affairs, are headed by Ministers nominated by the Commander in Chief.

In terms of finance and resources, significant revenue sources are assigned to the union government, and states/regional governments depend heavily on the union

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government's contribution. This fact undermines the state/regional governments' ability to make the best of their constitutionally assigned powers.

This paper analyzes Myanmar's current fiscal arrangements, emphasizing three main elements: responsibility assignment, revenue assignment, and intergovernmental transfer. In each section, guiding principles are first spelled out, and it is followed by a description of the current arrangements stipulated by the 2008 constitution, and finally, remarks on the arrangements are presented.

II. THE PRINCIPLES OF FISCAL FEDERALISM

Because fiscal arrangements are a fundamental building block of the federal system, constitutionally assigned responsibilities will not be translated into meaningful ones if efficient fiscal arrangements do not accompany them. In other words, money matters for the functioning of federal systems (Anderson 2010). Fiscal federalism is concerned with the assignment of spending, taxing, and regulatory functions to different government orders. According to the 'principle of equivalency,' benefiting areas and political jurisdiction of public service should be matched (A. Shah 2007). The European Union's 'subsidiarity principle,' which is referred to as 'decentralization theorem' in economic literature, states that responsibility should be assigned to a lower level of authority unless the advantages of centralization are convincing. Arguments for decentralization in revenue assignments are not as strong as in expenditure assignments (A. Shah 2007). Furthermore, the revenue-raising capacity of subnational governments is seldom sufficient to finance their constitutionally assigned responsibilities, compelling them to depend on the national government's contribution (R. a. Boadway 2007). Therefore, intergovernmental transfers play a critical role because it can affect the accountability of recipient governments and the equity and efficiency in the provision of public services to local residents (R. a. Boadway 2007).

III. RESPONSIBILITY AND REVENUE ASSIGNMENT

1. Principles of responsibility assignment

In most federal constitutions, legislative responsibilities are explicitly assigned to each government order but have only implicit provisions for expenditure responsibilities. The responsibility to administer programs usually stem from the legislative assignment (Anderson, 2010). Spending, taxing, and regulatory functions should be decentralized unless it is convincing for centralization (Boadway and Shah, 2009), referred to as 'decentralization theorem' in economic literature and 'subsidiarity principle' by the European Union. There are four criteria to be considered in responsibility assignment according to Oats (1972): economies of scale, heterogeneity of preferences and needs, externalities, either positive or negative, and competition among governments. If one particular good or service has significant economies of scale, it should be assigned to a higher government level. Decentralization should be considered for those sectors where regional preferences and needs should be taken into consideration. Externalities have also impacted responsibility assignment requiring more centralized action or at least sufficient coordination among different government orders. Emulation among governments could lead to providing better services to people and thus be an argument for decentralization.

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2. Responsibility assignment by the 2008 constitution

According to Section 96 of the 2008 constitution, the Pyiduaungsu Hluttaw has the right to enact laws related to matters listed in Schedule One of the Union Legislative List. For regions and states, the legislative list is prescribed in Schedule Two of Region or State Hluttaw (section 188). Table 3.1 shows areas of responsibilities for the union government and region/state governments.

Table 3.1 legislative lists of the Pyidaungsu Hluttaw and Region/State Hluttaw

Union legislative list	Region or State legislative list
<ul style="list-style-type: none"> • Union defense and security sector • Foreigner affairs sector • Finance and planning sector • Economic sector • Agriculture and livestock breeding sector • Energy, electricity, mining and forestry sector • Industrial sector • Transport, communication and construction sector • Social sector • Management sector • Judicial sector 	<ul style="list-style-type: none"> • Finance and planning sector • Economic sector • Agriculture and livestock breeding sector • Energy, electricity, mining and forestry sector • Industrial sector • Social sector • Management sector

Sub-divisions are prescribed for each sector. The finance and planning sector, for example, has 20 sub-divisions for the Pyidaungsu Hluttaw legislative list, including the union budget, the union fund, currency and coinage, income tax, commercial tax, stamp duty, customs duty, foreign aid, and financial assistance. For Region or State Legislative List, 11 sub-divisions are mentioned in Finance and Planning sector, such as the region or state budget, the region or state fund, land revenue, municipal taxes, among others.

