

# Local Economic Governance in Myanmar



Jared Bissinger

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## Acknowledgements

**Jared Bissinger** is a development economist based in Yangon, Myanmar. He holds a PhD in economics from Macquarie University, and has worked with a wide range of organizations in Myanmar including the World Bank, International Labour Organization, The Asia Foundation, Overseas Development Institute, DFAT-Australia, and others. He is currently leading the ILO's engagement with business associations in Myanmar.

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## Preface

Local economic governance is a critical dimension in Myanmar's drive to reform, decentralize and achieve more inclusive and stable development. How businesses and individuals engage with the government in their income and revenue generation efforts and creating employment in the local communities in the process is pertinent to larger economic reforms that are being implemented and further proposed by government and experts. In the context of a country coming out of decades of military rule, any reform that can lead to greater transparency, fairness, and improved state-society relations will contribute significantly to the country's long term democratic transition and economic prosperity. More specifically, reforming economic governance at the local level is essential if the benefits of Myanmar's transition are to reach the majority of the country's people.

Because of initial decentralization efforts in recent years, new opportunities have opened up through which subnational governments can make a difference in local economic governance in a number of different areas from municipal governance to fisheries and agriculture to licensing systems. We have begun to see some state/region governments experimenting with policy changes in the local economic governance structure. This is still a very nascent development however, and many aspects of the old and problematic regulations and practices remain. There are structural and regulatory impediments and skewed incentives, as well as the lack of knowledge and confidence about how to change.

As with many areas for reform consideration, there is a dearth of information on what constitute local economic governance in Myanmar, who are the key actors, and what are the key issues that should be targeted for reform. In this context, The Asia Foundation is pleased to present this research report which explores local economic governance in Myanmar and offers recommendations for reform. The report is authored by Dr. Jared Bissinger, an independent consultant and development economist who specializes in private sector development and the business environment in Myanmar.

We hope the Foundation's research agenda, of which this paper is part of, will support key actors and the wider public in contributing to an inclusive dialogue on Myanmar's reform processes and economic development. This report is jointly funded by The Asia Foundation and the UK Department for International Development (DFID), but the opinions expressed are the author's own and do not necessarily reflect those of the Foundation or DFID.

Dr. Kim N.B. Ninh  
Country Representative, Myanmar  
The Asia Foundation

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## Acronyms

DALMS	Department of Agricultural Land Management and Statistics (formerly the State land Records Department)
DAO	Development Affairs Organization
DICA	Directorate of Investment and Company Administration
DISI	Directorate of Industrial Supervision and Inspection
DoH	Department of Health
DRD	Department of Rural Development
FDI	foreign direct investment
FY	fiscal year
GAD	General Administration Department
IRD	Internal Revenue Department
IZ	industrial zone
IZMC	Industrial Zone Management Committee
IZSC	Industrial Zone Supervision Committee
MCDC	Mandalay City Development Committee
MEB	Myanma Economic Bank
MoHT	Ministry of Hotels and Tourism
MoLFRD	Ministry of Livestock, Fisheries, and Rural Development
SOE	State-Owned Enterprise
SLORC	State Law and Order Restoration Council
S/R	state and region
TDAC	Township Development Affairs Committee
YCDC	Yangon City Development Committee

Note: Exchange rate used is 1,281 MMK per US dollar, the Central Bank's reference rate upon final revision of the paper on November 9, 2015.

## **Executive Summary**

Reforming economic governance at the local level is essential if the benefits of Myanmar's transition are to reach the majority of the country's people. Already, some state/region governments have begun experimenting with policy changes in the local economic governance system. This newfound experimentation is possible because Myanmar's decentralization process has created new avenues through which subnational governments can reform economic governance in areas including municipal governance, fisheries, forestry, land, agriculture, and others. This decentralization process has also created new entry points for the international community to engage with Myanmar about improving economic governance. Despite some changes, many aspects of the old local economic governance system remain. Addressing some of these issues is a significant opportunity for the new government to bolster its economic credibility and bring tangible benefits to Myanmar's people. This paper explores local economic governance in Myanmar, starting with a review of decentralization in Myanmar and a detailed examination of key local economic governance actors. It then highlights two local governance issues that are potential areas for reform: (1) the local revenue system, which is often regressive and fee-dependent; and (2) the commonly used auction-license system, which can restrict competition and create economic rents. The final section includes recommendations for reforms that could help improve local economic governance.

### **Decentralization in Myanmar**

Myanmar has many levels of subnational governments, including states and regions (S/R), districts, townships, towns, and village tracts/wards. While there has been some decentralization to these subnational levels of governments, they remain an integral part of the Union government system. This duplication has created debate about the practical importance and authority of S/R governments. Though they remain a part of the Union government system, subnational levels of government have important new authorities over some economic activities. The Constitution of Myanmar defines the legislative and revenue-raising authorities of states/regions; however, it also implicitly gives administrative authority over the same economic activities to the S/R-level government. This means that S/R governments have final authority for licensing and economic oversight in the sectors that fall under the legislative authority of S/R parliaments and the revenue-raising authority of the S/R government. This distribution of power is critical to the way we understand decentralization and the role of S/R governments. In short, Myanmar's decentralization process is not about the decentralization of structures from the Union to the S/R, but instead the decentralization of specific authorities.

### **Key Actors in Local Economic Governance**

For most people in Myanmar, the first engagement on issues of economic governance is at the township level. Whether it be business licensing, tax collection, or inspection of a business, the engagement is likely to happen with a township-level official. There are many government departments present at the township level, but three tend to have the most interactions with a wide range of economic actors: development affairs organizations (DAOs), the General Administration Department (GAD), and the International Revenue Department (IRD).

DAOs are the primary urban governance entity in the Myanmar government structure, sharing many similarities with a municipal government. They play a lead role in urban service delivery and local economic governance, including licensing businesses through both auction and normal processes, issuing construction permits and billboard licenses, and collecting property taxes. Though these taxes are normally significant sources of revenue for local governments elsewhere, in Myanmar they often account for less than 10 percent of DAO revenue. For many DAOs, the majority of revenue comes from license or other fees collected from businesses. Businesses generally obtain one of two types of operating licenses from the DAO, depending on the sector: licenses issued through non-competitive processes, in which there is no limit on the number of licensees; and auction licenses, which are



awarded to a limited number of businesses. The dependence on business licensing, especially auction licenses, for revenues has important consequences, which are discussed later.

The General Administration Department is the central and most powerful authority at the township level, having many powers generally held by mayors. The GAD has a number of important authorities, including land and excise administration, collecting some taxes, convening weekly township-level interdepartmental meetings, and providing businesses with recommendation letters that are needed for a range of functions, such as transferring property. Because of the preeminent role of the GAD township administrator, the responsibility to investigate complaints and resolve/mediate them often falls to the GAD. Finally, the GAD generally has significant implementation capacity, which it uses on behalf of other departments that lack manpower. The IRD is the last of the departments with broad engagement, and has the most well-defined authority: collection of revenues, which come through commercial and income taxes as well as the stamp duty.

There are a wide range of sector-specific departments, which generally have a presence in townships in which those sectors are key.<sup>1</sup> These departments include:

- Department of Forestry
- Department of Livestock
- Department of Fisheries
- Directorate of Industrial Supervision and Inspection
- Department of Trade Promotion and Consumer Affairs
- Department of Rural Development
- Transport Division of Operator License Supervision and Coordination
- Department of Agriculture
- Department of Agricultural Land Management and Statistics<sup>2</sup> (DALMS)
- Department of Cooperatives

Other government ministries, such as the Ministry of Mines and the Ministry of Hotels and Tourism, also have important economic responsibilities, but tend to be located in a smaller number of townships.

### **Auction Licenses and the Local Revenue Base**

Local economic governance in present-day Myanmar shares many characteristics with the system under previous governments; however, decentralization has created new opportunities for reforming this system. There are two distinct but closely related areas where reforms could yield significant dividends: revision to Myanmar's local revenue base, and changes to the widespread system of auction licenses. At the local level, a significant amount of revenue comes through avenues that require payment in advance as a prerequisite for engaging in economic activity. While there are a few broad-based subnational taxes, notably on land and buildings, these generally account for a small percentage of locally raised revenues. Most revenue comes through fees and indirect taxes, which are generally paid by businesses, though often passed through to consumers. For many DAOs, fees from the private sector comprise the majority of locally raised revenue. The system of advance payments helps the state circumvent the pervasive issue of poor compliance, a legacy of the former authoritarian state, which struggled to collect taxes. However, the existing system creates a number of problems. Because it often results in a tax on consumption or economic activity, it is relatively regressive. It also can be distorted, for example by placing significant indirect taxes on some types of consumption but little or no indirect tax on other, similar types of consumption.

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<sup>1</sup> Note that there are nearly 80 departments at the S/R level, with a significant share of those present at the township level. The list presented is not comprehensive, but instead lists many of the important township-level departments.

<sup>2</sup> Note that this department was previously known as the State Land Records Department (SLRD).

For some parts of government, license fees from auctions are the single largest revenue source. Often, the value of these auction licenses comes from the significant restrictions that accompany the license. Slaughterhouses in some parts of Myanmar are an excellent example. Some slaughterhouse auction-license systems divide a township into geographical territories and award the licensee monopoly selling rights in that area. The system fixes prices and restricts transportation of meat. The result is that the system generates significant economic rents for the licensee, some of which are transferred to the government through the license fee and some of which are kept by the business. For some DAOs, this slaughterhouse system is the single largest source of revenue. Licenses that have a similar structure are present in many other areas, including fisheries, roads, pawnshops, and ferries. For most auction licenses, the fee must be paid in advance before any income is earned, a challenge for many small businesses in credit-poor Myanmar that can lead to reduced competition for licenses. Auction licenses are also a significant deterrent to investment because they are commonly awarded for only one year, and generally do not include provisions to incentivize investment during the license term.

### **New Space for Reform at the Subnational Level**

Reforms to local economic governance in Myanmar could bring significant tangible benefits and are well within the realm of the politically possible. The decentralization of many of these authorities to S/R and/or township levels of government opens up important new space for policy experimentation. Because specific authorities have been decentralized to a range of departments, there are many new entry points for engagement with subnational governments on reform. In some states and regions, governments have already begun to reform aspects of these systems, while in others, government officials are already aware of the opportunities that these reforms could bring. For Myanmar's next government, these changes could form the basis for a S/R economic reform strategy that helps promote broad-based development and poverty reduction.

Though there are many promising areas for reform at the subnational level, local economic governance cannot be transformed overnight. The process of reforms is essential to their success. They must be undertaken transparently, with a consultative process that builds trust, understanding, and community support. Communities need to understand how and why these systems work, and why they are changing. This means that many reforms should be rolled out over the course of a few years, not months. Further, it is important that government institutions be given time to transition. Some government departments, such as DAOs, are heavily dependent on auction-license revenue and fees, and removing them before alternate revenue streams are available could significantly undermine important urban service provisions. Therefore, it is important that reforms be approached as interdependent. Changes that reduce revenue, for example restructuring the auction-license system, should be offset by others that increase revenue, for example increasing the building tax.

### **Recommendations**

- Work with S/R- and township-level governments to develop location-specific, multi-year reform strategies based on a transparent and consultative process that builds trust and understanding about the reforms before they take place.
- Work with government to develop effective communication strategies to explain current and future local economic governance systems to communities.
- Reform the auction licensing system to minimize the creation of rents and reduce the harmful impact of annual price increases and the negative economic consequences of fixed prices.
- In cases of natural monopolies, revise auction-license terms to increase the government's share of the revenue and/or incentivize improved service and investment.
- Reduce the use of one-year licenses, which discourage long-term investment by creating uncertainty for business, thereby increasing costs for consumers.
- Reform the system of advance license payments to allow for incremental payment throughout the duration of the license.

- Improve enforcement of sanitation and safety conditions for licensees.
- Reform the building tax to make it a more important source of general revenues for DAOs.
- Revise the land tax, and consider introducing a minimum so that no landowner with less than a fixed number of acres will have to pay the tax.
- Reduce S/R- and local-level administrative barriers to trade, including but not limited to the prohibition on moving slaughtered meat between townships.
- Eliminate arbitrary barriers to business entry at the local level, such as the “Disciplinary Committee on Buses” or various hotel requirements from the Ministry of Hotels and Tourism.
- Charge penalty fees for late payment or non-payment of land and building taxes.
- Increase publicly available information, including local-level laws, rules, regulations, and bylaws that spell out the governance framework for local businesses.

## **SECTION ONE: Introduction**

Reforming local economic governance is essential if the benefits of Myanmar's transition are to become tangible for the majority of the population. Local levels of government have important incentives to reform. They often have direct responsibility for key services and are the first to receive criticism when they do not fulfill citizens' expectations. They have some flexibility to experiment with new policies, as long as they stay within their often limited authority. It also is easier for local levels of government in selected locations to trial new policies, because of the comparative ease of small-scale implementation. At the same time, local levels of government can be slow to change given their lack of authority, capacity challenges, the multiple levels of authority separating them from the country's top leaders, and the vested interests of local authorities. Despite the challenges, reforming the management of local economic governance is one of the more easily implemented and economically meaningful changes that the new government can undertake. For the new government, reforms to local economic governance are among the most promising "low-hanging fruit."

Within the structure of Myanmar's government there are numerous subnational levels involved in economic governance, including state/region (S/R) governments, districts, townships, towns, and village tracts/wards. Many Union-level ministries have officials at one or more of these levels, and they have an important influence on local economic governance. Local governing authorities have a wide range of economic powers, from collecting revenues, to awarding concessions, to giving permissions to conduct a range of economic activities. They already possess some functionally decentralized powers, and are often granted a wide degree of discretion over the implementation of laws and rules in these areas. In their engagements with business, local levels of government often have a strong emphasis on licensing and taxation, while less emphasis is placed on regulation and service provision. However, the structure of taxation is skewed heavily towards an "up-front, fee-for-permission" system. This is driven by the legacy of an authoritarian state that struggled to collect taxes. The system of advance payments helps the state circumvent the pervasive issue of poor compliance.

This paper focuses largely on the township level, though it also will map the relevant S/R- and Union-level government actors that operate at the subnational level. The township level of government is a key point of interaction for the majority of Myanmar people, and their implementation of economic governance laws and rules is both immensely important and poorly understood. The paper starts with a review of the methodology and the language concerning key concepts in the paper, including a definition of the relatively broad concept of "local economic governance." The following section explores the decentralization of economic authority and the process of decentralized decision making. The third section of the paper explores the structure of the Myanmar government, and maps the wide range of actors with local economic governance responsibilities. It starts with a thorough review of DAOs because of their prominent role at the local level and the flexibility they have to reform. The section then explores the economic authority of the GAD, as well as a host of relevant Union-level ministries and other governmental authorities. Given the large number of government departments at the subnational level, this mapping exercise is not exhaustive, though most major actors involved in local economic governance are covered. The fourth and fifth sections investigate two important thematic issues for local levels of government: subnational government revenue, and licensing of economic activities. These sections both provide descriptive details about each issue, though they are accompanied by a significant analytical component. This analysis forms the basis for many of the recommendations in the final section, which reviews steps for government and development partners to address key local economic issues.

### **1.1 Methodology**

Research was conducted in six townships across three states and regions in July 2015. States and regions were selected based on several criteria. The first was that at least one state and one region

were visited. The second was determined by programming priorities of The Asia Foundation, which has already conducted numerous research projects and workshops in each of the states and regions visited for this project. These existing relationships helped to facilitate interviews with actors from government and businesses. Because the Foundation has already established working relations and has plans for additional programmatic activities in these areas, the selection of these three states and regions also increases the likelihood of implementing, in conjunction with select government departments, some of the recommendations from this report. Within these states/regions, five townships and one town were selected for interviews. All S/R capitals were visited because of the necessity of meeting with S/R governments before conducting fieldwork in other townships in the S/R. Myitta Town, in Tanintharyi Region, was selected because of its small population, and because it was a town instead of a township and therefore a different level in the administrative structure.<sup>3</sup> Thabaung was selected because it was a small, relatively rural township in Ayeyarwaddy Region. Myaung Mya was selected because it was the site of previous Asia Foundation fieldwork. In the case of all three fieldwork sites that were not S/R capitals, logistics played an important role in their selection, attempting to address the need for efficiency while still covering a diversity of townships and towns.

**Table 1. Interviews and Small Group Discussions Conducted, by State and Region**

State/Region	Township	Government	Business		Total
			Semi-structured interview	Unstructured market interviews	
Ayeyarwaddy	Pathein	5	4	6	15
	Myaung Mya	2	2		4
	Thabaung	3			3
Tanintharyi	Dawei	10	2	1	13
	Myitta	2			2
Shan	Taunggyi	9	4		13
Total		31	12	7	50

During the three weeks of fieldwork, fifty interviews, small group discussions, and unstructured market interviews were conducted. Key government departments such as DAOs and GAD were interviewed at most or all of the fieldwork locations. Because of the need to map the broad range of actors that play a role in economic governance at the local level, the research team also met 16 different government departments/divisions/enterprises from 12 different ministries.<sup>4</sup> The full list of government interviewees includes:

- Department of Development Affairs
  - Development Affairs Organizations
- Ministry of Home Affairs
  - General Administration Department
- Ministry of Finance
  - Internal Revenue Department
- Ministry of Commerce
  - Department of Trade Promotion and Consumer Affairs
- Ministry of Environmental Conservation and Forestry
  - Department of Forestry
- Ministry of Fisheries, Livestock, and Rural Development

<sup>3</sup> Towns were formerly referred to as sub-townships; however, the new constitution specifies that sub-townships should no longer exist, so the administrative unit is now referred to as a town.

<sup>4</sup> Note that multiple departments were interviewed in some ministries, especially when the respective departments had different but important engagements with businesses (for example, Ministry of Livestock, Fisheries, and Rural Development).

- Department of Fisheries
- Department of Livestock
- Department of Rural Development
- Ministry of Industry
  - Department of Industrial Supervision and Inspection
- Ministry of Rail Transportation
  - Transport Division of Operator License Supervision and Coordination
- Ministry of Mines
  - Mining Enterprise 2
  - Department of Geological Survey and Mining Exploration
- Ministry of Agriculture
  - Department of Agriculture
  - Department of Agricultural Land Management and Statistics<sup>5</sup> (DALMS)
- Ministry of Hotels and Tourism
- Ministry of Construction
  - Department of Highways<sup>6</sup>

While many Union-level ministries have interactions with business, this research focused on those with responsibilities covering primary-sector and urban economic activities. Most economic activity outside of Myanmar’s largest cities is in the primary sector, including agriculture, livestock, and fishing, as well as resource-related sectors such as forestry or mining. Outside of Myanmar’s two biggest cities, many secondary economic activities are linked to proximate primary-sector activities. A good example of this is the large number of rice mills in the Ayeyarwaddy delta, a manufacturing activity that has sprung up to serve the area’s robust rice production. While other Union-level ministries also engage with business – for example the Ministry of Finance, which has authority over licensing banks – this paper focuses on those with a presence at the local level and with authority over the economic activities upon which many of Myanmar’s people depend.

Outside of interviews, market visits, and small group discussions, the research team also obtained a wide range of data from government interviewees. This data varied from township to township, depending on the government office that was interviewed and the data available. Many types of data were collected, including sources of DAO revenues, auction-license data, and property tax schedules and other schedules of taxes and fees.<sup>7</sup> Though much data and many interviews were collected, *the conclusions in this paper should be taken with the caveat that they are based on a limited and non-representative sample of interviewees. They represent the overall picture only to the degree that the fieldwork locations visited represent the country as a whole.*

## 1.2 What Is Local Economic Governance?

Local economic governance is a broad concept and open to a range of conceptualizations. This paper uses the phrase “local economic governance” to mean the governance of private economic activity, defined broadly to include everything from an individual entrepreneur selling produce at the market

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<sup>5</sup> Note that this department was previously known as the State Land Records Department (SLRD).