Greater responsibilities are given to the union government, such as defense and foreign affairs, which are generally assigned to the federal government in federations. Areas of responsibilities such as health and education, where regional preferences and needs are to be reflected, are also exclusively assigned to the union. The region/state governments have limited responsibilities compared to the union government. Areas of responsibilities prescribed in the legislative lists seem to be overlapping and resemble a concurrent list. Indeed, however, if sub-divisions under each sector are scrutinized, it can be seen that primary critical responsibilities are under the jurisdiction of the union government. For example, less critical areas in the social sector, such as traditional medicine, stevedoring, prevention against fire, and natural disasters, are assigned to region/state governments. This fact of centralization in responsibilities assignment is evident in the following data from the Myanmar Citizens Budget papers produced by the Union Ministry of Planning and Finance.

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Table 1.2 direct expenditure of governments (average exchange rates are referred to the annual report (2017-2018 & 2018-2019) of the Central Bank of Myanmar)

	2017-2018	2018-2019
	(billion USD)	(billion USD)
Total government expenditure	16.9	18
Union government's direct expenditure (without transfers to regions/states)	13.84	14.97
Region/state governments' direct expenditure	1.81	1.87

Figure 3.1 direct expenditure of governments

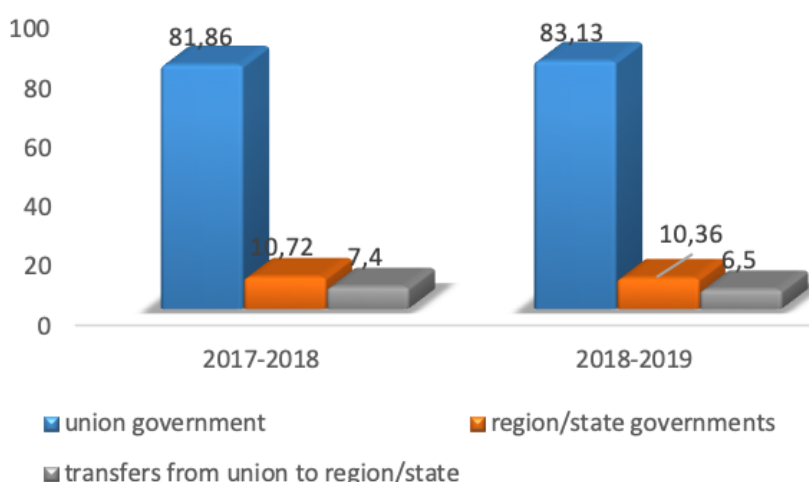


Table 3.2 and Figure 3.1 show the union and region/state governments' direct expenditure in the 2017-2018 and 2018-2019 fiscal years. Given the centralized assignment of responsibilities, the union government's direct expenditure constitutes around 80% of total government expenditure. The direct expenditure of region/state governments is around 10% of total expenditure.

3. Commentary on responsibility assignment

A centralized form of responsibility assignment has emerged in Myanmar. During a transition period from centralized governance to a decentralized one, it could be anticipated to have a centralized division of responsibilities in the initial phase of transition, during which reorganization and capacity building need to be done. However, the division of responsibilities should be evolved into a more decentralized form, taking the multi-ethnic context of Myanmar and guiding responsibility assignment principles into consideration.

For the time being, region/state governments fall short of adequate revenues and human resources to perform the currently assigned responsibilities. Ministries at the region/state level are deficient in human resources, directly accountable civil servants. Most of the staff at the region/state ministries are under the union line ministries' management and the Union Civil Service Board (Matthew Arnold et al. 2013).