<sup>6</sup> Note that the Ministry of Construction has undergone a restructuring. Public Works, a state enterprise under the Ministry that was discussed significantly in the recent Asia Foundation paper on state and region revenues, has been divided into four constituent departments, which are: the Department of Bridges, the Department of Highways, the Department of Buildings and the Urban and Housing Department. Despite the seemingly clear division of responsibilities between these departments, there is still regular overlap and significant interdependence. For example, it is very hard to build a road of any great length without occasional bridges, a fact that necessitates interdepartmental coordination to complete road projects. Interestingly, though, the Department of Bridges is not responsible for all bridge construction, only those over 50 feet in length. Given this, it may soon be renamed as the Department of Big Bridges. Interview 047 with government, July 22, 2015.

<sup>7</sup> Many government interviewees were very open with information, and shared a significant amount of useful data without which much of this analysis would not have been possible.

to large, multi-sectoral conglomerates. This paper examines the ways in which individuals and businesses engage with government in the course of earning their livelihood. Local economic governance covers a wide range of activities, including:

***Granting permissions and licenses***

- Business operating licenses (non-exclusive and exclusive)
- Sector/activity-specific licenses
- Construction permits
- Land registration
- Permission letters

***Collecting revenue***

- Taxes
- Fees
- Fines and other revenue

***Providing services***

- Local infrastructure and services<sup>8</sup>
- Sector-specific services (e.g., veterinary services from the Ministry of Livestock, Fisheries, and Rural Development)
- Business development programs
- State-administered loan programs
- Resolution of disputes

***Regulating and monitoring***

- Setting rules/standards that influence business operations
- Business inspections

***Engaging and dialoguing with business***

- Mechanisms for constituent (citizen and business) engagement with government
- Involvement of constituents in decision making
- Providing information to businesses

Most people in Myanmar, especially those outside of Yangon and Mandalay, make their living through agricultural production, other primary-sector activities such as natural resource harvesting or livestock raising, or secondary economic activities linked to these primary sectors. Most people in these sectors work on their own account, as small family farmers, casual laborers, or hired farm helpers. Though their prospects are vital to Myanmar's broad-based development, this paper has only limited insights about the agricultural economy. While it does have some information about the primary sectors, it often focuses on governance of the value chains instead of on the situation of the primary producer directly.

### **1.3 Administrative Decentralization and S/R Governments**

The 2008 Constitution transformed Myanmar's divisions into regions, and created new S/R governing structures including a chief minister, a "cabinet" of S/R ministers, a unicameral S/R *hluttaw*, and S/R judicial institutions.<sup>9</sup> The economic authority of these new S/R ministers and institutions was defined

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<sup>8</sup> Public provision of services is a key aspect of local economic governance; however, this report does not provide significant detail on this. There is a strong emphasis in government on licensing, monitoring, and taxation, and service provision is comparatively uncommon. Services that are provided are often linked to a fee, and these are regularly addressed by this report in that context. DAOs are the main local service provider addressed in this report; however, many of their services are related to provision of infrastructure. Selected DAO services, including construction permits, are addressed in this report, though it is outside the scope of the paper to conduct a proper assessment of the financial management of DAOs.

<sup>9</sup> Hamish Nixon, Cindy Joelene, Kyi Pyar Chit Saw, Thet Aung Lynn, and Matthew Arnold. *State and Region Governments in Myanmar* (Yangon: The Asia Foundation and Myanmar Development Research Institute-CESD), pg. v. This report has

in Schedules 2 and 5 of the Constitution. These schedules, which are the S/R legislative list and the S/R revenue list, respectively, also guide the division of administrative authority over economic activity, though this is not explicit in the Constitution. This point was made in *State and Region Governments in Myanmar*, which notes that the “Constitution essentially assigns states and regions executive authority over the same areas as those included in the legislative list.”<sup>10</sup> This new distribution of power is critical to understanding the functioning of local economic governance and the entry points for potential reform.

The practical implication of this change in administrative authority is that S/R governments have final authority for licensing and oversight in economic sectors for which S/R parliaments make laws and S/R governments collect revenues. For example, licenses for freshwater fisheries (an area that falls under the S/R authority in Schedule 2 of the Constitution) need to be approved only by the S/R government, not the Union-level Ministry for Livestock, Fisheries, and Rural Development. Similarly, licenses to cut bamboo need only be approved by the S/R Forestry Department, not the Union level. Revenue from these activities is also allocated to the S/R budget.

S/R governments do not have the final authority for licensing and economic oversight of economic activities for which the Union Parliament makes laws and the Union government collects revenues. For these activities, S/R governments play an integral role in the Union hierarchy. S/R Ministers, for example, have various responsibilities for Union-level activities, including “submitting reports to Union ministries, monitoring, coordinating plans mandated by the central government, and assisting the Union government.”<sup>11</sup> Union ministries would not circumvent the S/R minister and work directly with any of the levels of government under his/her authority. All engagements with the district offices, for example, would go through the S/R minister and S/R-level government. The staff of subnational government offices (excluding the DAOs) also remain Union ministry staff, recruited centrally and paid according to Union government requirements.

Previous reports by The Asia Foundation, including one by this author, have asserted that S/R ministers are “ministers with no ministries,” a conclusion that evidences the lack of decentralization of structures from the Union to the S/R level. However, S/R ministers do have some administrative authority that is, at least theoretically, fully under their control. This contrast points to a key characteristic of the decentralization process in Myanmar: **it is a process of decentralizing authority within the existing structure, instead of a decentralization of structures themselves.** The structures of the S/R government report both to S/R ministers and to the Union government by way of the S/R ministers.<sup>12</sup> Decision-making authority is determined by the specific economic activity in question. This authority-based interpretation of decentralization is evident in the functioning of administrative structures at the S/R, district, and township levels, which are often tasked with implementing on behalf of *both* the S/R and the Union. Despite their Union ministry connections, these bodies collect (or assist in the collection of) revenue for the S/R governments. They receive funds from the S/R government to cover some of their operating expenses, though much of these funds are provided to S/R governments through transfers from the Union fund. An excerpt from a S/R budget illustrates this (Table 2).<sup>13</sup> It shows that many departments that fall under Union ministries still collect revenue and incur expenditure from the state budget.<sup>14</sup>

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significantly greater detail about the background and structures of the state and region governments, which will not be summarized in greater depth here due to their availability elsewhere. Note that the naming designations of states remained consistent across governments.

<sup>10</sup> Nixon et al., *State and Region Governments in Myanmar*, pg. 14

<sup>11</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar* (Yangon: The Asia Foundation and Myanmar Development Research Institute-CESD), pg. 15.

<sup>12</sup> Nixon et al., *State and Region Governments in Myanmar*, pg. 25-26.

<sup>13</sup> Budgets from other states/regions in this same year also show the same practice, with the Ayeyarwaddy budget given as illustrative of the broader phenomenon.

<sup>14</sup> The table also shows two other very interesting things. First, though taxes are recorded elsewhere in the budget, the sectoral-based ministries at the S/R level universally did not collect tax. Instead, their revenue streams were classified as



**Table 2. Selected Ministries' Revenue and Expenditure, Ayeyarwaddy Region, FY13-14, in Million Kyat**

Ministry	Department	Income	Expenditure	
		Other Income	Ordinary	Capital
Home Affairs	General Administration Department	12	7,388	1,315
	Special Investigation Department	0	119	138
Cooperative	Cooperative Department	5	726	
Agriculture and Irrigation	Water Resource Department	31	507	
	Agriculture Department	32	1,515	26
	Industrial Crop Development Department		28	
Livestock and Fisheries	Fisheries Department	20	476	80
	Livestock Breeding and Veterinary Department	3	210	
Environmental Conservation and Forestry	Forestry Department	20	764	48
Sports	Sports and Physical Education Department	0	250	183
Finance and Revenue	Budget Department		49	5
National Planning and Economic Development	Planning Department	0	353	43
Construction	Human Settlement and Housing Development Department	0	121	
	Public Works	67	3,909	35,698
Labor, Employment, and Social Security	Central Inland Freight Handling Committee	0	46	

Though the S/R governments have both incomes and revenues on their own accounts, there is still influence from the Union government, both formal and informal. Among the key avenues for Union influence are the oversight of budget proposals and the role of the GAD in the decision-making process. This has important consequences for the ability of S/R governments to exercise their economic authority. It also provides additional evidence that Myanmar's decentralization is in many ways imbalanced and incomplete. Despite these continued links between the Union and the S/R, additional decentralization of administrative authority to the S/R-level governments could have significant benefits, because it could increase the flexibility of S/R governments to reform existing licensing regimes.<sup>15</sup> Some ministries, such as the Ministry of Hotels and Tourism, are currently considering additional decentralizations, which would be significant for local businesses that currently need approval from Nay Pyi Taw to engage in these economic activities. This type of decentralization would also likely encourage further experimentation with policy reforms at the subnational level, to complement the limited subnational experimentation that is currently taking place.

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"other," most of which is license fees. Second, the expenditures attributed to these same departments, under the corresponding budget lines in the "expenditure" category, are greater by many orders of magnitude. Though the chart shows only some excerpts from the FY13-14 budget in Ayeyarwaddy, both of these trends were true for all of Myanmar's other states and regions.

<sup>15</sup> Note that, despite the theoretical decentralization of authority, there is sometimes informal Union-level influence in these areas. It is not possible to quantify this influence, though, and S/R governments still exercise significant autonomous decision-making authority. Decentralization of additional authority has been mentioned repeatedly by Parliament and other government authorities, including the decentralization of licensing for foreign and citizen investment below a set amount. This would presumably be done by the minister of planning at the S/R level.

## SECTION TWO: Mapping Local Economic Governance

Local economic governance involves a wide range of government ministries and departments. At the S/R level, there are a wide range of departments and SOEs that fall under the authority of S/R ministers. In Tanintharyi Region, for example, there are a total of 78 different departments and SOEs under nine S/R ministers (Appendix 1). This structural diagram reinforces the importance of the S/R ministers in the structure of the government. Though all of Myanmar's S/R governments have largely the same departments, the structure varies somewhat between different states/regions because it is up to the S/R to determine the configuration.

At the township level, there are fewer departments present, though there is a core of important departments that are present across all townships. Others are present in only a limited range of townships, a variation that is driven by differences in local economic circumstances. The GAD, IRD, DALMS, and MEB are present in almost all townships and have a similar role and level of authority in each. Some departments, such as the DAO and the Housing Department, are urban focused and therefore play a more important role in heavily urbanized townships. In rural townships, other departments, such as the Department for Rural Development, Department of Agriculture, and Department of Forestry, play a more central role. There is also variation in the township-level departments based on geographical characteristics. For example, in Ayeyarwaddy Region, the Department of Fisheries has an important township-level role because of the importance of fishing in that region. In Shan State, however, the Department of Fisheries is less important, because the area is not heavily dependent on the fishing industry. Table 3 lists government departments commonly, though not always, found at the township level. Note that the list is only illustrative, and a national survey of all townships would be required to obtain the data needed for a more accurate mapping of all township-level departments.

**Table 3. List of Common Government Ministries/Departments at the Township Level**

General Administration Department	Police Department
Housing Department	Fire Department
Cooperative Department	Immigration
Department for Rural Development	Department of Agriculture
Internal Revenue Department	Department of Irrigation
Planning Department	Department of Industrial Crops
Uphill Farmland Department	Development Affairs
Livestock, Breeding and Veterinary	Social Welfare
Traditional Medicine	Education Office
Farm Machinery Department	Health Office
Department of Agricultural Land Management and Statistics	Sports
Audit Department	Road Transportation
Information and Public Relations	Public Works
Myanmar Posts and Telecommunications	Electricity
Labor Department	Religious Affairs
Myanmar Economic Bank	Law Department
Department of Fisheries	Township Court
Freight Handling Department	Customs
Trade Promotion and Consumer Affairs	Border Affairs
Department of Highways	Forest Department
<i>Source: UNDP, personal communication with The Asia Foundation, and author's own fieldwork</i>	

While townships are the core administrative structure in the Myanmar government system, some areas also have “towns,” or what used to be referred to as “sub-townships.” In the current system, towns function similarly to sub-townships under the former system.<sup>16</sup> While townships have a broader array of government offices, towns have only the “core” government departments.<sup>17</sup> In one town visited, the departments present are noted in Table 4, though only a few have local economic governance functions.<sup>18</sup>

**Table 4. List of Departments/Ministries in Myitta Town**

General Administration Department	Department of Information
Myanmar Police Force	Myanmar Posts and Telecommunications
Department of Agricultural Land Management and Statistics	Ministry of Livestock, Fisheries, and Rural Development (Veterinarian Department)
Department of Immigration	Border Affairs
Development Affairs Organization	Department of Forestry
Fire Department	Ministry of Agriculture and Irrigation
Ministry of Construction	Department of Health

Three government departments – DAOs, GAD, and the IRD – have relatively regular and meaningful township-level interactions with a significant share of businesses across most economic sectors. DAOs have a range of economic authority, including a strong focus on urban service provision and licensing, sharing many similar responsibilities with a municipal government. The GAD is the most powerful authority at the township level, and plays a key role in coordination, oversight, and granting permissions. The IRD is focused on revenue collection.<sup>19</sup> There are also sector-focused ministries, which regularly have a presence at the township level, though they are sometimes represented by just one or a few officers. These ministries engage with businesses working in their sector of responsibility.<sup>20</sup> Finally, some townships have industrial zones, which are governed by management committees and take on some quasi-governmental functions. While the remaining township offices with economic authority (i.e., those besides DAO, GAD, and IRD) engage in a wide range of activities, many have a strong focus on the implementation of licensing and taxation, which is approved at a higher level of government. Township officers conduct frequent inspections, often to ensure that licensees are abiding by the conditions of their license and in compliance with relevant tax and fee payments, even if they do not grant licenses or collect revenue themselves.

There is often significant overlap between government departments that are tasked with similar or identical responsibilities. Road construction is an excellent example. In urban areas, DAOs are responsible for road construction. In rural areas, that responsibility lies with the DRD or the Department of Highways, depending on the type of road. In border areas, the Ministry of Border Affairs is responsible. There is also significant local-level coordination, for example weekly interdepartmental meetings at the township level. This section reviews the departments responsible for local economic governance, starting with those with broad-based interactions before moving to those with sector-specific responsibilities.

<sup>16</sup> Interview 033 with government, July 16, 2015.

<sup>17</sup> Interview 025 with government, July 14, 2015.

<sup>18</sup> Note that much like townships, the departments present in Myitta Town are a mix of “core” departments, such as the GAD and DAO, as well as departments with local relevance, such as Border Affairs.

<sup>19</sup> Of course, DAOs and the GAD also have important revenue collection functions, as do the vast majority of ministries involved in economic governance. The major difference is that for DAOs, the GAD, and others, revenue collection is one of the many duties in their mandate, whereas IRD bears the sole responsibility to collect taxes, which form a significant part of the country’s overall budget.

<sup>20</sup> Note that the government departments covered in this report represent many but not all departments that engage with business. Within any given S/R-level government, there may be as many as 90 government departments.

## 2.1 Development Affairs Organizations

Development affairs organizations (DAOs) are the primary urban governance entity in the Myanmar government structure, and play a lead role in delivering a wide range of urban services and overseeing the local economy.<sup>21</sup> DAOs are the primary licensing organization for many of the country's businesses. They are responsible for licensing almost all businesses in urban areas, and often for licensing many businesses in rural areas as well. DAOs are notable because, as noted in *Subnational Governments and Business in Myanmar*, they are the only department of the former Union government for which all authority has been decentralized to S/R governments, starting in 2011.<sup>22</sup> As such, the entire legal mandate for DAOs lies with states and regions, all of which have passed DAO laws since 2012.<sup>23</sup> However, these laws are all either identical or bear very close resemblance to the former Union-level SLORC law for DAOs, SLORC Law No. 5/93.<sup>24</sup> Yet because they are passed at the S/R level, the legal mandates of DAOs can theoretically differ between states/regions. Despite this, DAOs have limited autonomy in their internal management. While they do control the hiring and firing of employees, they are not free to set salary levels, and are obliged to pay pensions as mandated by the Union government.<sup>25</sup> These pensions, which are mostly for employees of the former Union government, come from regular revenues.<sup>26</sup> If the Union government raises civil servant pay, DAOs must comply and raise their own pay, leaving less revenue for investment.<sup>27</sup>

Because they fall under the direct control of S/R governments, DAOs have no affiliated Union ministry, and instead report to the S/R minister for development affairs. All states and regions have a S/R Department of Development Affairs, whose major responsibility is to "coordinate and supervise township DAO offices."<sup>28</sup> Direct implementation is handled by township DAO offices, to which the S/R office delegates many responsibilities, including "annual planning, designing activities, crafting budgets, and routine municipal management and service provision."<sup>29</sup> Township DAO offices can vary in size significantly, with the smallest having 10 or fewer staff and the largest having upwards of 100.<sup>30</sup> All DAO offices at the township level have at least two departments (administration and engineering), with larger offices having up to five.<sup>31</sup>

DAOs are responsible for delivering a wide range of services used by businesses, and are tasked with many economic governance functions. Among the most important services that DAOs provide are urban road construction and maintenance, sewage and sanitation, street lighting, and urban water supplies.<sup>32</sup> DAOs are also charged with a significant number of economic governance functions. These include issuing business licenses to numerous different types of businesses, including restaurants, small shops, local lodging houses, skilled businesses, slow moving vehicles, and others. DAOs also issue "dangerous goods" licenses for businesses engaged in making or selling various food products, and

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<sup>21</sup> Note that development affairs organizations were the focus of another report in The Asia Foundation's *Subnational Governance in Myanmar* series. That report contains detailed information on the background, structure, authority, and activities of DAOs in much greater detail than is addressed here. See Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations* (Yangon: The Asia Foundation and Myanmar Development Research Institute-CESD), pg. 3.

<sup>22</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*, p. 14.

<sup>23</sup> For more information on these, see Matthew Arnold et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 10.

<sup>24</sup> Matthew Arnold et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 10.

<sup>25</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*, p. 14. Note that hiring and firing require the approval of the state minister for development affairs.

<sup>26</sup> Interview 009 with government, July 8, 2015.

<sup>27</sup> Interview 009 with government, July 8, 2015.

<sup>28</sup> Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 16.

<sup>29</sup> Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 17.

<sup>30</sup> Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 20.

<sup>31</sup> Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 20.

<sup>32</sup> More details on the social service mandate of DAOs can be found in Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*.

selected consumer goods or services.<sup>33</sup> Business licenses for operation in some sectors, such as slaughterhouses, ferries, and pawnshops, are available only through auctions held by the DAO, which run once per year. DAOs also issue construction permits for private construction projects, and participate in issuing construction permits for public projects. They issue licenses for advertising billboards in urban areas. A comprehensive list of the social services and economic governance responsibilities of DAOs is contained in Figure 1.

**Figure 1. DAO Social Service and Economic Governance Duties and Functions<sup>34</sup>**



### 2.1.1 Licensing

Issuing business licenses is a key economic governance function for DAOs. In general terms, there are two different types of DAO licenses: non-exclusive business operating licenses (i.e., there is no limit on the number of businesses that may obtain this type of license) and auction licenses. Of the economic authorities noted in Figure 1 above, cattle markets, slaughterhouses, privately owned markets, small loan businesses (pawnshops) and ferries are generally handled through auction licenses. These licenses are discussed in detail later in the paper. Roadside stalls, bakeries and restaurants, dangerous trades, lodging houses, and slow-moving vehicle licenses are non-exclusive. The vast majority of licenses issued by the DAO fall under these categories. “Markets owned by the committee” is generally the only economic governance function that does not involve granting a license to a business. These markets are generally administered directly by the DAO, which rents stalls on a monthly basis and collects revenue from this.