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Therefore, the specific context of Myanmar, some guiding principles, and reorganization and capacity building at the region/state level should be considered to realize the full benefits of reassignment of responsibilities as much as possible.

4. Principles of revenue assignment

Subnational governments should have their own revenues to some extent to enjoy fiscal autonomy (Bird 2006) to achieve cost-effectiveness and avoid heavy reliance on the union government's contribution (A. Shah 2007). Own-source revenue is defined as those revenues raised and managed by each tier of government by power assigned to them by the constitution (Anderson 2010). Although guiding principles on revenue assignment are indefinite, four general principles should be considered according to (A. Shah 2007): economic efficiency, national equity, administrative feasibility, and revenue adequacy. From an economic efficiency perspective, revenues on mobile tax-bases should be managed by a national government to maintain an internal economic union. Tax-bases meant to be redistributed among citizens should be assigned to a national government so that the free flow of resources is not distorted. To reduce administrative costs, the government level, which has the best capacity to assess the tax-bases, should be given the authority to manage these tax-bases. The expenditure responsibilities should be matched with revenue sources to ensure the accountability of governments (A. Shah 2007).

5. Revenue assignment by the 2008 constitution

Region/state governments can collect taxes and revenues prescribed in Schedule five of the constitution (section 254), and these can be regarded as own-source revenues of region/state governments. Among others, land revenues, excise revenue, toll fees, salt tax, tax on entertainments, and taxes and fees collected by municipalities are included. Broad-base taxes such as income tax, commercial tax, and customs duty are assigned to the union government in Schedule one. Moreover, residual power is assigned to the union government. Thus, the union government can enact laws on taxes and revenues that are not exclusively assigned to region/state governments.

According to the data published by the Union Ministry of Planning and Finance, own-source revenues of region/state amounts to 4.02% and 4.67% in total government revenues in 2018 and 2019 (table 3.3 and figure 3.2).

Some taxes and revenues of region/state are collected and administered by their departments, such as municipal taxes by municipalities. However, some others are collected by the union government departments, such as royalties on freshwater fisheries.

Table 3.3 own-source revenues of regions/states (average exchange rates are referred to the annual report (2017-2018 & 2018-2019) of the Central Bank of Myanmar)

	2017-2018	2018-2019
Total government revenue	13.98 billion (USD)	14.89 billion (USD)
Region/state governments' own-source revenue (excluding tax-sharing and transfers from the union government)	562.17 million (USD)	695.40 million (USD)

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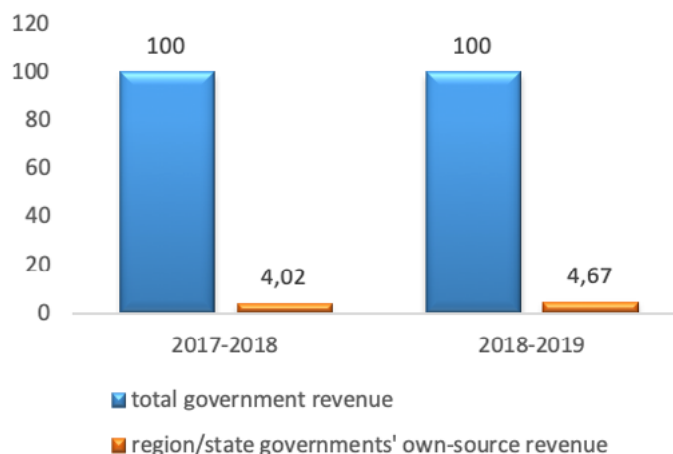
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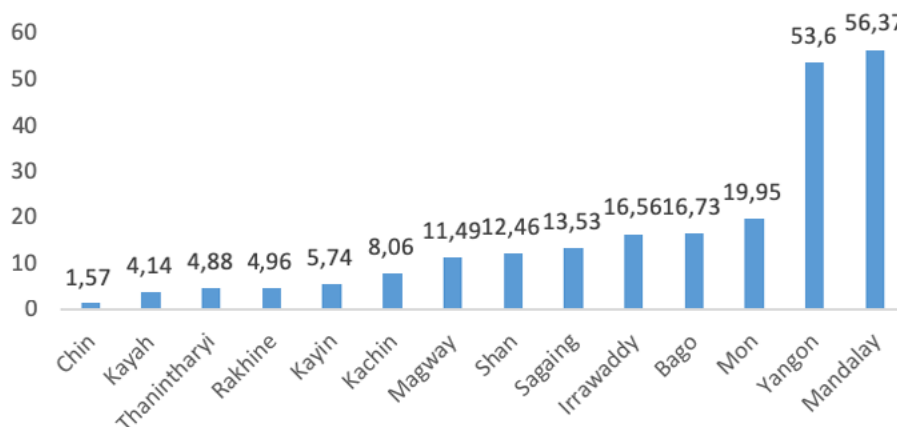
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Figure 3.2 own-source revenue of regions/states excluding tax-sharing and transfers from the union governments



There is a disparity in the proportion of own-source revenues in the government’s revenue among regions and states (figure 3.3). Yangon and Mandalay regions stand out, having the highest own-source revenues, among others. However, the remaining regions and states’ own-source revenues range from 2% to 20% in their total revenues. This disparity could stem from differences in population distribution and economic activity concentration in specific regions and states. According to Myanmar Population and Housing Census (2014), 0.9% of the total population resides in Chin state, but it is 14.3% in Yangon region, and the population density of Chin state is 13 per squared kilometer, and that of Yangon region is 716 per squared kilometer. Moreover, the Nighttime-light based Gini coefficient has increased since 2006, and it demonstrates the increase in disparity in developmental stage among states and regions (Puttanapong and Zin Zin 2019).

Figure 3.3 proportion of own-source revenue in regions and states (2018-2019)



6. Commentary on revenue assignment

Many region/state governments have little own-source revenues compared to the union government. They rely on fiscal transfers from the union government to carry out their assigned responsibilities. Consequently, their fiscal autonomy, political accountability, and responsiveness to local needs and preferences may be weak. These issues can be addressed either by decentralizing taxing powers or by enhancing

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equitable revenue-sharing arrangements. The union government departments already do tax administration and collection on behalf of region/state governments for some taxes and revenues. This results in uniformed and less complicated tax administration and reduced administrative costs for region/state governments. The discrepancy in own-source revenue among regions and states should also be corrected by specific fiscal arrangements to attract investment and economic activities in impoverished areas.

IV. INTERGOVERNMENTAL TRANSFERS

1. Principles and institutional arrangements of intergovernmental transfers

In many federations, federal governments raise more revenue than they need for their direct spending compared to subnational governments resulting in vertical fiscal imbalance. Intergovernmental fiscal transfers play a critical role in addressing this vertical fiscal imbalance. Designing intergovernmental transfers is of critical importance to achieving equity and efficiency objectives of federal fiscal arrangements. The following should be considered to design intergovernmental transfer: clarity of objectives, autonomy, responsiveness and accountability of and equity among subnational governments, predictability of the fund, and efficiency of the overall transfer system (R. a. Boadway 2007). Furthermore, open and transparent consultation with grantees is necessary to ensure consensus, local autonomy, and accountability (A. Shah 2005).

Additionally, institutional arrangements are essential for intergovernmental transfer and show great diversity across federations. Broadly, these arrangements can be classified into four categories (A. Shah 2005): national government agency model such as in Switzerland (the Ministry of Finance), national legislature model as in Brazil, intergovernmental forum model as in Canada (Fiscal Arrangement Committee), and an independent agency as in Australia (Commonwealth Grant Commission).