Obtaining non-competitive DAO licenses is a comparatively simple process. Businesses must provide a completed application form, fee, ID card copy, household list, and ward administrator’s

<sup>33</sup> Information provided by the DAO, Taunggyi Township, Shan State.

<sup>34</sup> Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 3.

recommendation to the DAO.<sup>35</sup> These licenses can often be granted and renewed without visiting the DAO office, through DAO employees who visit businesses to ensure that they are licensed.

**Table 5. Examples of Various Types of DAO-Registered “Dangerous Goods” Businesses and Restaurants**

Dangerous goods businesses	Restaurants
Rice, flour, beans, and other crops trade	Bakeries
Tobacco-related products	Soft drinks
Food products trading	Ice factories and soft drink producers
Workshops (industrial and small)	Teashop/coffee shop and related
Tire-related work	Rice/noodle (fried/boiled)
Sewing machine and cushion work	Vermicelli/monhinkhar/Shan noodle and related
Electric/battery work	Big restaurants
Firewood, charcoal, bamboo, cane, and cut wood	Betel nut sellers
Cotton dyeing work	Fried snacks
Beauty parlor	Condensed milk sellers
Printing press	Sunflower seeds and sweet snacks
Bicycle repair, umbrella repair, and shoe repair	Fermented foodstuff
Plastic work	
Mills (sawmill, grinding mill, oil mill, and rice mill)	
Sand, brick storage (brick work)	
Photo, movie, and recording work	

*Source: Mid-sized DAO, “2014-15 Dangerous Business License Fees” data and “2014-15 Restaurant License” data.*

Another function of DAOs not explicitly mentioned in Figure 1 is oversight of billboards in urban areas. Private companies who want to erect a billboard in an urban area submit an application to the DAO that includes:

- Advertisement design,
- Specific location (including the ward in which the billboard will be located),
- Size of billboard,
- Other specifications (including height and design),
- “No objection letter” from neighbors, and
- “No objection letter” from the Ministry of Construction (for billboards on Union roads).<sup>36</sup>

Despite the DAO being vested with the authority to license billboards and collect revenue from them, the process of receiving approval goes far higher than a township DAO. Once a completed application is submitted and approved by the township DAO, it is sent to the S/R-level office, which inspects the site. If the S/R-level office approves the application after inspection, it is sent to the S/R development affairs minister for submission to the S/R executive committee meeting, chaired by the chief minister. Final approval for billboards is granted in this meeting, a process that takes three to four months and results in very few rejections from the top level.<sup>37</sup> Approvals are granted for one year, after which billboard owners must apply for a renewal to the DAO. When queried about the rationale for issuing a license for only one year, the DAO noted that the annual renewals allowed them to revoke permissions in case they needed to expand the road along which a billboard was located. However,

<sup>35</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*, p. 19.

<sup>36</sup> Interview 039 with private-sector business, July 21, 2015. Process is an example, and may vary between S/R.

<sup>37</sup> Interview 039. This raises the important question of why such high-level approvals are needed in the first place. The need for high-level sign-off on authorizations that have been inspected and approved by one or more lower levels of government is a common trend in Myanmar and a potential area of administrative reform. Authority to approve could be vested with the government official who has conducted inspections and is most knowledgeable about the circumstances.

the one-year permissions already contain an eminent domain clause, suggesting that annual renewals may not be necessary.<sup>38</sup>

### 2.1.2 Construction Permits

Construction permits are an important responsibility of DAOs; however, the implementation process in most parts of Myanmar differs from that of Yangon and Mandalay. In those cities, the city development committees (YCDC/MCDC) have far greater powers than DAOs elsewhere in Myanmar. Obtaining construction permits in the rest of Myanmar involves more departments. Official estimates of the time needed to receive a construction permit in Patheingyi started at 23 days, though businesses noted that sometimes permits could be granted in less time, for example in just two weeks.<sup>39</sup> One construction company, which operates in both Yangon and Ayeyarwaddy Region, noted that the time needed to obtain a construction permit in Yangon (up to three months) is far longer than Ayeyarwaddy because the large number of construction projects in Yangon creates a long queue for permits.<sup>40</sup>

The DAO is the government department responsible for construction permits. The normal cost of the “supervision fee” paid to DAOs for construction permits is one percent of the total building cost as noted in the budget submitted to the DAO.<sup>41</sup> However, construction permits account for only a small portion of the DAO budget, generally under 10 percent. DAO engineers are the primary inspectors of commercial building sites, and the key people who must sign off on the building upon completion.<sup>42</sup> For a commercial construction project in Tanintharyi, the requirements include:

- Cost estimate
- Design
- Form 105 (from the Department of Agricultural Land Management and Statistics)<sup>43</sup>

Interviewees in Ayeyarwaddy noted that the requirements for a construction permit, and the length of time it took to obtain one, varied according to the height of the building. Taller buildings require additional paperwork to apply for the construction permit, and must be approved by higher levels of government. These requirements are detailed in Table 6.

**Table 6. Approval Authorities for Construction Permits, by Building Type<sup>44</sup>**

Type of building	Decision maker	Number of working days	Requirements
1-2 stories	Township DAO office	23 days	Application form, ward administrator recommendation, architectural drawings, budget, licensed engineer approval, and SLRD land ownership record.
3-5 stories	Regional DAO office	33 days	All requirements for 1-2 story building, plus soil test, fire department recommendation, and structural engineer license.
5-8 stories	Regional government	43 days	All requirements for 3-5 story building, plus a structural assessment, licensed contractor signature, and quality assurance test.
9+ stories	Committee for Quality Control of High-Rise Buildings	43+ days	All requirements for 5-8 story building.

Construction permits for projects funded through government tenders have a different oversight process than commercial construction projects. For government projects, inspections are conducted

<sup>38</sup> Interview 039.

<sup>39</sup> Interview 005 with private-sector business, July 7, 2015.

<sup>40</sup> Interview 005.

<sup>41</sup> According to another interviewee, costs are sometimes estimated on the basis of the engineer’s input forecast and a price list created by DAOs.

<sup>42</sup> Interview 005.

<sup>43</sup> List may not be comprehensive. Other sources indicate that fire safety certificates are often required.

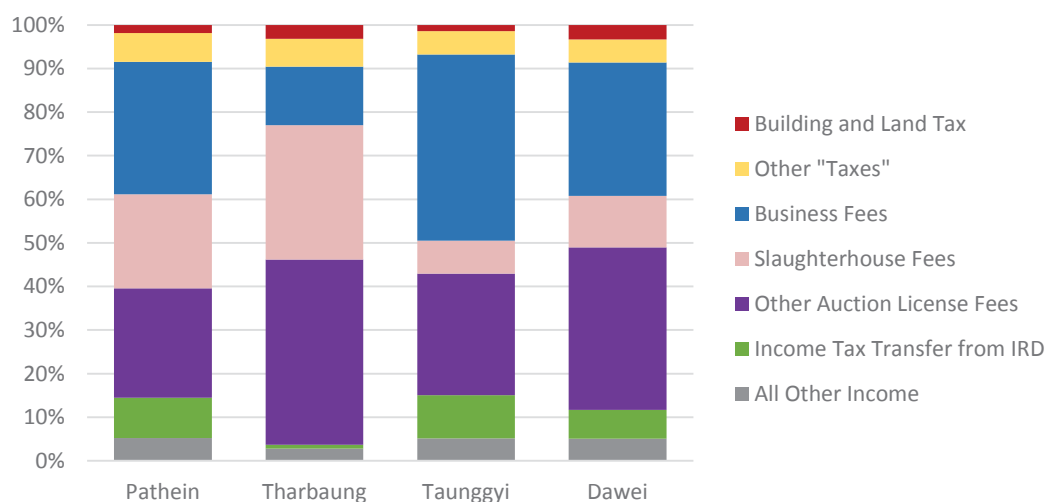
<sup>44</sup> Interview 001 with government, July 6, 2015.

by a group of government officials once 25 percent, 50 percent, 75 percent, and 100 percent of the construction has been completed. The government officials include the township administrator (GAD), director (DAO), an official from the relevant government department (for example, schools would include an official from the Ministry of Education), and an engineer from the Ministry of Construction.<sup>45</sup> Unlike commercial construction projects, the responsible engineer is not from the DAO, but from the Ministry of Construction. While commercial construction permits cost one percent of the total building cost, some regional governments have started making exceptions for public projects. These companies no longer have to pay the one percent supervision fee.<sup>46</sup> One construction company noted that in their S/R, no construction permit was needed for government projects in either urban or rural areas.<sup>47</sup>

### 2.1.3 Revenue

DAOs are unique in that they depend on revenue raised within their township for a significant majority of their funding, and receive no funding from the Union government.<sup>48</sup> Though they raise money through a wide range of taxes, fees, and other sources, the auctioning of licenses in selected sectors is one of the most important sources of DAO revenue in many townships. Among townships visited during the fieldwork, auction licenses accounted for as little as 35 percent of revenue to as much as 70 percent. Non-auction-license fees for businesses, as well as commercial billboard fees, are also significant income sources for many DAOs. In the townships visited, taxes – especially those levied on property – are very low, and revenue from fines and administrative penalties is nearly nonexistent. This is evidenced by the selected budgets of DAOs in Figure 2, which show that “all other income” accounts for no more than five percent of revenue in most of the visited townships. Fines and penalties account for no more than 0.7 percent of revenue in any of those townships. For DAOs, fining and punishing violators is a challenge, because the costs and administrative challenges of enforcement can be significant, often many times the size of the debt or fine. Instead of fining and punishing violators, DAOs are forced to negotiate with them – a poor deterrent to illegal behavior.

Figure 2. Distribution of DAO Income



<sup>45</sup> Interview 005.

<sup>46</sup> Interview 011 with government, July 8, 2015.

<sup>47</sup> Interview 037 with private sector business, July 17, 2015.

<sup>48</sup> Matthew Arnold et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 27. Depending on how the funding from the Union government is defined, there may be one small exception to this, as discussed in the following paragraph.



While DAOs are largely self-funded, they also engage in one or more types of revenue sharing with other parts of government. The first type of revenue sharing is the receipt of five percent of the total income tax raised by the IRD at the township level.<sup>49</sup> For some DAOs, these transfers can contribute a significant portion of their income. In Taunggyi, for example, 10 percent of the DAO's total income came from this transfer.<sup>50</sup> In others, such as Thabaung Township in Ayeyarwaddy Region, the income tax transfer was worth less than one percent of the total revenue. Of the three states and regions in which fieldwork was conducted, the income tax transfer from IRD to DAO was present in all. The second type of revenue sharing is a transfer between DAOs in the same state/region.<sup>51</sup> These intrastate transfers are designed to help cover expenses of DAOs that cannot raise sufficient local revenue.<sup>52</sup> Some DAOs cannot cover staff expenses from locally-raised revenue, leaving no funds for capital investment (a key purpose of DAOs). They receive supplementary funds from the regional office to pay for the operating expenditure and a small amount of capital investment.<sup>53</sup> For example, in FY13-14, Myitta raised 4.36 million kyat locally (US\$3,403), about 51.5 percent of the total budget of 8.47 million kyat (US\$6,612). In Tanintharyi, there are 10 townships, of which eight contribute five percent of their total revenue to a regional fund, which is then redistributed. Two remote townships and six towns do not contribute to the fund, instead receiving transfers from it.<sup>54</sup>

Notably, while DAOs have a largely urban mandate, some retain a selected range of residual responsibilities in rural areas. Under the previous government, the Department of Development Affairs (under the Ministry of Border Affairs) had the mandate for both urban and rural development activities. While the urban responsibilities were moved to the S/R government, the rural responsibilities were shifted to the newly designated Union Ministry of Livestock, Fisheries, and Rural Development.<sup>55</sup> The division of authority for service delivery is clear – DAOs have authority to spend only in urban areas, and DRD has authority to spend only in rural areas. However, DRD's mandate limits it to a spending agency, one which receives a budget allocation from the central government and collects no other revenue.<sup>56</sup> Its only engagement with the private sector is through tendering for public sector projects.

Because DRD has no authority to collect revenues from or issue licenses to businesses, the responsibility for these activities has sometimes remained with DAOs. In one township visited, for example, the township DAO office receives revenue from auction licenses for rural slaughterhouses, ferries, pawnshops, and markets, and oversees the auction process.<sup>57</sup> It also issues business licenses across the whole township, in both urban and rural areas. In another, however, the DAO noted that they did not oversee or collect revenue from auction licenses in rural areas, though they did collect other revenue from rural slaughterhouses. This difference may be the result of a system that is still in flux, and responsibilities may shift in coming years. Interestingly, this is not the only unusual assignment of jurisdictions between government departments. Industrial zones (IZs), which often lie within or near urban areas and are comprised of wards (which DAOs normally oversee), do not fall

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<sup>49</sup> Note that these transfers technically happen between the S/R IRD and the S/R Department for Development Affairs, which then assigns the funds to the respective township DAO. Interview 032 with government, July 16, 2015, and Interview 038 with government, July 20, 2015.

<sup>50</sup> Interview 038. In Taunggyi, the DAO noted that they also received two percent of their revenue from "stamp duties."

<sup>51</sup> During the course of fieldwork, this transfer was only noted in Tanintharyi Region; however, it was also noted in Matthew Arnold et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 27, and was documented in Shan State in that paper.

<sup>52</sup> These DAOs are generally rural, as these areas have fewer businesses, which are the key source of DAO revenue.

<sup>53</sup> Interview 032.

<sup>54</sup> Interview 032.

<sup>55</sup> Matthew Arnold et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 8.

<sup>56</sup> Interview 024 with government, July 13, 2015.

<sup>57</sup> Interview 001.

under the jurisdiction of DAOs, even if they are classified as wards.<sup>58</sup> DAOs do not issue business-operating licenses in IZs, and they have no mandate for service delivery there.

## 2.2 General Administration Department

The General Administration Department (GAD) is the central and most powerful authority at the township level in Myanmar, and one with which citizens have regular interaction.<sup>59</sup> A recent Asia Foundation report on the GAD argued that “townships continue to function around the executive authority of GAD township administrators.”<sup>60</sup> According to the GAD’s stated policy, there are eight principal functions of the department (including a number of important economic functions):

1. Land administration
2. Excise administration
3. Collection of four kinds of tax
4. Structural settlement of villages and towns
5. Rural development
6. Formation and registration of organizations and associations
7. Conferring honorable titles and medals
8. Functions on restriction of transferring the immovable properties<sup>61</sup>

As the central department at the township level, the GAD is also responsible for coordinating weekly township interdepartmental meetings with all other government field offices. The GAD also oversees township population registration data collection/aggregation, and dispute resolution.<sup>62</sup>

Of the key activities stated in the GAD policy, a number are especially relevant to business. The GAD licenses numerous businesses, including those that sell alcohol or selected services, for instance property.<sup>63</sup> The GAD provides recommendation letters that are a prerequisite for obtaining some kinds of licenses and permissions, including land transfers, construction permits, and operating licenses.<sup>64</sup> Because the GAD plays the supervisory role at the township level, it often must give permission before businesses can proceed with their engagement with other authorities.<sup>65</sup> For tax collections, the GAD is responsible for collection of four taxes: land, excise, mineral, and irrigation.<sup>66</sup> Notably, the collection of some of these taxes is implemented by the GAD, though done on behalf of, or in cooperation with, other departments. The land tax, for example, is jointly administered by the GAD and the Department of Agricultural Land Management and Statistics (DALMS) on behalf of S/R governments.<sup>67</sup> DALMS

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<sup>58</sup> Interview 038. Note that this is not true in Yangon and Mandalay, where the YCDC and MCDC have a greater set of powers than other DAOs, including authority over industrial zones.

<sup>59</sup> The functions of the GAD, including but not limited to the economic authorities, have been covered in significant depth in Kyi Pyar Chit Saw and Matthew Arnold, *Administering the State in Myanmar: An Overview of the General Administration Department* (Yangon: The Asia Foundation and Myanmar Development Research Institute-CESD). This report focuses exclusively on the GAD, and provides rich detail about the history, structure, and responsibilities of the GAD at all levels of government.

<sup>60</sup> Kyi Pyar Chit Saw and Matthew Arnold, *Administering the State in Myanmar: An Overview of the General Administration Department*, pg. 32.

<sup>61</sup> Kyi Pyar Chit Saw and Matthew Arnold, *Administering the State in Myanmar: An Overview of the General Administration Department*, pg. 18. Immovable properties refer to land and buildings.

<sup>62</sup> Kyi Pyar Chit Saw and Matthew Arnold, *Administering the State in Myanmar: An Overview of the General Administration Department*, pg. 32.

<sup>63</sup> Note that a business obtaining a license from the GAD does not necessarily mean that it does not also need to obtain a license from the DAO. Restaurants that serve alcohol, for example, must obtain a license from the DAO for the restaurant and a license from the GAD for alcohol sales. The license gives the business permission to engage in a particular economic activity.

<sup>64</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*, pg. 15.

<sup>65</sup> Interview 019 with government, July 10, 2015.

<sup>66</sup> Kyi Pyar Chit Saw and Matthew Arnold, *Administering the State in Myanmar: An Overview of the General Administration Department*, pg. 20.

<sup>67</sup> S/R governments separate tax collection offices, and instead receive revenue to which they are constitutionally entitled through the Union-controlled GAD.

## Economic Governance at the Town Level: The Case of Myitta, Tanintharyi Region

Myitta Town is a rural town (formerly a sub-township) in Tanintharyi Region, located about 1.5 hours east of Dawei towards Thailand. Myitta has a significant Karen population and has some influence from the KNU. Until 2012, fighting occurred between the KNU and the government in Myitta, which has since stopped due to the ceasefire. These political considerations, combined with the lower level of administration (town vs. township), result in a number of notable differences in the functioning of local government. For example, the GAD does not collect excise tax in Myitta, and only started collecting land tax over the past several years. The GAD only taxes farmland and gardens, for which the tax rates are very low. Because the GAD at the town level is headed by a staff officer, some GAD functions such as granting permission letters are instead conducted by the township-level GAD township administrator, whose position is at the assistant-director level. Also, the Myitta GAD office submits budgets and reports to the Dawei Township GAD instead of directly to the district or state/region GAD.

Despite having legal authority to raise revenue through a wide range of taxes and fees, the DAO does not collect a number of types of revenues in Myitta. For example, the DAO does not collect property tax, for fear of increasing animosity with local people. Instead, the Myitta DAO collects only business-license and auction fees. It also provides fewer services, not managing street lighting, granting construction permits, or playing a role in the transfer of urban property. Because Myitta is a very small town in which some taxes are not collected, revenue streams for the DAO are insufficient to even cover the cost of their staff. The Myitta DAO office is dependent on transfers from the regional DAO office, and has a high ratio of operating costs to capital costs – over 80 percent. Table 7 shows the Myitta DAO budget for the last three years, and details the capital investments that were made by the DAO over that time.

**Table 7. Myitta DAO Budget (in Million Kyat)**

	Capital expenditure	Ordinary expenditure	Total expenditure	Capital investments	Ordinary expenditure
FY13-14	1.99	6.48	8.47	2 culverts	Staff, office, and travel costs; city signage
FY14-15	2.74	7.69	10.43	1 box culvert, 6 cement pipes	Staff, office, and travel costs; city signage
FY15-16	1.99	9.76	11.75	1 box culvert, bridge renovation	Staff, office, and travel costs; city signage

prepares the tax bills, which are then given to GAD, which proceeds to distribute them and collect the tax. The GAD also has a role in some land-titling activities. To change the type of land title, for example from a garden to a residential plot, approval must come from the GAD. Similarly, the GAD is responsible for giving land grants and leases.<sup>68</sup> The GAD also sometimes investigates complaints about businesses. For example, in one township, a shop that held an excise license for selling alcohol complained to the GAD about competition from an unlicensed seller. The township-level GAD had to investigate and deal with the complaint.<sup>69</sup> At the township level, these types of dispute resolution functions often fall to the GAD.

### 2.3 Internal Revenue Department

The Internal Revenue Department (IRD), which is part of the Ministry of Finance, is the Union government's most important taxation office, and is generally present at the township level. The IRD is charged with implementing the country's two most lucrative taxes, the commercial and income taxes, as well as collection of stamp duties and a few other various revenues. The commercial tax is a

<sup>68</sup> Interview 022 with private-sector business, July 11, 2015.

<sup>69</sup> Interview 019.

sector-specific tax on turnover, fixed at five percent of total sales for most goods and services.<sup>70</sup> While the cost of intermediate goods is theoretically deductible from the tax for selected businesses, in practice this does not happen at the township level.<sup>71</sup> Because of this, the commercial tax can be hugely burdensome for many businesses and therefore is almost always negotiated at the local level. Township IRD offices gather information on businesses and determine a taxation amount based on observable business characteristics, including the amount of tax paid last year, the size of the business, and the number of employees.<sup>72</sup> The income tax is the other major tax, and is based on a schedule of net income for both individuals and businesses.<sup>73</sup> Because of poor compliance and a relatively high threshold for the income tax, the vast majority of wage earners do not pay any income tax to the IRD. The IRD collects revenue only for the Union government, and does not implement any taxes on behalf of states/regions.<sup>74</sup>

## 2.4 Union-Level Sectoral Ministries

There are a wide range of sectoral ministries that play important roles for Myanmar's private sector. These ministries have a range of structures and authority. Some, like the Department of Forestry and the Department of Fisheries, exemplify the way in which government administration at the township level is shared between the S/R and the Union. Other departments remain under the sole control of the Union government. Among these ministries, there is generally an emphasis on licensing and taxation. The vast majority of government officials, when asked about their "primary engagement" with business, responded by talking about either *licensing* or *taxation*. The converse is that service delivery is often lacking. There is often a mindset among government departments to 'license it and forget it.' Township-level offices of these ministries often play an important role in ensuring compliance with licenses and taxation agreements reached with higher levels of government, at either the S/R or Union level.<sup>75</sup> These township officials often did not collect the revenue directly, but instead ensured that businesses complied with the conditions of their license, such as limits on production.

### 2.4.1 Department of Forestry

The Department of Forestry is one of the most important sectoral ministries at the local level in Myanmar. It falls under the Ministry for Environmental Conservation and Forestry, and is the key administrative body governing Myanmar's forests. The Department has numerous engagements with the private sector, both among primary-sector businesses that harvest timber and other forest products, and among secondary businesses such as sawmills, furniture makers, and shops that buy/sell milled timber.<sup>76</sup> The self-described most important of these engagements is taxation.<sup>77</sup> The Department of Forestry collects the following taxes:

- A tax on hardwoods (to Union government)

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<sup>70</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*, pg. 22. A turnover tax is assessed on the total value of the sale, regardless of the cost of inputs. This can create significant problems for low-margin businesses, for example travel agents, who charge a set fee per transaction regardless of value.

<sup>71</sup> In some sectors, notably garment manufacturing, businesses are able to deduct the cost of imported inputs from their commercial tax bill, but need to obtain specific paperwork documenting the value of their imports and include that with their filings in order to receive the credit.

<sup>72</sup> Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*, pg. 24.

<sup>73</sup> These local-level taxes are discussed in greater detail in Jared Bissinger and Linn Maung, *Subnational Governments and Business in Myanmar*.

<sup>74</sup> Interview 023 with government, July 13, 2015. Though not mentioned by this interviewee, a review of DAO budgets reveals that five percent of the income tax collected in each S/R is transferred from the IRD to the Department of Development Affairs, for distribution to township-level DAOs.

<sup>75</sup> Some licenses in Myanmar are given with specific conditions, and township officials are often tasked with monitoring the licensees. For example, licenses to cut bamboo will stipulate a specific amount of bamboo that can be harvested, and the township forestry officer monitors licensees to ensure they do not exceed the limit. When licensees reach the limit stipulated in their license, they must pay additional fees to increase the limit.

<sup>76</sup> Interview 045 with government, July 22, 2015.

<sup>77</sup> Interview 045.

- A tax on forest products such as bamboo, some softwood trees, etc. (to S/R government)
- A tax on shops that sell furniture made of timber or forest products
- A tax on elephants used in timber production (Depending on elephant height, first registration is 100,000 kyat and annual renewals are 20,000 kyat)<sup>78</sup>

Like a number of other ministries, the Department of Forestry has oversight responsibilities for licensing and taxing from both the S/R and the Union. While teak and hardwoods fall under the jurisdiction of the Union government, other forest products such as bamboo, firewood, soft wood trees, thatch, and bark fall under the S/R government. Obtaining a license to harvest these products only requires approval from the S/R level, not the Union level.<sup>79</sup> Land concessions for these forest products are decided at the same level of government as production licenses (i.e., the S/R level). License fees for many forest products are based on production, but prepaid based on the agreed-upon production amounts specified in the license. For example, if a business applies for and receives a license to cut 300,000 bamboo, they prepay the tax for those and then begin harvesting. Cutting is monitored by Township Forest Department officers. Once the licensee reaches the limit, they are required to either stop cutting or pay additional money.<sup>80</sup> Fees are not collected by inspectors, but instead are paid directly to Myanmar Economic Bank (MEB) before the harvesting begins. These fees go directly to the S/R government.<sup>81</sup> Notably, though the Department implements numerous activities on behalf of the Union government, officers at the township level noted that the Union level would never give instructions directly to the township level. Instead, they would always come through the S/R.<sup>82</sup> While this chain of communication highlights how the S/R-level government is a structural part of the Union system, the autonomy on some types of licensing and taxation highlights the S/R autonomy over selected economic powers.

The Department of Forestry is also responsible for all licensing in the forestry sector. Licensing of concessions is conducted as noted above. The Department also licenses a wide range of businesses that are involved in refining, trading, and selling forest products, such as sawmills. For example, the license for sawmills requires:

- “no objection letter” from neighbors,
- DAO recommendation,
- Department of Health recommendation,
- Fire Department recommendation,
- statement of raw materials consumption plan, and
- Department of Industrial Supervision and Inspection license.

The duration of sawmill licenses is determined by the size of the saw that is to be used in the business.<sup>83</sup> For sawmills with saws under 18 inches, licenses are granted for one year. For sawmills with saws over 18 inches, licenses are granted for five years.<sup>84</sup> According to the Department, licenses cover a set number and size of saws, and sawmills are not permitted to exceed these under their existing license.<sup>85</sup> This licensing structure places a burden on smaller businesses, and limits the flexibility of businesses to respond to changes in the market.

The Department of Forestry was the only department interviewed during the fieldwork whose officials noted that their parent ministry/department had an operational state-owned enterprise (SOE). The

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<sup>78</sup> Interview 045. List is not exhaustive.

<sup>79</sup> Interview 018 with government, July 10, 2015.

<sup>80</sup> Interview 018.

<sup>81</sup> Interview 018.

<sup>82</sup> Interview 018.

<sup>83</sup> There is no commercial or other reason that the license terms should be connected with the size of the saw used at the operation.

<sup>84</sup> Interview 045.

<sup>85</sup> Interview 045.

Myanmar Timber Enterprise was still operational, cutting the wood itself. Notably, the Department's interviewee stated that MTE had two kinds of wood production – S/R level and Union level.<sup>86</sup> Many other SOEs have ceased operations and now function as licensing authorities for private enterprises.

#### 2.4.2 Department of Fisheries

The Department of Fisheries has the responsibility to govern fishery activities, include offshore fishing, inland fishing, and aquaculture businesses such as fishponds. The Department of Fisheries oversees a licensing regime that requires separate permissions and payments for numerous different aspects of the fishing process. This licensing regime is the source of most revenue for the Department, and its administration is the Department's primary responsibility. Licenses issued by the Department include:

- Fishing licenses, which include fees for two components and their subcomponents:
  - Licenses for fishing boats, based on:
    - The amount of fish the boat can carry,
    - The fishing gear used,
    - The boat size;
  - Licenses for carrier boats that transport the fish to shore, based on:
    - The amount of fish the boat can carry,
    - The boat size.<sup>87</sup>

These rates are set by the Union government and are the same in all states and regions.<sup>88</sup>

- Fish-collecting license, which is needed by traders who purchase products directly from fishermen.
- Processing license.
- Fishery farming license.<sup>89</sup>

Much like the Department of Forestry, the Department of Fisheries has the responsibility of implementing on behalf of both the Union and the state/region governments. The S/R has authority over fishing in Myanmar's territorial waters, as well as oversight of inland fisheries. This authority includes:

- Auctions of licenses to raise fish in natural ponds,
- Tenders for fishing rights in inland waterways,
- Fees on freshwater fishing equipment, and
- Licensing of existing artificial fishing ponds.<sup>90</sup>

For these responsibilities, the Department can establish its own rules and regulations for licensing and auctions, which some S/R governments have done.<sup>91</sup> In one S/R, for example, potential licensees must be from that state/region in order to participate in the licensing process. Only one member per household may bid, and all licensees are required to abide by environmental standards.<sup>92</sup> The inland fisheries licenses are not permitted to be subleased; however, a Departmental officer stated that it happens on the ground.<sup>93</sup> This raises the possibility that the licensing system can be used to extract rents, though further research is required to determine if and why this is happening.<sup>94</sup>

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<sup>86</sup> Interview 045.

<sup>87</sup> Interview 030 with government, July 15, 2015.

<sup>88</sup> Interview 030.

<sup>89</sup> Interview 030; this list is not exhaustive.

<sup>90</sup> Interview 019.

<sup>91</sup> This was implemented through the Ayeyarwaddy Freshwater Fisheries Law No. 02/2012.

<sup>92</sup> Interview 019.

<sup>93</sup> Interview 019.

<sup>94</sup> There are numerous possible explanations for this. One is that license fees are too high for smaller potential licensees to pay in a single, advanced lump sum. Given the lack of a financial system to facilitate borrowing, these potential licensees are forced to sublease from others who have the capital to obtain the license.

The budget for the Department of Fisheries is split between the Union and S/R governments. The budget for offshore and other activities that fall under the authority of the Union comes from Nay Pyi Taw, while the budget for fisheries work in coastal and inland areas, which falls under the authority of the state/region government, comes from the S/R.<sup>95</sup> One interviewee noted that the Ministry of Fisheries' income is higher than its expenses.<sup>96</sup>

### 2.4.3 Department of Livestock

The Department of Livestock has a regular presence at the township level, with a greater focus on service delivery than some other departments. Township officials noted that the Department did not run a licensing regime, but did implement a registration system for people who raise animals. Registration rates are low. For example, people who raise anywhere from one to 200 chickens pay the lowest fee of 50 kyat per year (US\$0.04), while people raising 10,000 chickens or more pay 1,000 kyat per year (US\$0.78).<sup>97</sup> Each farm raising chickens also must have a PC-5 form (farm history) and a PC-7 form (registration).<sup>98</sup> The Department also has some oversight functions, for example of the shipment of eggs between different states and regions. In order to ship eggs between states/regions, a business must obtain a PC-3 form and pay a fee of 25 *pya* per egg (US\$0.002).<sup>99</sup> In order to obtain the form, traders must include details about all farms from which the eggs come, including the PC-5 and PC-7 forms of each of those farms.<sup>100</sup> The same system also applies to trade in live chickens. For trade in chicken meat, jurisdiction lies with the Ministry of Commerce. Finally, the Department also operates livestock inspections of animals before and after slaughter. Fees are assessed per animal, at the rate of 35 kyat/cow (US\$0.03), 15 kyat/pig (US\$0.01), and 10 kyat/goat (US\$0.01).<sup>101</sup>

### 2.4.4 Department of Agriculture

While the Department of Agriculture plays an important role in Myanmar's rural economy, it has few responsibilities related to private business. Like many other ministries, though, it does have selective authority over the licensing of some businesses. The Department is responsible for licensing:

- Pesticide sales shops – three-year licenses, with a cost of 10,000 kyat per year (US\$7.81). In Shan State there are currently 344 registered shops.
- Fertilizer sales shops – two-year licenses, 25,000 kyat per year (US\$19.52). In Shan State there are currently 367 registered shops.

The Department also is charged with a range of trade-related responsibilities; however, these are concentrated at ports of entry and exit and not in townships across Myanmar. The Department inspects agricultural imports and exports and collects service fees on these inspections. Rice, for example, is assessed at a fee of 2,000 kyat per ton (US\$1.56).<sup>102</sup>

### 2.4.5 Department of Agricultural Land Management and Statistics

The DALMS is the key government ministry for land registration and management. Its responsibilities include:

- Administering farmland tax by preparing vouchers for tax to be collected and then passing those to GAD, which oversees the tax collection.
- Administering irrigation tax by preparing vouchers for tax to be collected and passing those to the Department of Irrigation and then to the General Administration Department for collection.

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<sup>95</sup> Interview 030.

<sup>96</sup> Interview 019.

<sup>97</sup> Interview 049 with government, July 23, 2015.

<sup>98</sup> Interview 049.

<sup>99</sup> Interview 049. Note that 100 *pya* is equal to 1 *kyat*.

<sup>100</sup> Interview 049.

<sup>101</sup> Interview 049.

<sup>102</sup> Interview 044 with government, July 22, 2015.

- Collecting tax on select types of urban land (including land that is leased from the government – land grants).
- Overseeing and collecting fees for the registration of land purchase/sales in urban areas.<sup>103</sup>

For businesses, the role of DALMS in registering and transferring land and buildings in urban areas is an especially important activity. There are many different types of land-related transactions that DALMS is responsible for, including:

- Changing the name of the landowner.
- Applications for 30-year, 60-year, or 90-year land grants.
- Form 7, for ownership of farm plots, which farmers can use to sell land or as collateral for a loan.
- *La Na 39*, changing the type of land use, without which land cannot be built upon.<sup>104</sup>

Transfers of land are assessed by a board of government officials, called the land appraisal board, which includes:

- Internal Revenue Department
- State Land Records Department
- Department of Planning/Department of Livestock (depending on township)
- Myanmar Police Force
- General Administration Department
- Development Affairs Organization<sup>105</sup>

This board is tasked with determining the value of the land to be transferred. Before the board appraises the land, the buyer submits the contract, including the agreed price. The board can choose to adopt this price, in which case the buyer can proceed by paying the tax and stamp duty.<sup>106</sup> If there is disagreement, then there is generally negotiation between the parties, though determination of the final rate is at the discretion of the board. Private sources indicate that valuations by the board are not always accurate. The government’s official land values sometimes undervalue the land, generally because estimated prices are outdated.<sup>107</sup>

The estimates on the length of time it took to transfer property varied significantly. In some cities, delays came from staffing issues. In one township visited, just four officers from DALMS were responsible for covering 10 wards of a township, leading to delays due to understaffing.<sup>108</sup> In other instances, delays could come from failure to pay bribes. One businessperson interviewed noted that “if you want to change the name on a land ownership certificate, you have to pay pocket money or the process will be delayed.”<sup>109</sup> However, this also worked in reverse. In at least one city, a businessman bemoaned the fact that he could no longer pay bribes to increase the speed of his property transfer. Local government officials had become increasingly afraid of taking bribes, which led to a decrease in their productivity.

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<sup>103</sup> Interview 046 with government, July 22, 2015.

<sup>104</sup> Interview 035 with private-sector business, July 17, 2015.

<sup>105</sup> Interview 016 with government, July 9, 2015, and Interview 022 with private-sector business, July 11, 2015. Note that the structure may vary in other townships, and the list of participating departments given above only reflects those townships visited for this research.

<sup>106</sup> Interview 046.

<sup>107</sup> Interview 020 with private-sector business, July 11, 2015. Numerous businesses in the real estate sector were interviewed. While none mentioned that the under-valuations were the result of corruption, this may result from entrepreneurs not wanting to incriminate themselves. One real estate professional mentioned that valuations were open to negotiation, though did not clarify whether bribery was involved.

<sup>108</sup> Interview 022 with private-sector business, July 11, 2015.

<sup>109</sup> Interview 035 with private-sector business, July 17, 2015.



**Table 8. Property Transfer Process<sup>110</sup>**

Check land plot history – Form 106.	DALMS	
Check current land ownership – Form 105.	DALMS	
Obtain land map.	DALMS	
Proceed with sales agreement for land transfer.		Within 4 months.
Submit contract to appraisal board.	Multiple	
Receive board evaluation and agree on commercial tax owed IRD.	IRD	IRD has a set rate upon which they base commercial tax on both the land plot and the building.
Deposit tax payment at bank.	MEB	
Register contract and obtain new documents.	DALMS	Changing name on Form 105 and updating Form 106.

#### 2.4.6 Department of Highways

The Department of Highways is the key department responsible for Union roads and has a regular presence at the township level. The Department of Highways was formerly part of the Ministry of Construction's Public Works Department; however, this department was divided at the beginning of FY15-16 into four new departments:

- Department of Highways
- Department of Bridges
- Department of Buildings
- Urban and Housing Department<sup>111</sup>

At the township level, the Department of Highways is primarily tasked with helping in road construction and monitoring the implementation of road building and maintenance projects. The primary engagement with business is tendering for construction materials.<sup>112</sup>

The Department also supports the implementation of Union-level highway concessions operated through a build-operate-transfer (BOT) program. The Union-level highway concessions are for thirty years, though despite being called BOT concessions, they often do not require companies to build new roads. Instead, concession holders are only obligated to expand and improve existing roads and do regular maintenance.<sup>113</sup> S/R departments had little role in granting these concessions, which happened through a non-competitive process at the Union level under the previous government, though they do oversee the company's work in their areas.<sup>114</sup> Some S/R departments auction tollgates, for example Tanintharyi Region, which uses a three-step, envelope-bidding system in which businesses compete based on the fee they offer. Finally, the Department also helps oversee billboard licenses along Union highways. Though the licenses can be granted by the S/R level, the revenue goes to the Union level.<sup>115</sup>

The Department of Highways conducts a significant number of tenders for construction materials, though of course it is not the only ministry to do so. Tenders are announced in the newspapers, including the *Global New Light of Myanmar* and the *Mirror*, which are the two largest government-run newspapers. To bid for a tender, companies must submit:

- Company registration,
- Deposit slip (a receipt from Myanma Economic Bank showing a deposit of between 50 and 300 lakh, or between US\$3,903 and US\$23,419),
- Company profile,

<sup>110</sup> Interview 020, Interview 022.

<sup>111</sup> Interview 047 with government, July 22, 2015.

<sup>112</sup> Interview 027 with government, July 14, 2015.

<sup>113</sup> Interview 047.

<sup>114</sup> Interview 047.

<sup>115</sup> Interview 047.

- Detailed structure plan, and
- Estimate.<sup>116</sup>

The winner is selected by a board, which includes:

- Chief Engineer (Ministry of Construction)
- DAO (region level)
- Others

While tenders are issued by many ministries, the chief engineer of the Ministry of Construction is generally the key decision maker for all construction-related tenders.<sup>117</sup> Companies that win tenders are required to deposit a bond of five percent of the total project cost at the MEB. If they do not fulfill the contract, they lose the bond.<sup>118</sup> The chief engineer of the Ministry of Construction also can fine the company if he thinks there are problems with the building, with the funds being deducted from the MEB bond.<sup>119</sup> Some departments keep a bond of 10 percent of the total construction cost for a period of two years after the completion of the building, as a “guarantee” in the event that issues with the building arise after completion.<sup>120</sup> These requirements significantly increase the amount of capital required by businesses that win tenders, thereby driving up the prices of tender offers.