2. Intergovernmental transfer design in the 2008 constitution

The Financial Commission's formation and its duties and functions are prescribed in section 229 and 230 of the constitution. The Financial Commission is set up with the President as chairperson, the vice-presidents as vice-chairpersons, the Attorney General and the Auditor General of the Union government, Chief Ministers of regions/states, among others as members. The functions of the Commission include vetting region/state budgets and providing advice regarding financial matters. Generally, the intergovernmental transfer is managed by the Commission, where Chief Ministers are involved representing their regions and states. The Union Ministry of Planning and Finance provides technical support to the Commission.

Fiscal transfers from the union government to region/state governments amount to 7.4% (2017-2018 FY) and 6.5% (2018-2019 FY) in total government expenditure. Before the 2015-2016 fiscal year, the fiscal transfer's main objective was to finance the region/state governments' budget deficits. Since the 2015-2016 fiscal year, the formula-driven fiscal transfer has been practiced. Six equally weighted indicators are GDP per capita, tax collection per capita, and urban population for calculating fiscal constraint and total population, total area, and poverty index for assessing expenditure needs. The formula seems to aim at equitable distribution of transfer among regions and states. Regions and states receive a different amount of transfer from the union government based on the calculation by this formula (table 4.1).

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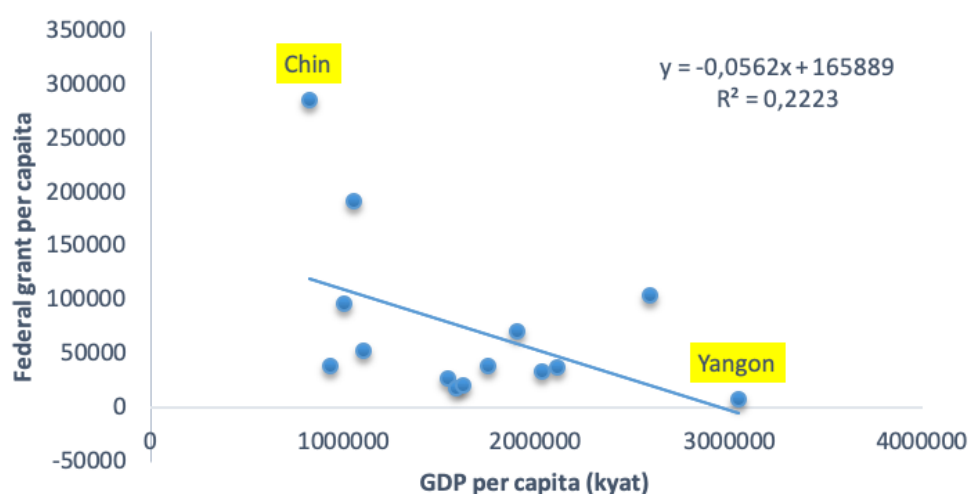
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Table 4.1 distribution of formula-driven transfer to regions and states

State and Region	2017-2018 (% of the formula-driven allocation of transfer)
Yangon Region	4.3
Mon State	4.8
Thanintharyi	5.1
Kayar State	5.2
Mandalay Region	5.5
Bago Region	6.9
Kachin State	7
Kayin State	7.1
Ayeyarwady Region	7.2
Magway Region	7.6
Sagaing Region	8.3
Chin State	9.2
Rakhine State	10.3
Shan State	11.5

The equitability of this formula-driven transfer is assessed. There is a negative relationship to some extent between GDP per capita of states/regions and federal transfer per capita (figure 4.1). Furthermore, poverty incidence of states/regions and federal grant transfer have a positive relationship showing that the more impoverished states/regions receive more federal grant transfer (figure 4.2).

Figure 4.1 federal transfer per capita and GDP per capita (2017-2018) (regions/states)



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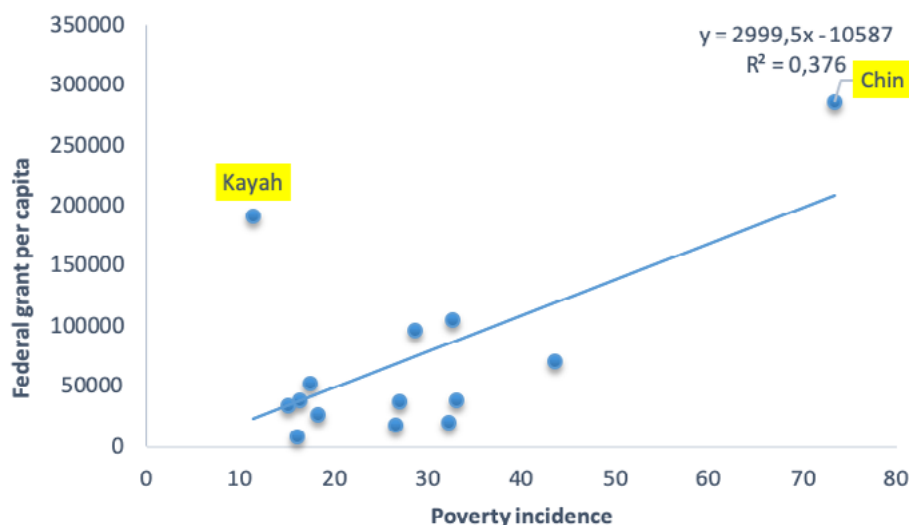
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Figure 4.2 federal transfer and poverty incidence (2017-2018) (regions and states)



Additional to this transfer, two more transfers are given to regions and states, namely constituency development funds, which are equally transferred to each constituency and tax-sharing. Several tax bases are collected by the union government and shared with the producing regions/states. This tax-sharing program was started in the 2016-2017 fiscal year. These include personal income tax, commercial tax, special goods tax, and three stamp duties (table 4.1). The proportion to be shared and the type of tax-bases are at the discretion of the union government.

Table 4.1 tax-sharing with regions and states

Tax-base	Percentage to be shared with producing region/state
Commercial tax	15%
Special goods tax	15%
Personal income tax	5%
Stamp duties	2%

In the 2018-2019 fiscal year, revenue from taxes constitutes 38% of total government revenue, and significant contribution comes from income tax; 31%, commercial tax; 28%, special goods tax; 18%, and stamp duties; 1% among others (Department of Budget, Myanmar Citizens Budget 2018-2019 2018). Tax-bases that are shared with producing regions/states can be said to be broad-based taxes. Given the origin-basis approach in tax-sharing and differences in population size and economic activities, there is a disparity in the amount of tax-sharing each state and region receive.

The fiscal transfer, including tax-sharing, constitutes the central part of government revenues for most regions and states, ranging from 80% to 98% except Yangon and Mandalay region (figure 4.3). Therefore, fiscal transfer plays a critical role in regions and states in executing their constitutionally assigned responsibilities.

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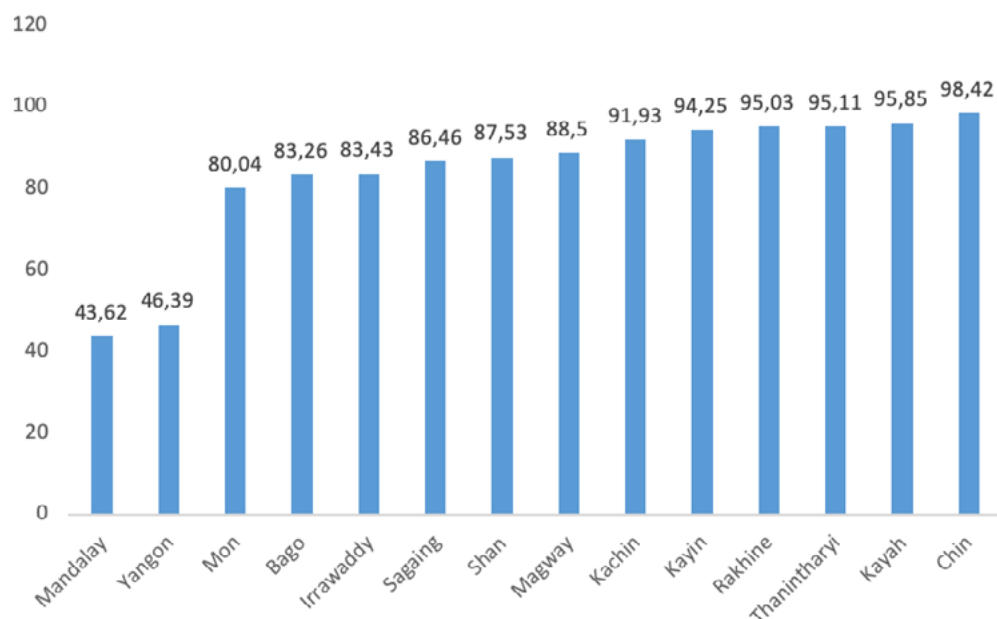
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Figure 4.3 portion of transfer including tax-sharing in total revenues in regions and states (2018-2019)