#### **2.4.7 Ministry of Hotels and Tourism**

The Ministry of Hotels and Tourism (MoHT) is responsible for oversight of businesses in the tourism sector, and has a presence at some townships. Like many other ministries, licensing is an important part of the Ministry’s engagement with business. In one office, nearly a third of the staff were wholly focused on implementing the licensing regime.<sup>121</sup> The businesses that receive licenses from MoHT include:

- Hotels and guesthouses. DAOs also can give licenses for guesthouses; however, foreigners are only allowed to stay in accommodations licensed by MoHT.
- Transportation. Vehicles and boats in the tourism industry receive “blue plates” from the MoHT. These vehicles and boats must be affiliated with a registered tourism company, which “takes responsibility” for them. Each vehicle must be affiliated with a tourism company to operate tourist transportation services.<sup>122</sup>
- Tour guides.
- Tourism companies. Companies must first have a license from DICA (company registration), and then apply to MoHT. In order to obtain a MoHT license, the company must also include a letter of explanation about the target market of their business, a company profile, and an office location. Licenses are valid for two years.

One interviewee from a S/R office of the MoHT noted a number of unnecessary requirements for the renewal of the business license. The office stated that the renewal of a license requires the business to provide documentation of business activities, including income and expenses, so that MoHT can “check” whether the company is operational.<sup>123</sup> It is then up to the Ministry to renew (or not renew) the license based on the information collected. This creates significant problems for businesses, because the wide latitude of the MoHT in the license renewal process creates uncertainty that can hinder investment. It also requires the provision of sensitive commercial information to MoHT, which

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<sup>116</sup> Interview 005.

<sup>117</sup> Interview 005.

<sup>118</sup> Interview 005.

<sup>119</sup> Interview 005.

<sup>120</sup> Interview 005.

<sup>121</sup> Interview 043 with government, July 22, 2015.

<sup>122</sup> Interview 043.

<sup>123</sup> Interview 043 with government, July 22, 2015. No specific reason was given for the need to “check” the operations of a company, though it is possible that the government may be attempting to stem money laundering through high turnover businesses such as travel agents.

may create concern among some entrepreneurs. Unnecessary requirements similarly exist for hotels and guesthouses registered with MoHT. For example, these accommodations must ensure that all rooms have an attached bathroom, and single rooms must be at least 100 square feet. Double rooms must be at least 144 square feet.<sup>124</sup>

#### **2.4.8 Directorate of Industrial Supervision and Inspection**

The Directorate of Industrial Supervision and Inspection (DISI), which is part of the Ministry of Industry, conducts inspections and registrations of industrial businesses. Unlike many other government departments, though, DISI does not issue licenses. It only handles registrations. In Taunggyi township, businesses are registered according to three tiers: small (12,000 kyat/year [US\$9.38]), medium (25,000 kyat/year [US\$19.52]), and large (50,000 kyat/year [US\$39.04]).<sup>125</sup> Despite the passage of a new law defining small, medium, and large enterprises, DISI was still using the definition from the 1991 Private Industrial Enterprise Law while it awaited the bylaws from the new SME law.<sup>126</sup> Licenses, which generally come from DAOs or industrial zones, are a prerequisite for registration with DISI for manufacturing businesses.<sup>127</sup> DISI does not cover all industrial businesses, only those subject to the 1990 Private Enterprise Law, meaning that it does not cover military businesses, SOEs, or joint ventures either.<sup>128</sup> DISI also plays a key role in intergovernmental coordination regarding industrial enterprises.<sup>129</sup> DISI is responsible for ensuring that businesses “follow procedures.”<sup>130</sup> DISI exists at the district level, but is not present in every township.<sup>131</sup>

#### **2.4.9 Ministry of Mines**

The Ministry of Mines is a Union-centric ministry, with a local presence generally only at mine locations. The Ministry has a range of engagements with business, including the signing of production-sharing contracts with private companies operating in the sector. Local mining companies pay 30 percent of their revenues to the Ministry, and foreign companies pay 35 percent.<sup>132</sup> The Ministry has no operating responsibilities, and is only responsible for giving permission to the business to operate, and monitoring and supervising the business according to the contract.<sup>133</sup> Businesses must also pay license fees, which depend on the size of the mine and are decided on a case-by-case basis.<sup>134</sup> Fees are determined by a pre-negotiated level of production agreed by the ministry and the company. The company must pay these fees regardless of whether or not production meets these levels.<sup>135</sup> Licenses are short term – generally three years – though larger mines can get longer contracts, while gold mines receive only a one-year contract.<sup>136</sup> The Ministry monitors some mines closely, posting an officer at the mine, who reports back daily to the main office.<sup>137</sup> The Ministry must also endorse exports.<sup>138</sup> Though the Ministry is Union-centric, the S/R can object to a contract between the Union Ministry and a company, which can stop the project.<sup>139</sup> One Ministry official noted that they are considering plans to decentralize more powers, including revenue collection, to S/R offices.<sup>140</sup>

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<sup>124</sup> Interview 043.

<sup>125</sup> Interview 050 with government, July 23, 2015.

<sup>126</sup> Interview 050.

<sup>127</sup> Interview 028 with government, July 14, 2015.

<sup>128</sup> Interview 028.

<sup>129</sup> Interview 028.

<sup>130</sup> Interview 028.

<sup>131</sup> Interview 028.

<sup>132</sup> Interview 034 with government, July 16, 2015.

<sup>133</sup> Interview 034.

<sup>134</sup> Interview 034 with government, July 16, 2015.

<sup>135</sup> Interview 034.

<sup>136</sup> Interview 034.

<sup>137</sup> Interview 034. Note that the Ministry has only state/region offices or field offices, depending on the location of mines.

<sup>138</sup> Interview 034.

<sup>139</sup> Interview 034.

<sup>140</sup> Interview 048 with government, July 22, 2015.

#### **2.4.10 Transport Division of Operator License Supervision and Coordination**

The Transport Division of Operator License Supervision and Coordination, which is part of the Ministry of Rail Transportation, is responsible for licensing commercial vehicles that transport cargo or passengers.<sup>141</sup> This includes local public transportation such as taxis and city buses, as well as intercity transportation including bus and cargo lines. The Transport Division is managed and completely controlled by the Union government.<sup>142</sup> However, licenses are only valid in the S/R in which they are issued, so bus operators that want to pick up or drop off passengers in a different S/R must also obtain the same public transportation license from that state/region.<sup>143</sup> There are a few requirements to obtain a public transportation license, which are:

- Own a vehicle.
- Possess a “brown book” from the Road Administration Department.
- Possess a valid driver’s license or National Registration Card.
- A bus operator must be part of a “line,” or bus company that has permission to operate on a route.<sup>144</sup>

Notably, for operators hoping to start a new bus line, the requirements are somewhat stricter. Potential operators must obtain a letter of recommendation from the Disciplinary Committee for Buses, a committee comprising members of other private bus companies.<sup>145</sup> Though the Transport Division officials noted that these letters were not used to restrict entry into the marketplace, this system presents conflicts of interest that could theoretically create barriers to entry.

#### **2.4.11 Trade Promotion and Consumer Affairs Department**

The Trade Promotion and Consumer Affairs Department is the key part of the Ministry of Commerce at the local level. The Department often has officers at the township level, though sometimes not a proper office. The main function of the Department at the township level is to collect data on commodities such as rice, beans, maize, and sesame. Data collected includes the types of products, their prices, the costs of production, the capacity-utilization rate of processing facilities, and the cost/benefit ratio of different rice varieties.<sup>146</sup> Special emphasis is given to paddy, as this is the top question asked by senior officials and the most important issue for the Department.<sup>147</sup> The Department calculates the amount of rice and paddy at the township level, which township officers noted was the most important function of the Department at the township level.<sup>148</sup>

At the S/R level, the Department tracks the flow of commodities between various states/regions.<sup>149</sup> These efforts are driven by the government’s concern about food security, and fear of a lack of supply of essential commodities.<sup>150</sup> The Department tracks the transportation of rice and paddy into and out of townships, through interviews with farmers, rice traders, and rice mill owners. This research is conducted at least two times per month.<sup>151</sup> Private-sector interviewees noted that there are fewer restrictions on trade than under previous governments. Rice trade is now less cumbersome: under the previous regime, they had to notify the Ministry of Agriculture and Irrigation when they were making a rice shipment, but that is no longer necessary.<sup>152</sup> Similarly, under the previous government, a rice mill needed permission to send rice to other townships or regions, but now they can send it all the

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<sup>141</sup> Interview 029 with government, July 14, 2015.

<sup>142</sup> Interview 029.

<sup>143</sup> Interview 029.

<sup>144</sup> Interview 029.

<sup>145</sup> Interview 029.

<sup>146</sup> Interview 013 with government, July 8, 2015.

<sup>147</sup> Interview 013.

<sup>148</sup> Interview 019.

<sup>149</sup> Interview 013.

<sup>150</sup> Interview 013.

<sup>151</sup> Interview 019.

<sup>152</sup> Interview 021 with private sector, July 11, 2015.

way to Muse, on the border with China, without paperwork (though permission is needed from Mandalay).<sup>153</sup>

## 2.5 Other Important State-Linked Actors

### 2.5.1 Industrial Zones

Industrial zones (IZs) are managed through a lengthy hierarchy of government and business. IZs are ultimately controlled by the government, under the Ministry of Industry's DISI. Each industrial zone under DISI has a supervision committee (IZSC), which supervises the zone, and a management committee (IZMC), which is responsible for its operation.<sup>154</sup> The IZMC consists of representatives from government and the private sector, though prior to 2014 it included only government.<sup>155</sup> Below the IZMC are subcommittees, which could include, but are not limited to:

- Road, Water and Sanitation Subcommittee
- Vehicle Production Subcommittee
- General Industry (SME) Subcommittee
- Farmland Use Machinery Subcommittee<sup>156</sup>

IZMCs are given a number of jurisdictions and responsibilities similar to DAOs. In fact, one IZ visited during the research had a jurisdiction that was classified as wards of the nearby city but did not come under the local DAO.<sup>157</sup> Instead, the IZMC was charged with many of those powers in the industrial zone. The IZMC was responsible for providing water and sanitation in the IZ, as well as overseeing "environmental conservation."<sup>158</sup> It was also responsible for road maintenance in the zone.<sup>159</sup> To set up a business, a recommendation was needed from the IZ to apply to DISI, whose permission is required to operate in the IZ.<sup>160</sup> IZs also issue operating licenses, from which they collect fees.<sup>161</sup> IZs do not receive any money from outside sources, and the IZ visited did not collect fees from land or businesses in the zone itself (unlike Yangon or Mandalay, where businesses pay into a fund managed by the IZMC).<sup>162</sup> This leaves many IZs very short of money. Though it is possible for the IZ to receive a loan for investment, it had not happened according to interviewees at the zone.<sup>163</sup> Also, despite being named "industrial zones," some IZs have decidedly non-industrial activities. At one IZ visited, there is a market, a school, and a range of small shops (restaurants and service businesses).<sup>164</sup> IZs collect money from renting stalls at the IZ market (which they own), as well as for providing water to businesses.<sup>165</sup> Inside the industrial zones, then, IZMCs are largely analogous to DAOs in their roles and responsibilities.

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<sup>153</sup> Interview 021.

<sup>154</sup> Interview 041 with industrial zone, July 21, 2015.

<sup>155</sup> Interview 042 with industrial zone, July 21, 2015.

<sup>156</sup> Structure is representative only and may vary between industrial zones.

<sup>157</sup> Interview 041.

<sup>158</sup> Interview 041.

<sup>159</sup> Interview 041.

<sup>160</sup> Interview 042.

<sup>161</sup> Interview 041.

<sup>162</sup> Interview 041 and Interview 042.

<sup>163</sup> Interview 041.

<sup>164</sup> Interview 041.

<sup>165</sup> Interview 041.

## SECTION THREE: The Structure of Local Revenues

The governance of economic activity at the S/R and township level in Myanmar is often characterized by a “fee for permission” structure, requiring advance payments to obtain the permission to engage in economic activity. This can have unintended negative consequences, including contributing to a regressive or distorted revenue base. While there are a few broad-based subnational taxes such as the land tax and building tax, direct taxation accounts for only a small percentage of local revenues. Fees and indirect taxes form the bulk of the revenue. This section examines the taxes and fees paid by businesses and individuals at the local level. It finds strong though anecdotal evidence that the revenue base for many local economic governance actors is regressive and collected from a broad base.<sup>166</sup> This should raise cautionary flags for international organizations such as the IMF that advocate broadening the tax base (e.g., the commercial and income tax) in Myanmar.<sup>167</sup> Before such policies are advanced, there should be a thorough assessment of the true burden of taxes and fees that looks beyond that created by the commercial and income taxes alone.

While taxes and fees are often linked and regularly conflated in their use by the Myanmar government, they are fundamentally different concepts. It is essential to disaggregate “taxes and fees” so as to make this joint usage more than simply a synonym for “revenue.” Unlike fees, taxes are generally not voluntary or directly linked to a service. They are often distinguished by three characteristics: “(1) A user fee is designed to defray the costs of a regulatory activity (or government service), while a tax is designed to raise general revenue; (2) a true user fee must be proportionate to the necessary costs of the service, whereas a tax may not be; and (3) a user fee is voluntary, whereas a tax is not.”<sup>168</sup> This distinction is important in Myanmar because, especially at the local level, significant revenue is raised through “fees.” Despite the name, though, some fees are taxes in disguise, used for raising general revenue. Examples of these types of fees include auction-license fees, which are best described as indirect taxes, and the garbage tax, which has characteristics of both a tax and a fee. Together, fees and indirect taxes contribute to a revenue collection system which has distortions that impose arbitrary and unequal burdens on similar members of society, and contribute to a regressive revenue structure. By making barriers to participation in the economy high, they discourage economic activity and limit the range of actors that can participate in these activities.

### 3.1 Fees and the Cost of Service Provision

Fees are common at the local level, and though often voluntary, many of them bear little resemblance to the cost of the service provided. Instead, fees are often used as general revenue-raising mechanisms. Two facts demonstrate the disconnect between the cost of issuing a license and the revenue collected from it. First, because licensing procedures do not vary significantly between businesses of different sizes, there should not be a significant difference in the cost of a license for small and large businesses. However, data from DAOs (as noted in Table 9) shows that there is a significant difference in these costs. For example, Patheingyi alone had a range of costs from 400 to 100,000 kyat for restaurants of different sizes.<sup>169</sup> The second disconnect is the variation between townships. Given that DAOs share the same salary structure and often have similar numbers of personnel, the costs of administering the system of business licenses should be relatively consistent between townships. However, the same table from Ayeyarwaddy shows that cost of these licenses varies significantly between townships – from 64 kyat for the smallest restaurant license in one

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<sup>166</sup> A broad revenue base means that a significant percentage of the population pays revenue in some form, while a regressive revenue base is one in which the *percentage* of income paid decreases as the total income increases. It is important to clarify that this refers not to the total amount paid by a taxpayer, but instead the percentage of total income paid. In contrast, a progressive revenue base is one in which the *percentage* of income paid increases as total income increases.

<sup>167</sup> IMF Article IV report, 2014, pg. 8.

<sup>168</sup> Michigan Supreme Court, quoted in Foundation for Economic Education, “A tax is not a user fee,” <http://fee.org/freeman/a-tax-is-not-a-user-fee/>.

<sup>169</sup> Note that size does not mean turnover, but rather the physical size of the business.

township to 972 kyat in another. The cost of some dangerous-business licenses can be considerable as well, up to 300,000 kyat in some townships. Together, this suggests that the cost of a license may not be directly related to the DAO's cost of issuing the license, but instead is likely a source of more general revenue.<sup>170</sup>

**Table 9. Cost of DAO-Issued Business Licenses in Selected Townships in Ayeyarwaddy Region**

Township	Restaurants		Dangerous business	
	Lowest	Highest	Lowest	Highest
A	400	100,000	6,000	25,000
B	280	18,000	8,000	100,000
C	540	32,400	8,000	300,000
D	600	32,000	11,000	300,000
E	64	19,800	6,000	45,000
F	750	750	5,000	10,000

There are some revenue streams referred to as taxes that also have some characteristics of a fee, for example the street lighting tax and the garbage collection tax; however, they are not voluntary and are not directly proportionate to the cost of the service. In many cities, the garbage tax is set at a percentage of the “fair rental value” of the building – in Dawei and Myaung Mya, for example, the tax is valued at 10 percent of the fair rental value of the building.<sup>171</sup> In Myaung Mya, the street lighting tax was an additional seven percent of the “standard rental rate.” These taxes, however, constitute only a very small percentage of the budgets of almost all DAOs.

### 3.2 Taxes

While authorities at the local level have a wide range of revenue sources, only a few fit the definition of a tax. The two most common are the land tax and the building tax, both of which are important revenue sources for local governments around the world. Both of these taxes are low in Myanmar, and account for only a small portion of the revenue collected at the local level. They both also have key shortcomings in their current design and/or implementation.

#### 3.2.1 Land Tax

Taxes on land in Myanmar are generally low, largely because they have a strong political element. Two separate interviewees noted that the tax was immensely political, with one noting the pushback from farmers that raising the land tax would create, and the other stating that even the president does not want to increase the land tax.<sup>172</sup> In the new Constitution, land taxes were decentralized to the authority of the S/R governments. Through FY12-13, land taxes generally remained low. That year, only 144.69 million kyat were collect, or about 2.8 kyat per person. There was a significant increase in land taxes in many states and regions in FY13-14, and land taxes increased to 13.95 billion kyat in FY13-14.<sup>173</sup> On a per capita basis, land taxes raised 271 kyat per person that fiscal year.

Some states/regions did not raise land taxes, instead continuing to implement land taxes that are incredibly low. In one township visited, land tax rates in FY14-15 were:

- First class land (R1): 4.75 kyat/acre
- Second class land (R2): 2.75 kyat/acre
- Third class land (R3): 1.25 kyat/acre<sup>174</sup>

<sup>170</sup> While it is possible that business licenses for dangerous goods are charged at comparatively higher fees to offset monitoring costs or other externalities, there is not sufficient evidence to determine whether this is or is not the case.

<sup>171</sup> Interview 026 with government, July 14, 2015. Note that these various taxes are often bundled together with the “building tax” and collected together.

<sup>172</sup> Interview 016, Interview 019.

<sup>173</sup> Arnold, Matthew et al., *Municipal Governance in Myanmar: An Overview of Development Affairs Organizations*, pg. 29.

<sup>174</sup> Interview 016. Note that these rates were provided by the interviewee, but may only apply to agricultural land. It is possible that other land tax rates also exist in the same township.

Rates are so low that currency notes or coins do not exist in denominations small enough to pay the vast majority of land tax bills. Further, *the costs of collection for the GAD, and the administrative costs for the DALMS, are far greater in some townships than the actual revenue collected through the tax, making its implementation as a revenue-raising exercise questionable.*

Though the land tax is mired in political considerations and opposed by many, both in Myanmar and internationally, it has the potential to play a part in a more progressive, transparent tax collection system while at the same time improving economic incentives. Unlike commercial and income taxes, which depend on confidential information about individual or business finances, the land tax is verifiable, because land ownership is generally known within the community. It is more difficult to misstate your landholdings than your business sales or profits.<sup>175</sup> At the same time, a higher land tax increases the costs of holding land, a valuable factor in production, without doing anything with it. The challenge of raising the land tax, of course, is the political element – the perception that raising land taxes hurts the poor and farmers. This political element is important. A technical solution is straightforward – changes in the land tax should include a minimum, with farmland under a certain number of acres being exempt from tax. However, communication and consultation are essential in any revision of a politically sensitive revenue source such as the land tax.