3. Commentary on intergovernmental transfer design

Given the centralized revenue-raising assignment, most regions and states rely heavily on fiscal transfers, including tax-sharing from the union government to finance services they provide to their residents. This fact can impact region/state governments' incentives to raise revenue, accountability, and responsiveness to local needs. The existing formula-driven allocation of transfer can be said to be equitable to some extent; however, the recipient's fiscal autonomy and accountability and the transfer system's overall efficiency still need to be assessed with timely and reliable data, which is usually under-developed in Myanmar.

Good institutional design is critical to realize the full benefits of fiscal federalism. A specialized agency or agencies must do research and provide timely and proper analysis regarding intergovernmental fiscal relations (Bird 2006). Myanmar's fiscal transfer system is mainly designed by the Financial Commission with technical support from the Union Ministry of Planning and Finance. However, it faces several challenges, including under-development of technical expertise regarding intergovernmental fiscal relations. Therefore, capacity building of human resources and developing reliable data, and improving the Finance Commission structure should be undertaken to advance the institution's capacity and grasp the benefits of fiscal federalism.

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The federalization process started in 2010 under the 2008 constitution. Federal fiscal arrangements are one of the building blocks for the process. Although federal fiscal arrangements are in place, they are highly centralized and show some deviation from guiding principles such as the subsidiarity principle. Regarding responsibility assignment, it biases towards the union government, leaving limited responsibilities to region/state governments. Decentralization should be considered in areas of responsibilities where regional needs and preferences are essential such as education. On revenue assignment, region/state governments have little own-source revenue and rely heavily on federal transfer to perform constitutionally assigned responsibilities. This fact can have a critical impact on fiscal autonomy, accountability, and responsiveness of recipient governments. These assignment issues should be evolved considering some guiding principles, the specific context of Myanmar, particularly long-lasting ethnic conflicts, and financial and human resources of region/state governments, which is inadequate for the time being. The existing intergovernmental transfer system is equitable to some extent, but its overall efficiency and impact on accountability, incentives to raise revenues, and recipients' fiscal autonomy needs further assessment. The existing institutional design seems to represent the interest of regions and states politically but has weak technical expertise regarding fiscal federalism for intergovernmental fiscal relations. The overall federal fiscal structure should be paid proper and enough attention to realize fiscal federalism's benefits.

PORTADA**SUMARIO****PRESENTACIÓN****ÁREAS DE ESTUDIO****NOVEDADES DEL
FEDERALISMO COMPARADO****NOVEDADES DEL
ESTADO AUTONÓMICO****NOVEDADES
PARLAMENTARIAS****ACTUALIDAD
IBEROAMERICANA****CALIDAD DEMOCRÁTICA****AGENDA****ACTIVIDADES REALIZADAS
JUNIO A NOVIEMBRE 2020****ACTIVIDADES PREVISTAS
DICIEMBRE 2020 A JUNIO 2021****CRÉDITOS****INSTRUCCIONES PARA
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