### **3.2.2 Property Tax**

Property tax is also a major source of revenue for local governments worldwide, yet it is only a small source of funds for local governments in Myanmar. Property taxes are collected by DAOs, who retain the revenue for spending. “Property tax” is often used as a general term for a group of four taxes related to property – a building tax, which closely resembles what is commonly known as a property tax; a garbage tax; a water supply tax; and a street lighting tax (where applicable).

Though building taxes can vary state by state, depending on legislation by the S/R parliaments, it was fixed at 10 percent of the “standard rental rate” in all townships visited. The fee is prescribed in the S/R DAO law, and change would therefore require approval by state/region parliaments.<sup>176</sup> Using the rental rate is a somewhat unusual means of calculating the tax, and civil servants noted that it was a system that originated in colonial times.<sup>177</sup> It can be difficult to obtain a standard rental rate on certain types of buildings for which little rental market exists (expensive houses, hotels, etc.). Some DAO officials interviewed noted that building-tax estimates of rental values are far lower than market values.<sup>178</sup>

Despite legislation mandating that the tax be set at 10 percent of the “standard” rental rate, some DAOs have classified properties into categories and set a minimum and maximum rate for each category. This inadvertently results in a cap on the amount of building tax for which one can be liable. Notably, the maximum amounts were relatively low – in one township visited, the largest building pays 300,000 kyat per year for the building tax.<sup>179</sup> This maximum rate is not legislated in S/R law, and instead comes only from implementation regulations (see Appendix 2 for a sample rate table).

While the theoretical benefits of increasing the building tax and changing its structure are clear, there are also numerous challenges to its implementation. Many civil servants interviewed noted that it would be difficult to raise this tax. According to one interviewee, “it’s a political issue” that could “cause public unrest.”<sup>180</sup> The interviewee attributed this to the legacy of previous governments. Enforcing the existing property tax, or any increases in that tax, could present a problem. In one township, the DAO noted that collecting property tax was its “biggest challenge.” They noted that they

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<sup>175</sup> Note that it is common for land to be transferred informally, with neither buyer nor seller reporting the transfer to the government, in a bid to avoid the tax on land transfers. This would complicate efforts to collect higher land taxes.

<sup>176</sup> Interview 011 with government, July 8, 2015.

<sup>177</sup> Interview 011.

<sup>178</sup> Interview 026.

<sup>179</sup> Interview 026.

<sup>180</sup> Interview 001.



sometimes had to go three or four times to collect the tax, and noncompliance was common. Because of the cumbersome enforcement system, the DAO noted that they sometimes paid the building tax on behalf of non-payers to avoid the hassle.<sup>181</sup> Others thought that it would not be possible to increase the building tax, because some people might not have the money to pay it – they are comparatively asset rich, but lack cash.<sup>182</sup>

Noncompliance is a significant problem for the building tax. DAOs noted that people think that they should not have to pay tax on something that they already own.<sup>183</sup> One civil servant said that if they tried to increase the building tax, people would ignore it.<sup>184</sup> Noncompliance is driven by the challenges of enforcement. Officials noted that they did not have much enforcement authority: if people do not pay, they cannot do anything.<sup>185</sup> This is because the DAO, which collects property tax, must depend on other government departments for enforcement, meaning that interdepartmental cooperation is essential. They also noted that even with other departments helping, the courts remain inefficient and a poor way to resolve disputes.<sup>186</sup> DAOs do have an existing enforcement strategy. When property taxes are not paid, the township DAO's executive officer reports non-payment to the regional DAO office, which gives the township office "collector power," akin to a warrant, to take control of and auction off the property to recover the debt. Although this enforcement strategy exists, these steps had not been taken by any of the DAOs included in this research.<sup>187</sup>

The challenges of implementation and enforcement are amplified by the lack of incentives for building owners to pay on time. For example, in many townships, DAO officers noted that they did not charge any penalties or interest for late payment of property taxes.<sup>188</sup> This discourages timely payment, and effectively constitutes an interest-free loan by government to delinquent taxpayers. DAOs noted that they had the authority to charge penalty fees and interest on late payments.<sup>189</sup> However, this change would need to be accepted by the S/R Department of Development Affairs and the S/R cabinet.<sup>190</sup> The failure of individuals to pay property taxes on time creates numerous problems for DAOs, including additional work for field officers to make multiple collection visits, and greater unpredictability of revenue.

Other interviewees thought that it was possible to increase the building tax.<sup>191</sup> In one township, the DAO recently did exactly that, without significant challenge. An industry source, working as a property broker, noted that the building tax was "small" and that an increase would not have a significant effect on the property market.<sup>192</sup> However, the income and commercial taxes on property transactions do affect the market, according to one property broker.<sup>193</sup>

### **3.2.3 Indirect Taxes**

Myanmar has a number of fees that function as indirect taxes. A common example of this is auction licenses, which are described in detail in the next section. These licenses require large payments by businesses that are not proportionate to the cost to the government of issuing the license (demonstrated by the variable prices, determined at auction). Although businesses recoup these

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<sup>181</sup> Interview 017 with government, July 10, 2015.

<sup>182</sup> Interview 020.

<sup>183</sup> Interview 017.

<sup>184</sup> Interview 017.

<sup>185</sup> Interview 001.

<sup>186</sup> Interview 025 with government, July 14, 2015.

<sup>187</sup> Interview 011.

<sup>188</sup> Interview 015, and Interview 025 with government, July 14, 2015.

<sup>189</sup> Interview 015 and Interview 025.

<sup>190</sup> Interview 015.

<sup>191</sup> Interview 019.

<sup>192</sup> Interview 020 and Interview 022.

<sup>193</sup> Interview 020.

license fees from their customers, the effect is to create an indirect tax through this auction-license system.

### **3.3 Other Issues in the Local Revenue System**

The prevalence of fees and the lack of significant broad-based taxes that are linked to either wealth or income have left Myanmar with a local revenue system that is distorted and regressive.<sup>194</sup> However, these are not the only issues with revenue collection at the local level. There are a number of other problematic characteristics of the local revenue system that either worsen these problems or create others, such as unpredictability and arbitrary taxation.

#### **3.3.1 Concentration of Income Tax Contributions in Urban Areas**

DAOs receive a portion of their revenue via transfer from the IRD. This is administered at the regional level, as the S/R IRD transfers five percent of total income tax receipts to the S/R DAO. However, an analysis of the budgets shows that it is likely that the transfer received by each township DAO equals the income tax share from that township (i.e., there is no redistribution at the S/R level). This system has the unintended shortcoming of recycling tax dollars into the development of S/R capital cities, which are generally among the most well-off cities in each S/R. This is largely due to the fact that income tax compliance in Myanmar is poor. In all of Tanintharyi Region, for example, there were 17,000 income tax payers out of a total population of 1.41 million. Just 1.21% of the population of the whole region paid income tax.<sup>195</sup> Of those that paid, many are civil servants, as they are one of the few groups for which the government has a reliable mechanism to collect income tax. Of course, there is a concentration of civil servants in state and region capitals, as they are the administrative centers. The end result is a system in which income tax revenue, collected largely from civil servants, whose salaries are funded by the Union government, gets recycled back into the development of cities with large numbers of civil servants, instead of being distributed more equitably across the S/R.

#### **3.3.2 Rural-to-Urban Transfers in DAO Revenue**

Recent government restructuring has led to a redistribution of authority between different ministries, resulting in unintended rural-to-urban transfers through DAOs. At present, DAOs retain the authority to issue business licenses (and therefore raise revenue) for both urban and rural areas. They also oversee and retain the revenue from auction licenses in both urban and rural areas. These fees and indirect taxes constitute a significant part of the DAOs' funding. However, the Department for Rural Development has taken over a number of the DAOs' former rural responsibilities, including construction and maintenance of secondary rural roads, small rural bridges, and water supply in rural areas. The funds for DRD come from the Union budget, and the Department does not collect taxes on rural populations. The continued collection of revenues from rural businesses and individuals flows to an organization (the DAO) that has no mandate to spend those revenues on the people from whom they were raised. Therefore, they constitute a transfer from the (generally poorer) rural areas to the (generally richer) urban areas, though one that is possibly temporary in nature.<sup>196</sup>

#### **3.3.3 Implementation Challenges with the Commercial and Income Taxes**

Commercial and income taxes are the most important taxes in Myanmar by a significant margin, and the vast majority of these are collected through township IRD offices. Interviews suggest that the implementation of these taxes can regularly be incorrect, arbitrary, or unaccountable. These problems, however, are not simply attributable to corruption or a lack of capacity in government, but

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<sup>194</sup> When a revenue system is distorted, the payers of taxes and fees are not well aligned with the beneficiaries of the spending funded by those taxes and fees. In many tax systems, there is an element of redistribution from wealthier to poorer; however, distorted systems are characterized by arbitrary and often unintended redistributions.

<sup>195</sup> Interview 023 with government, July 13, 2015; and Myanmar Census data, available at: <http://countryoffice.unfpa.org/myanmar/census>.

<sup>196</sup> Interview 017. According to the interviewee, the organization had a mandate to spend on rural roads and bridges through FY14-15.

instead are closely tied to the longstanding distrust between business and the state for the last half century. During Myanmar's socialist era, from 1962 until 1988, many types of businesses were not legal – people had to hide their economic activity for fear of arrest or worse. During the military era, many types of businesses remained illegal, though other sectors were liberalized and opened to private participation. However, taxation, licensing, and other aspects of business-government engagement were arbitrary and often perceived by businesses as unfair. At the same time, the state lacked legitimacy among the private sector. Businesses often did not perceive that taxes translated into goods and services that helped the private sector, but instead thought taxes were used to keep the oppressive state apparatus functioning.

Because of this history, government officials at the township level often use their own judgment when assessing taxes. Tax officers note that businesses are not truthful about their taxes. They note that the “tax culture” is low in Myanmar, and compliance is poor.<sup>197</sup> To circumvent this, officials use various methods to attempt to estimate tax due. For example, if the tax officer wants to determine income, an assistant revenue officer/site inspector will go check the business. During these visits, the officer attempts to observe “income and turnover.” For example, if the business is a hotel, the revenue officer will look at room types and vacancy rates to determine income.<sup>198</sup> They also attempt to assess expenses through “rules of thumb.” For example, for a shop, if the selling price is 100 kyat, they assume 85 kyat input cost, five kyat transportation cost, and 10 kyat profit.<sup>199</sup> For businesses without good records, officials simply collect evidence and “make a judgement call”.<sup>200</sup> The end result is that, even though the IRD purports to use a “self-assessment system,” IRD officials can override the self-assessment. The final decisions on tax payable are made by the IRD.<sup>201</sup> This type of system has significant room for negotiation. For example, fish vendors at one market reported paying an unspecified “tax” to the IRD. The vendors readily admitted that “no one tells the truth” when asked about their sales. Despite this, they thought that their tax was too high and negotiated a new tax rate with the IRD based on the shop size. For one interviewee, the tax fell from 100,000 kyat to 40,000 kyat, though it remained completely disconnected from either net income or turnover.<sup>202</sup>

#### **3.3.4 Stamp Duties**

Stamp duties are a common source of revenue for the IRD, and official stamps are required for legal certification of a wide range of documents.<sup>203</sup> Much like the taxes noted above, the final price of stamps needed for some items, such as contracts, is administratively determined by the board, which is headed by the township IRD officer. The value of the contract does not matter, but instead depends solely on the board's assessed value.<sup>204</sup> This is driven by the pervasive forgery of contracts at the local level in Myanmar.

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<sup>197</sup> Interview 031 with government, July 15, 2015.

<sup>198</sup> Interview 023.

<sup>199</sup> Interview 031.

<sup>200</sup> Interview 031.

<sup>201</sup> Interview 031.

<sup>202</sup> Interview 036 with private sector business, July 17, 2015.

<sup>203</sup> Interview 031.

<sup>204</sup> Interview 031.

## SECTION FOUR: Auction Licenses

Auction licenses are a key source of revenue for many parts of government at both the Union and the S/R level, including but not limited to the Department of Forestry, the Department of Fisheries, and DAOs. Auction licenses are operating licenses awarded to businesses by auction, generally on an annual basis, in selected economic sectors. This licensing system was integral to local economic governance during the SLORC/SPDC period, and has continued in many areas under the new government. At present, many states and regions use legislation to create monopolies and oligopolies. They then license out these monopolies through auction licenses, which enables the government to extract part of the subsequent rent. Some of the licenses function as indirect taxes on consumers or suppliers. License holders can extract monopolistic rents at the expense of consumers and suppliers, who bear the burden of the indirect tax. Some auction licenses, for example DAO slaughterhouse licenses, include arbitrary government-set limits on the prices that licensees can charge.<sup>205</sup> The system removes market characteristics from the sectors involved, and creates a largely planned system. This runs the risk of creating inefficiencies, significant disincentives for investment, poor or nonexistent markets and price signals, and private sector rents. However, many government officials interviewed were cognizant of the issues in this system. Some had already embarked on reforms, while others were anxious to do so. It is in these auction licenses that the decentralization of authority to S/R governments has led to an important development rarely seen in local economic governance in Myanmar: local-level experimentation by township and S/R officials. The local-level experimentation with the auction-license system that is already underway foreshadows the immense opportunity for positive reform in these areas, and a chance for the Myanmar government to bolster the local economy.

Though the use of auction licenses is common for many ministries in Myanmar, this section highlights their use by DAOs. DAOs issue auction licenses for many different types of businesses, most of which were originally placed under the authority of municipal governments in the colonial-era Municipal Law of 1898.<sup>206</sup> While the sectors in which oversight authority has been exercised have stayed largely the same over time, the way in which that authority has been exercised has changed significantly. At present, DAOs issue auction licenses for a range of activities, as noted in Table 10.

**Table 10. Auctioned DAO Operating Licenses**

Slaughterhouse
Ferry Service
Pawnshop
Vehicle and Truck Wheel Tax Collection
Bus Terminal Entrance and Guard
Jetty
Market Fee Collection
Park, Swimming Pool Entrance Fee Collection
Public Toilet and Bathroom Fee Collection
Cattle Market

### 4.1 The Auction Process

While the auction-license system is common across Myanmar, the auction process varies between states/regions because final oversight of DAOs lies with S/R governments. In many of the townships visited during fieldwork, auctions are announced publicly and open to bids from anyone, though

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<sup>205</sup> Government-set prices are not uncommon; however, the price levels set in Myanmar appear to be based more on the consumer's ability to pay than detailed research of the sector.

<sup>206</sup> See The Municipal Law, 1898.

winner must be in compliance with the rules and regulations for the license.<sup>207</sup> Some township auction licenses have floor prices, set by the local DAO, which are announced prior to the auction.<sup>208</sup> To enter a bid, businesses complete a form with a secret bid and submit it in a closed envelope to the auction committee, which is comprised of TDAC and DAO staff.<sup>209</sup> Bids are opened at a public meeting and the winner announced. The winner is then required to put down a deposit on the licenses on the day of auction. In some townships, businesses that receive auction licenses with a cost of greater than 500,000 kyat may pay in installments, though licenses under this amount must be paid up-front.<sup>210</sup> In some areas, there is significant competition for auction licenses. In others, there is rarely competition for auction licenses. In one township, out of 16 ferry concessions auctioned for FY15-16, only two had more than one bid.<sup>211</sup> Most of these ferry concessions were in rural areas and had low license fees.<sup>212</sup> The DAO officer noted that these small, rural ferries were not perceived as a good business – the estimated net profit per day was 5,000 to 6,000 kyat.<sup>213</sup>

Auction licenses are all described, in detail, in township-level DAO bylaws, and contain a number of noteworthy and useful conditions. Amongst these bylaws are specific provisions requiring many license winners to list prices on vinyl posted in the shops, and include the phone number for the Township Development Affairs Committee. If a customer has a complaint about the business, they are encouraged to call the posted phone number and report their concerns directly to the TDAC. In Patheingyi, this system led to changes in the rules for local ferry service. Through FY14-15, one ferry service in Patheingyi noted that they were permitted to charge double for nighttime service. These “nighttime” operations were defined as going from 6 p.m. to 6 a.m. However, this produced complaints to the DAO office, which adjusted the definition of “nighttime” in FY15-16 license to 7 p.m. to 6 a.m.<sup>214</sup> This type of accountability is rare in Myanmar, yet an excellent case study of an important accountability mechanism.

## 4.2 Slaughterhouse Licenses

Slaughterhouse license are one of the most important and lucrative auction licenses overseen by DAOs. In some townships, they account for a significant portion of revenue (up to 50 percent in some townships).<sup>215</sup> However, some of the very characteristics of the slaughterhouse auction-license system that make them valuable to DAOs are also key shortcomings of the system. The value of these licenses often comes from the administrative restrictions that accompany them, restrictions that often create artificial monopolies with state-mandated prices. This generates rents that are shared between the DAO and the licensee, which should theoretically lead to a reduction in farm-gate prices for livestock and an increase in retail prices for meat. These consequences have been noticed by many local policymakers, some of whom have begun changing the auction-license system because of the perception that it harms the public interest. In the six townships visited for this fieldwork, four different slaughterhouse licensing systems were in use. It is an exceptional and rare case study in post-reform, local-level policy experimentation.

Among the fieldwork sites visited, the slaughterhouse license system in Ayeyarwaddy most closely resembles the system from the previous regime. Licensees are awarded not just the right to slaughter beef, pork, or mutton, but also the exclusive rights to a pre-defined geographical territory in which only the licensee can wholesale meat (others can resell, but must buy from the licensee).<sup>216</sup> Within

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<sup>207</sup> Interview 001.

<sup>208</sup> Interestingly, though floor prices are given, some final auction-license prices were below the floor, because no bids were received at or above the floor price.

<sup>209</sup> Interview 001, Interview 015 with government, July 9, 2015, and Interview 017.

<sup>210</sup> Interview 001.

<sup>211</sup> Interview 017.

<sup>212</sup> Interview 017.

<sup>213</sup> Interview 017.

<sup>214</sup> Interview 012 with private sector business, July 8, 2015.

<sup>215</sup> Interview 025 with government, July 14, 2015.

<sup>216</sup> Interview 001.

these territories, meat must be sold in specific predefined areas, as the example from Pathein Township in Table 11 shows.<sup>217</sup> These geographic restrictions effectively give licensees artificial monopolies. In order to prevent monopoly pricing, DAOs in Ayeyarwaddy set the prices at which licensees can sell meat.<sup>218</sup> There are specific restrictions in DAO bylaws that expressly prohibit license holders from one township from selling meat in another.<sup>219</sup> These restrictions on moving slaughtered meat between townships mean that consumers in one township cannot benefit from lower prices in nearby townships. Some DAO bylaws also prescribe the number of animals to be slaughtered in a day. For example, the city market pig license calls for 15 animals to be slaughtered per day, while the goat and beef licenses call for seven animals.<sup>220</sup>

In Ayeyarwaddy Region, meat prices have increased on an annual basis over the last few years, at a rate of 10 percent per year. This rate of increase is determined by the DAOs and does not reflect market signals. However, it has also been recognized by DAOs as a key problem with the system, as they see the negative consequences of annual price increases. The administratively set prices vary from township to township, with the key consideration generally being local income levels and not market considerations. Fixed prices of mutton, beef, and pork are also enforced by DAOs, which post signs at each selling station with a contact number that consumers can call to file complaints if meats are not sold at the listed price.<sup>221</sup> DAOs do provide some enforcement related to meat slaughtering, namely conducting slaughterhouse inspections and ensuring that the slaughtering does not occur near residential areas.<sup>222</sup> Though the bylaws spell out a number of conditions for license holders, including provisions regarding mosquito and fly protection to prevent insects from resting on the meat, market visits evidenced the need for improved enforcement.<sup>223</sup> DAOs also supervise the transportation of meat.<sup>224</sup> Furthermore, DAO bylaws call for the submission of biographies, registration data, household lists, and police recommendations for each slaughterhouse manager, staff person, sales clerk, or related laborer.<sup>225</sup>

**Table 11. DAO-Prescribed Meat-Selling Locations, According to DAO Bylaws for Pathein Township for FY15-16**

Licensee	DAO-prescribed selling locations
All city market slaughterhouse license holders	All meat-selling stalls, as designated by the committee, in all the markets in Pathein (Myoma market, Myothit market, Aungthiri market, Aung Ayeyar market, Nagwon Kyanthar market, Shwewahton market, Padauk Chang market, Ayarwin market, Ayermin market, Strand market, Kyunchan market).
Wayachaung pig license	Wayachaung Village market, edge of Wayachaung Village.
Shawpyar pig license	Shawpyar market/U Kyi Soe Company at the edge of Shawpyar Village.
Shawpyar beef license	Shawpyar market, in front of the police station, in the middle of the village.
Kyi Tha pig license	Kyi Tha Village market, Kyi Tha Village.
Kyat Pang pig license	Kyat Pang Village market, Kyat Pang Village.
Kyat Pang beef license	Kyat Pang Village market, Kyat Pang Village.
Zin Pyon Kon beef license	Zin Pyon Kon market, Zin Pyon Kon Village.
Ywa Haung pig license	Ywa Haunggyi Village market, Ywa Haunggyi Village.

<sup>217</sup> Interview 003 with private-sector business, July 7, 2015, and Interview 017. There are also meat resellers in these areas who purchase meat from the licensee and then resell it at another location. However, they must purchase the meat from the licensee at the fixed rate, meaning that they cannot compete on price or quality. Instead, they can resell only by finding a more convenient location, at which people are willing to pay a premium.

<sup>218</sup> Interview 001 and Interview 017.

<sup>219</sup> Selected DAO Bylaws, pg. 4, no. 12.

<sup>220</sup> Selected DAO Bylaws, pg. 2, no. 2.

<sup>221</sup> Interview 002 with private-sector business, July 7, 2015.

<sup>222</sup> Interview 015.

<sup>223</sup> Selected DAO Bylaws, pg. 4, no. 14.

<sup>224</sup> Interview 015.

<sup>225</sup> Selected DAO Bylaws, pg. 5, no. 18.

The auction-license system faces a number of problems, some of which certain DAOs are already addressing, and others of which are not yet being addressed. First, administratively dictated annual price increases artificially create inflation at a rate not linked with the inflation rate of the economy more broadly. Secondly, the license restrictions create artificial monopolies that prevent competition and allow businesses to capture economic rents. These rents are partially, though not fully, captured by the government through payment of license auction fees. The monopolistic licenses segment the market, and discourage businesses from increasing the scale of their operations and reaping improved efficiencies from economies of scale. Restrictions on trading between townships further segment markets, and prohibit goods from moving from areas of low price to areas of high price. Another potential problem created by the system is that it likely lowers the prices of live animals, because it removes competition from the marketplace for live animals. The licenses also contain a clause that sellers must have “good character” and “deal well with purchasers.”<sup>226</sup> Those deemed not having met this standard could have their licenses revoked, a source of uncertainty for licensees because of the vague nature of the clause. Fundamentally, the license system removes many market-related characteristics from the sale of pork, beef, and mutton, instead closely resembling a government-planned system. It removes price signals that help communicate to producers what to raise, consumers what to buy, and entrepreneurs where to send meat.

While some slaughterhouse license systems are largely unchanged from the previous regime, others evidence the reforms undertaken by local-level policymakers to try to address the shortcomings of this licensing system. In Taunggyi Township, for example, auction licenses were abolished at the end of FY13-14 at the behest of a local MP, who complained that meat prices were too high.<sup>227</sup> License holders are now subject to two fees paid to the DAO: (1) five percent of meat sales price, and (2) a fee per animal.<sup>228</sup> Given the implementation challenges of calculating exact numbers of animals slaughtered, the DAO uses an estimate instead.<sup>229</sup> Though DAOs are responsible for licensing slaughterhouses, inspections for health and sanitation of animals immediately before slaughter are conducted by the Veterinary Department of the Ministry of Livestock, Fisheries, and Rural Development. The animals are inspected, and a fee of 200 kyat (US\$0.16) per animal per inspection is assessed.<sup>230</sup> The overlapping authority of the MoLFRD and DAOs in regards to ensuring the safety of meats was present in all townships visited.<sup>231</sup> Despite changes to the auction-license system in Taunggyi, the DAO has not formally liberalized the fixed prices of meats, though in practice there has been some change (the intended goal of the change in the auction-license system).<sup>232</sup>

Businesspeople in the sector noted that since the removal of the auction-license system, there are now more competitors, and wholesale and retail prices for meat have decreased. Income for the DAO has also decreased, which suggests rent dissipation.<sup>233</sup> Since the removal of auction licenses, the prices for live animals have also increased.<sup>234</sup> One interviewee noted that the changing structure of the sector incentivized him to raise pigs to slaughter and sell himself – a move to improve profit by vertical integration that would not have been feasible under the former laws.<sup>235</sup> Lastly, the licensee noted that during the last year of the auction-license system, business was unpredictable, but that it has since improved and encouraged him to begin raising his own pigs.

Other townships have also reformed the slaughterhouse auction-license system. In another township, licenses now have a set price (50 million kyat, or US\$39,032); however, a license can be awarded to

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<sup>226</sup> Selected DAO Bylaws, pg. 5, no. 17.

<sup>227</sup> Interview 038 with government, July 20, 2015, and Interview 040 with private-sector business, July 21, 2015.

<sup>228</sup> Interview 040.

<sup>229</sup> Interview 038.

<sup>230</sup> Interview 040.

<sup>231</sup> Interview 015.

<sup>232</sup> Interview 038.

<sup>233</sup> Interview 040.

<sup>234</sup> Interview 040.

<sup>235</sup> Interview 040.

more than one business, in which case all licensees split the license fee.<sup>236</sup> Anyone who wants to operate a slaughterhouse license can apply, and all businesses that meet the requirements will “win.” This license is required to sell pork at the market, and market stalls are awarded to all licensees by lucky draw.<sup>237</sup> Given that stalls are awarded by lucky draws on an annual basis, businesses have little incentive to invest in their physical shop. Notably, these slaughterhouse licenses do not include geographical subdivisions, and therefore there is no DAO-granted license for rural slaughterhouses. Instead rural residents purchase meat from the main market or from resellers, or, in remote areas, kill the meat themselves (a practice that is technically illegal but permitted by the DAO).<sup>238</sup>

A similar system applied in other locations. In another township, anyone with a National Registration Card can apply for a slaughterhouse license, and the price is fixed at 500,000 kyat (US\$390.32). If more than one bid is received, the fee is split equally between all bidders.<sup>239</sup> This system has been in effect since FY14-15, though previously the licenses had been distributed through auction, where fees could reach as high as five million kyat. The prices of pork and beef remain fixed by the government, though they have not risen for at least the last three years.<sup>240</sup> The DAO officers thought that the current licensing system had a number of benefits, including creating business opportunities for locals (businesses from other townships are not eligible to receive a license), as well as keeping the meat price stable (the officials perceive that auction licenses drive prices higher, despite their fixing of the price).<sup>241</sup>



*DAO-mandated list of prices for beef at a market*

One of the most interesting aspects of the governance of meat products is the contrast between the tightly regulated and heavily distorted markets for pork, beef, and mutton and the relatively open

<sup>236</sup> Interview 026 with government, July 14, 2015.

<sup>237</sup> Interview 026, and Interview 036 with private-sector business, July 17, 2015.

<sup>238</sup> Interview 026.

<sup>239</sup> Interview 032.

<sup>240</sup> Interview 025 and Interview 032. Notably, in Myitta the sale price of meat has historically been below the fixed price. This did not seem to be an issue for the DAO there, and they did not state that this was against the DAO bylaws that govern the sector.

<sup>241</sup> Interview 032.



markets for chicken and fish. Prices of chicken and fish are not fixed by the DAO, and change depending on supply and demand.<sup>242</sup> Vendors selling chicken and fish compete with other sellers on price, and are free to buy from any supplier and sell to any consumer. Vendors of all meats, including those subject to auction license and those who are not, are subject to inspections by the DAO for sanitation.<sup>243</sup> Yet the costs of licensing differ dramatically. Fish vendors in Dawei pay a small fee for use of a stall at the market (2,500 kyat per month or US\$1.95).<sup>244</sup> Vendors of pork at the same market share an annual fee of 50 million kyat (US\$39,032).

The result of the auction licensing of slaughterhouses is to create an indirect tax on consumers and suppliers of pork, mutton, and beef. This tax is often one of the largest sources of revenue for DAOs in many parts of Myanmar. This system raises the obvious question: why should consumers and suppliers of pork, beef, and chicken, who are often from rural areas, bear the burden of taxation to pay for urban roads, sewage, and other basic social services while vegetarians are not obliged to contribute? Not only is the indirect taxation that occurs through these auction licenses arbitrary, it may also be regressive. Though expenditure on food grows as income increases and consumers shift to a diet with more meat, the share of income going to food consumption decreases as income rises. Therefore, revenue raising indirectly linked to food consumption could result in the poor paying a greater share of their income than the rich.

### 4.3 Ferry Licenses

Ferry licenses are another important form of auction license, sharing both structural similarities and differences with slaughterhouse licenses. The need for ferries, and therefore ferry licenses, is heavily dependent on geography and the existence of alternate infrastructure (bridges). Ferry licenses were only observed in the fieldwork visits in one S/R. The structure of the licenses in that S/R shows similarities to the slaughterhouse system, in that they grant geographical exclusivity to a single operator, who operates the concession for a one-year term at a fixed price mandated and enforced by the DAO. Floor prices for ferry auction licenses also have increased at a DAO-mandated 10 percent per year, though there are exceptions to the floor price. DAO officials interviewed noted that they inspected ferries; however, one noted that inspections in more remote rural regions were less common than in urban areas near the DAO office because of logistical constraints.<sup>245</sup>

Unlike other auction licenses, the operation of ferries requires significantly greater capital outlay. Operators must purchase ferries, and sometimes build piers and shelters (if these do not already exist).<sup>246</sup> If a new operator wins a license, they are free to negotiate with the former operator to purchase their existing capital. However, there are no provisions for the transfer of capital between old and new license holders, which creates significant uncertainty for existing operators.<sup>247</sup> If the old license holder does not reach an agreement with the new one, the old license holder can take down their infrastructure and remove it.<sup>248</sup> Ferry license holders are aware of the insecurity of their investments and take steps to try to mitigate that insecurity. For example, one license holder constructed a new structure at one end of the ferry route. He submitted receipts to the DAO office, despite not having any formal framework to receive any reimbursement or protection for the costs.<sup>249</sup>

The high capital costs of ferry operation draw attention to another shortcoming of the current auction-license system – the nearly universal limit of one-year terms, which is a direct and significant disincentive to the development of more durable infrastructure. With a license lasting only one year, and prices fixed by the DAO, businesses cannot justify or afford significant investments in

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<sup>242</sup> Interview 004 with private-sector business, July 7, 2015.

<sup>243</sup> Interview 010 with private-sector business, July 8, 2015.

<sup>244</sup> Interview 036 with private-sector business, July 17, 2015.

<sup>245</sup> Interview 017.

<sup>246</sup> Interview 012 with private-sector business, July 8, 2015.

<sup>247</sup> Interview 012.

<sup>248</sup> Interview 012.

<sup>249</sup> Interview 012.

infrastructure (nor is it mandated as a condition of receiving the license). One ferry license holder, when asked how he would change his business strategy if the DAO awarded five-year licenses, noted that he would build a concrete pier and remove the decrepit wooden pier, which was mangled and collapsing into the river.<sup>250</sup> The one-year limit for licenses forces businesses into short-term thinking, and fails to create incentives to mobilize private capital for investment.

#### **4.4 Other Auction Licenses**

There are numerous other types of DAO licenses; however, they have many different characteristics. Two other auction licenses, pawnshop and cattle market licenses, also partially resemble the artificial monopolies that make slaughterhouse and ferry licenses valuable. These licenses take an activity often done by the private sector, and create artificial barriers to entry and geographical monopolies that allow the government to extract rents from the licensing process. Pawnshops, like slaughterhouses, enjoy DAO-sanctioned monopolies to operate in a selected area. Despite being listed in the DAO budget, no township visited had licensed any cattle markets.

Many other auction licenses function as subcontracts to collect revenue on behalf of the state. For example instead of the DAO having its own personnel collect revenue from street vendors in the market, some townships subcontract this responsibility. Auction licenses that fit this description include the wheel tax collection license, the public toilet and bathroom fee collection license, and market fee collection license. However, these licenses do not necessarily maximize the revenue captured by the DAOs. Instead of giving the contractor a share of total revenue collected, the contractor pays a flat fee and keeps all revenue collected in excess of that fee. In some cases, this leads to the DAO capturing a significant share of the revenue, while in others they capture a small portion. In a few cases, auction licenses have been used when direct revenue collection became unprofitable for DAOs, which happened for the wheel tax in one smaller fieldwork location.<sup>251</sup> Private contractors could conduct collections profitably because of their comparatively lower labor costs. However, most revenue collection licenses have been auctioned off, even though the DAO could directly collect the revenue at a profit.

A last group of auction licenses allow the licensee the exclusive right to provide a service in a selected, government-controlled area. Auction licenses that fall under this category include the market parking-fee collection license (not listed above). For this license, consumers can choose to park in the concession area and pay a fee, or park elsewhere for free. In exchange for the fee, the licensee assumes responsibility for guarding the vehicle parked in the concession area.

#### **4.5 Case Studies on Auction Licenses**

Though auction licenses are an integral part of raising revenue for local levels of government, they can also be inefficient, and sometimes allow private actors to capture the majority of the profit (rent). During fieldwork, three case studies were undertaken in order to better understand the financial details of the auction-license system. These case studies are based on limited data collection and insights about the revenue and expenses of the businesses of auction-license holders. However, they show that the auction-license system sometimes collects only a small portion of the total potential revenue. Detailed calculations corresponding to each case study are presented in Appendix 3.

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<sup>250</sup> Interview 012.

<sup>251</sup> Interview 017.

#### 4.5.1 Case Study 1: The Market Fee Collection License

The Market Fee Collection License is an important source of revenue for some DAOs. It gives the license holder the right to collect daily fees from all vendors selling from temporary locations (i.e., in open areas, but not in market stalls in the building). In the surveyed township, fees are 500 kyat per day (US\$0.39) for one plot, which is approximately one square meter. Interestingly, the fees are greater for these vendors than for proper market stalls. While the fees are small, there were 323 plots being used by vendors on the day of the survey, for which the licensee collected an estimated daily revenue of 279,850 kyat (US\$218.46). Over the course of a year (with an estimated 292 selling days), the total estimated revenue for the licensee is approximately 81.7 million kyat (US\$63,790). Operating costs are minimal – just the cost of labor and some small miscellaneous expenses. Of the estimated revenue, the DAO collected the majority through the annual license fee, which was 62.7 million kyat (US\$48,946). However, the business made a significant profit, estimated at over 58,000 kyat (US\$45.27) per day, or 16.97 million kyat (US\$13,249) for the year.

#### 4.5.2 Case Study 2: The Ferry License

The Ferry License covers operations of a wide range of different sizes, from small ferries in which one person and a wooden boat serve occasional traffic, to large ferries that cater to thousands of customers per day. The Ferry License in this case study is for a large ferry operation with significant expenses compared to many other auction licenses, given the costs of boats, infrastructure, and staff. The ferry in this study catered to nearly 5,900 customers (rate: 50 kyat) on the day of the study, as well as 678 motorcycles (rate: 350 kyat) and 886 bicycles (rate: 50 kyat). Based on the given rates, as well as additional charges for nighttime operations, the gross revenue of the ferry was 658,200 kyat (US\$513.81) per day, or an estimated 240 million kyat (US\$187,543) per year. There were a number of costs associated with the operation, including jetty fees, staff costs, fuel and maintenance costs, and capital costs. The estimated annual total for these operating costs was over 68 million kyat (US\$54,142).

However, because of the need for significant capital (besides the license cost), the license auction is likely to be less competitive, which should allow the private licensee to capture a greater share of the revenue. Evidence from the case study confirms the theoretical conclusion. The DAO was only able to capture less than half of the total rent from the ferry auction license, through an annual fee of 75 million kyat (US\$58,548). The remaining share of the profit, 97.2 million kyat (US \$75,853) was captured by the private company. This case study illustrates how these monopolistic businesses create rents and therefore high profit margins for the licensee.

#### 4.5.3 Case Study 3: The Market Toilet Fee Collection License

Though the smallest of the three licenses studied, the Market Toilet Fee Collection License illustrates a core problem with the auction-license system. In the case study, the toilet facilities were built by the DAO and then licensed out. The licensee has few costs – wages for the fee collector, basic supplies for cleaning, and some maintenance. Though the fee is 100 kyat (US\$0.08), the toilet license still generated a significant profit. For estimated annual revenue of 12.6 million kyat (US\$9,847), the license holder paid an annual fee of only 2.5 million kyat (US\$1,951). The bulk of the estimated rent from the operation of the concession – approximately 7.86 million kyat (US \$6,137) – accrued to the licensee.

### 4.6 Key Challenges with the Auction License System

The auction-license system limits the revenue collected by government, hurts the profitability of companies, discourages investment, and collects money in arbitrary and potentially inefficient ways.

The key challenges of the system include:

- **The up-front license fee.** This reduces competition, especially for smaller licenses that could attract a wide range of bidders and require little (if any) skill to operate. The current system

favors larger businesses with cash in hand. Given that the financial system makes it difficult to get a loan, this system reduces competition and hurts smaller entrepreneurs.

- **The mechanism for setting government-mandated fixed prices for some licenses.** While these prices are made available before the auction is held, they remain administratively set and are only somewhat related to the cost of provision. Further, government generally does not conduct research to understand how much revenue license holders generate, and tends to set floor prices arbitrarily, without reference to relevant data.
- **Township-level licensing.** This inhibits growth of larger, more efficient businesses that can produce goods and services at lower prices. In a competitive environment, these efficiency gains would result in lower costs for consumers, which is especially relevant for slaughterhouses.
- **One-year license terms.** These discourage investment and create uncertainty for licensees. Licenses could be offered for longer than one year, according to one DAO executive officer.<sup>252</sup> Longer auctions used to exist, but some S/R governments have since pushed for auctions every year.<sup>253</sup> The DAO officer noted that longer licenses could result in negative perceptions among the population.<sup>254</sup>
- **Collusion.** This is commonplace and difficult for government to prevent or track. Further, given that it is very uncommon for fines and administrative penalties to be issued by the government, businesses face few deterrents to collusion. One interviewee noted that bidders would sometimes enter the competition for a license, not because they wanted to win, but as a way to extract a payoff from other bidders not to compete. The interviewee noted that this was “bothersome” and cost him money.<sup>255</sup>
- **Discouraging needed infrastructure investment.** This system can alter the incentives for infrastructure development, dissuading DAOs, for example, from approving bridges to replace ferry concessions because ferries are lucrative revenue sources for DAOs.

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<sup>252</sup> Interview 015.

<sup>253</sup> Interview 015.

<sup>254</sup> Interview 015.

<sup>255</sup> Interview 012. One official noted that, in an effort to prevent collusion, auction licenses were awarded through a lucky draw system. However, the lucky draw system gives businesses no incentive to offer a high price for the license – it is based on luck, not the offer price. As such, the official attested, the government lost a significant amount of revenue from the licenses. Interview 014.

## SECTION FIVE: Key Recommendations:

The scope for local-level reform that can lead to tangible economic benefits is immense. Yet, unlike many other reforms that would yield tangible benefits, many of the reforms recommended below – especially in restructuring the local revenue base and changing the auction-license system – are within the realm of the possible. There are many reasons for this. For many of the economic powers under the authority of subnational governments, especially auction licenses, some local officials are already aware that the existing system is problematic and can be improved. Because it does not require Union-level approval, local-level reform may be easier and less time-consuming, while enabling local experimentation with economic policy. While some of the suggested reforms do affect vested private-sector interests, these businesses would also be well-situated to compete in a more liberal economic system. These types of reforms also may be more feasible because they focus on improving the functioning of relatively unimportant local systems. Finally, local levels of government have significant flexibility to improve the implementation of laws and rules under their control. This reform in the implementation of existing laws and rules should complement changes to the laws and rules. It is important to change how things are done, not just what is supposed to be done.

It is important to note that many of the recommendations are interdependent. One key objective is to increase revenues for local service provision and infrastructure development. While the recommendation as a whole can raise revenue, some selected recommendations (especially those on removing aspects of the auction license system) will decrease revenue. This is especially problematic given that some local authorities, such as DAOs, are heavily dependent on this licensing revenue. Therefore, it is essential that reforms to the auction-license system happen in tandem with changes in the building-tax system, to prevent a significant drop in DAO revenues and a serious degradation of important local service provision.

Finally, it is essential to note that changes in the structure of local revenue raising cannot happen overnight, and may be better pursued over a longer period of time (for example, three to five years). This is because changes are not simply technical, but are instead connected to society's long-standing distrust of the state. Reforms should be carefully designed to incorporate trust building, transparency, and consultation with the community. It is essential that people understand the current system, the proposed changes to that system, and the reasons behind those changes. This broad-based consultation and education will take time, but will also increase the likelihood that reforms will be successful and adopted by a majority of the population. Lastly, it is important to remember that there are long-standing and deeply rooted practices of community contributions to local investments, which will not be immediately supplanted by changes in the local revenue base. People have long contributed to local development in this way, and the practice should be allowed to continue at the same time as more formal revenues become available.

### Recommendations:

- **Develop reform strategies that are transparent and consultative and build trust.** S/R- and township-level governments as well as partners should work together to develop location-specific, multi-year reform strategies for local economic governance. These strategies should take into account local realities, and should not be based only on standard recommendations. These strategies should be developed through a transparent and consultative process that builds trust and understanding of the reforms before they take place.
- **Communicate reforms and the reason for them.** S/R- and township-level governments as well as partners should work together to develop effective communication strategies to explain current and future local economic governance systems to communities. Communication and consultation should precede significant reforms and attempt to build local understanding and support for reforms.

- **Reform the auction license system to eliminate artificial monopolies.** This includes eliminating any legislation that creates unnecessary monopolies, for example through the creation of geographical territories in which exclusive selling rights are licensed.
  - Remove requirements for existing licensees to conduct business in specific locations, allowing them to engage in business at any location as long as they abide by zoning laws (if any exist).
  - Allow businesses to compete in areas where there were formerly auction licenses. For example, allow anyone to sell pork or beef in any location, as long as relevant sanitation and other laws are followed. This should encourage competition on service, price, and quality.
- **Remove government-controlled prices from all licenses** except in the case of natural monopolies (such as ferries or roads) and **allow prices to fluctuate more freely.**
  - If the price cap cannot be removed at the present time because of political considerations, allow licensees to sell at any price below the established price if they choose.
  - Harmonize the price cap across proximate townships and eliminate restrictions on the transportation of slaughtered meat between townships when not directly related to ensuring proper food safety and sanitation.
- **Where natural monopolies exist, design licensing regimes to minimize rents and/or incentivize investment and service improvements.**
- **Increase the length of selected licenses to create incentives for investment.** License terms should reflect investment costs and give longer licenses in areas where greater capital investment is required (e.g., ferry licenses).
  - At a minimum, if one-year licenses are continued, DAOs should offer a right of refusal to existing license holders if they matched the highest bid at the annual auction.
- **Restructure licenses to mobilize private investment in infrastructure.**
  - Introduce a framework within the licenses for private infrastructure construction through a BOT system.<sup>256</sup> These BOT schemes should specify the conditions under which investments made by the operator would be transferred to the government or the next operator at the end of the license term. New licenses could include two components: (1) a fee payable to the government; and (2) construction of agreed-upon infrastructure, to be overseen by the government in the same way they oversee other construction projects.
  - Complement longer-term licenses with provisions about the rights of license holders regarding investments made during their license tenure.<sup>257</sup>
- **Remove unnecessary barriers for bidding on licenses.**
  - Allow licensees to prepay on a quarterly or monthly basis instead of requiring an up-front annual fee. Reducing the amount of up-front capital needed to win the bid should increase competition, and therefore revenue, for the government.
  - Remove requirements for license bidders to have fixed property as a prerequisite for bidding. Because license fees are collected before the activity is undertaken, this requirement is a needless barrier to greater competition for licenses.
- **Clarify license conditions.**
  - DAOs should explicitly state the conditions under which a license may be suspended, and refrain from suspending a license for other reasons.

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<sup>256</sup> Note that, unlike many other “BOT” agreements in Myanmar, in which very little or no new infrastructure is actually constructed, these licenses would be most beneficial if they involved the actual construction of new infrastructure.

<sup>257</sup> For example, incorporate depreciation schedules into the license that detail how much the license holder can be paid at the end of the license term, when the investment is transferred to the DAO.

- Billboard contracts should include explicit and precise eminent domain clauses, including details about compensation provided in the event of a government confiscation of land.
- **Focus on safety and sanitation, not just raising revenue.** Some licenses, such as slaughterhouses, were originally created to ensure the safety of meats. Local authorities should return to a focus on safety and sanitation and away from revenue generation through rent creation.
- **Revise the land tax.** Tax rates should be reviewed, and a minimum number of acres should be introduced. Any landholder with less than the minimum number of acres would not be subject to any land tax.
  - The minimum should be set at a reasonable level. This means that any individual landholder with less than a specific number of acres would not be liable for any land tax.
  - Corporate landholdings should be excluded from the minimum and pay tax for all land held. This will prevent single individuals from registering land under multiple corporate entities.<sup>258</sup>
  - After consultation and the development of significant support, raise the land tax, which will increase tax revenues wholly from large landholders.
  - Reduce the costs of buying and selling land through a reduction in the stamp duty.
- **Reform the building tax to make it a primary source of general revenues for DAOs.**
  - Conduct long-term and widespread information campaigns about the purpose of the building tax, and how the building-tax system works.
  - Further investigate the challenges faced by townships that have attempted to raise the property tax to 25 percent of the “standard rental rate,” to understand the successes and failures of past changes in property tax in Myanmar.<sup>259</sup>
  - Modify the existing system of building classifications to **remove maximum amounts of building tax** that can be paid in a one-year period. These limits are not mandated in any laws, and therefore should be relatively simple to change.
  - Change the calculation of the building tax to one based on estimated market sales value.
  - Ensure that building taxes are the responsibility of the owner, not the renter.
  - In consultation with government, community members, and other stakeholders, review and revise building-tax rates.
  - Use publicly available real estate information to review and value buildings on a regular basis, which should help align administrative rates and market values.
  - Tier the building tax rates so that primary residences incur lower rates, while secondary residences and investment properties incur higher rates. This will help reduce the burden of the increased building tax on families with low cash flow and only one residence.
- **Change the budgeting structure to allow DAOs to carry over locally raised revenue from one year to the next.**
- **Increase availability of public information on local-level laws, rules, and regulations.**
  - Local-level laws, rules, regulations, bylaws, etc. generally exist, and spell out important details that are relevant for private businesses. These resources should be made available in both hard- and soft-copy formats, including potentially a mobile-based tool (preloaded onto phones) that could help connect information to businesses.

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<sup>258</sup> Note that 10 acres is simply a suggested figure, selected because it is the maximum number of acres for which a loan can be obtained from MADB. This minimum should be established only with significant research into the distribution of landholdings and the financial situations of the landholders.

<sup>259</sup> Interview 025.

- Make all tax rule books publicly available, for free, at GAD, IRD, and DAO offices.<sup>260</sup>
- **Charge fines, interest, and administrative penalties.**
  - DAOs should begin charging penalty fees and interest for building taxes or other taxes/fees that are not paid by the deadline. Deadlines should be enforced.
  - DAOs could offer marginal discounts for early payment of building taxes. This might have very low take-up rates, but would serve the purpose of communicating information about payment many months in advance.
  - Changes to the rules and enforcement of building taxes should be accompanied by an outreach campaign that describes the purpose of the changes, the new penalties that apply, and any changes in procedure.
  - Given challenges around enforcement with other departments, DAOs may consider not spending undue resources pursuing strict enforcement, but instead keeping coherent internal records of individuals with past-due accounts. These individuals could be prevented from accessing DAO services (business licenses, auction licenses, construction permits, etc.) until their accounts are settled.
- **Find creative ways to incentivize compliance.** One example practiced elsewhere in Myanmar is the Union-level top taxpayer lists. The local and S/R levels of government could adopt a system of public taxpayer recognition similar to this, which would introduce important transparency and accountability to building and land taxes.
- **Further investigate various administrative processes and consider removing some.**
  - Remove the requirement that licenses be renewed every year. Instead, licenses should renew automatically with payment of fees by the given date.
  - Eliminate the requirement for a letter of recommendation from the Disciplinary Committee for Buses as a prerequisite for receiving permission to open a new bus line. The requirement is a conflict of interest, as the Committee is composed of other private companies in the same sector that have incentives to restrict new entrants.
  - Eliminate the Ministry of Hotel and Tourism's arbitrary requirements for accommodations. For example, there is no need for MoHT to require all accommodations that have foreign guests to have attached bathrooms and a minimum square footage. Allow businesses to build what they believe there is a market for, and then allow customers to select their preference.
  - Eliminate MoHT requirements for businesses to submit any form of financial records to renew their business license.
  - Make transport licenses accepted across all states, not just in the one state in which they are granted. This would eliminate the need for bus operators to obtain a license in each S/R in which passengers embark/disembark.
- **Stop giving construction permit fee waivers after the award of contracts.**
  - Regional governments should stop giving construction companies a waiver of the one percent construction supervision fee normally paid to DAOs to receive a construction permit. Despite the arguments of businesses that they should not have to pay fees for public projects, this rebate only serves to improve the construction company's bottom line, because it is given after the contract and price are agreed (i.e., this rebate is not passed along to government and does not enhance the quality of the building).
- **Restructure the transfer of five percent of S/R income tax from the IRD to the DAO** so that it is distributed equally across the S/R based on township population, not the origin of the income tax collection.
- **Offer incentives for business start-ups, such as discounted rent to new businesses at the market.** Link the incentive to a personal identifier such as an NRC number or another unique identifier, to prevent abuse.

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<sup>260</sup> Interview 037.



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**Appendix 1. List of Departments in Tanintharyi Region Government, by S/R Minister Portfolio**

Security and Border Affairs Minister	Finance Minister	Agriculture and Livestock Minister	Forestry and Mining Minister	Planning Minister	Transport Minister	Electricity and Industry Minister	Development Affairs Minister	Social Welfare Minister
Regional Court	Budget Department	Department of Agricultural Land Management and Statistics	Forest Department	Planning Department	Dept. of Highways	Myanma Electric Power Enterprise	Development Affairs Organization	Dawei/Myeik University
Regional Attorney General's Office	Auditor General's Office	Department of Agriculture	Environmental Conservation Department	Department of Labor	Business License and Transport Coordination Department	Directorate of Industrial Supervision and Inspection	Information and Public Relations Department	Dawei/Myeik Education College
Myanmar Police Force	Internal Revenue Department	Department of Industrial Crops Development	Myanma Timber Enterprise	Department of Labor Relations	Road Transport Administration Department	Department of Religious Affairs	Myanma Radio and Television	Department of Education
Immigration and National Registration Department	Myanma Economic Bank	Department of Fisheries	Mining Enterprise 2	Factories and General Labor Laws Inspection Department	Department of Civil Aviation	Dawei/Myeik Computer Science University	Directorate of Hotels and Tourism	Department of Health
Bureau of Special Investigation	Cooperative Department	Agricultural Mechanization Department	Department of Geological Survey and Mineral Exploration	Social Security Board	Myanma Airways	Dawei/Myeik Technology University	Department of Archaeology, National Museum and Library	Clinical Department
Correctional Department	Pension Department	Myanma Agricultural Development Bank	Sports and Physical Education Department	Myanma Petroleum Products Enterprise	Myanma Port Authority	Technical High School		Department of Traditional Medicine
Regional Development Supervisory Office	Myanma Insurance	Irrigation Department	Myanma Pearl Production Enterprise	Central Statistical Organization	Department of Marine Administration			Dawei/Myeik Nursing Institute
Fire Department	Customs Department	Livestock Breeding and Veterinary Department		Department of Trade Promotion and Consumer Affairs	Directorate of Water Resources and Improvement of River Systems			Relief and Resettlement Dept.
Anti-Human Trafficking Police Force	Myanma Microfinance Supervisory Enterprise	Water Resources Utilization Department			Department of Human Settlements and Housing Development			Social Welfare Department
#8 Crime Combat Force	Small-Scale Industries Department	Department of Rural Development			Department of Meteorology and Hydrology			
Special Branch					Myanma Posts and Telecommunications			
					Myanma Railways			

## Appendix 2. List of Properties and Building-tax Rates from Selected Township DAO, FY14-15 H1

	Building type	Grade	No. of buildings	Rate (MMK)	Rate (USD)	Total (MMK)	Total (USD)
1	Wooden mat	First	244	1,100	\$0.86	268,400	\$209.52
		Second	3,828	1,000	\$0.78	3,828,000	\$2,988.29
2	Wooden	First	258	1,600	\$1.25	412,800	\$322.25
		Second	918	1,550	\$1.21	1,422,900	\$1,110.77
		Third	719	1,350	\$1.05	970,650	\$757.73
		Fourth	2,311	1,200	\$0.94	2,773,200	\$2,164.87
3	Brick foundation	First	187	3,000	\$2.34	561,000	\$437.94
		Second	125	2,600	\$2.03	325,000	\$253.71
		Third	312	2,200	\$1.72	686,400	\$535.83
		Fourth	904	2,000	\$1.56	1,808,000	\$1,411.40
4	One-story building	First	752	4,000	\$3.12	3,008,000	\$2,348.17
5	Two-story building	First	1,077	4,600	\$3.59	4,954,200	\$3,867.45
6	Three-story building	First	115	8,000	\$6.25	920,000	\$718.19
7	Four-story building	First	27	9,200	\$7.18	248,400	\$193.91
8	Five-story building	First		30,000	\$23.42	0	\$0.00
		Second		20,000	\$15.61	0	\$0.00
		Third	3	15,000	\$11.71	45,000	\$35.13
9	Six-story building	First	1	50,000	\$39.03	50,000	\$39.03
	Total		11,781			22,281,950	\$17,394.18

*Note: rates are for the first six months of the year.*

### Appendix 3. Detailed Case Studies of Auction Licenses

#### Market Fee Collection License Holder Case Study

Income			
	Number of businesses	Price per plot (kyat)	Total (kyat)
Daily income from fee collection	323	500	279,850
			x 292 days per year
<b>Total annual income</b>			<b>81,716,200 (US \$63,790)</b>
Expenses			
Daily laborer fees	2	2500	5000
Daily miscellaneous	1	2000	2000
<i>Total daily cost</i>			7000
			x 292 days per year
Annual operating cost			2,044,000
<b>Annual license fee</b>			<b>62,700,000</b>
<b>Total annual expenses</b>			<b>64,744,000 (US \$50,542)</b>
<b>Estimated profit for licensee</b>			<b>16,972,200 (US \$13,249)</b>
Share of revenue to expenses		2.5%	
Share of revenue to business (private rent)		20.8%	
Share of revenue to DAO (public rent)		76.7%	
<p>* Note that the market fees are not 500 kyat per business, but instead 500 kyat per plot. Some businesses occupy more than one plot. The “total” figure includes all revenue collected that day from all plots. 292 days is an annual estimate, and excludes fees collected on days when the market is closed (Sundays and public holidays). Figures above are based on one day of data collection, and therefore should be treated as illustrative (though there is no reason to suspect massive variation in either income or expenses from day to day).</p>			

### Ferry License Holder Case Study

Income					
			No.	Fee	Total
Ferry 1	Day	Passengers	3073	50	153,650
		Motorcycles	651	350	227,850
		Bicycles	646	50	32,300
	Night	Passengers	164	100	16,400
		Motorcycles	27	600	16,200
		Bicycles	23	100	2,300
Ferry 2	Day	Passengers	2618	50	130,900
		Bicycles	214	350	74,900
	Night	Passengers	34	100	3,400
		Bicycles	3	100	300
<i>Total income (daily)</i>					<i>658,200</i>
					x 365 days
<b>Total annual income</b>					<b>240,243,000</b> <b>(US \$187,543)</b>
Expenditure					
Daily	Jetty use fee		1	1,000	1,000
	Staff (boat drivers)		7	9,000	63,000
	<i>Total (daily costs only)</i>				<i>64,000</i>
Monthly	Cashier		4	100,000	400,000
	Fuel		8	100,000	800,000
	Maintenance		2	200,000	400,000
	<i>Total (monthly costs only)</i>				<i>1,600,000</i>
Annual	Boats	Large	1	12,500,000	12,500,000
		Small	2	6,000,000	12,000,000
	<b>Auction license fee</b>		<b>1</b>	<b>75,000,000</b>	<b>75,000,000</b>
	Department of transportation fee		1	15,000	15,000
	Other costs		1		1,000,000
	<i>Total (annual costs only)</i>				<i>100,515,000</i>
<b>Total annual expenses</b>					<b>143,075,000</b> <b>(US \$111,690)</b>
<b>Estimated profit for licensee</b>					<b>97,168,000 (US \$75,853)</b>
Share of total revenue to expenses				28.3%	
Share of total revenue to business (private rent)				40.4%	
Share of total revenue to DAO (public rent)				31.2%	
*Note that figures above are based on one day of data collection and should therefore be treated as illustrative. Further, it is likely that businesses incur other expenses that were not cited during the interview process. For example, one interviewee referred to the need to pay other ferry bidders during the auction-license process.					

### Market Toilet Fee Auction License Holder Case Study

Income				
	No.	Price	Total (per day)	
Toilet usage fees	432	100	43,200	
			x 292 days per year	
<b>Total annual income</b>			<b>12,614,400 (US \$9,847)</b>	
Expenses				
Daily	Laborer fees	1	5,000	
	Miscellaneous	1	1,000	
	<i>Total daily cost</i>		<u>6,000</u>	
Annual			x 292 days per year	
	Annual operating costs		1,752,000	
	Miscellaneous capital costs	1	500,000	
	<b>Auction License Fee</b>	<b>1</b>	<b>2,500,000</b>	<b>2,500,000</b>
	<b>Total annual expenses</b>			<b>4,752,000 (US \$3,710)</b>
			<b>7,862,400 (US \$6,138)</b>	
			Share of revenue to expenses 17.9%	
			Share of revenue to business (private rent) 62.3%	
			Share of revenue to DAO (public rent) 19.8%	



**The Asia Foundation**

No.21, Bo Yar Zar Street  
14 Ward, Kyauk Kone  
Yankin Township  
Yangon, Myanmar